27 September 2022

External Reporting Board
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SUBMISSION ON THE AOTEAROA NEW ZEALAND CLIMATE STANDARDS: CLIMATE-RELATED DISCLOSURE FRAMEWORK

1. Mercury NZ Limited (*Mercury*) welcomes the opportunity to comment on the Aotearoa New Zealand Climate Standards Climate-Related Disclosure Framework (*the Framework*).

2. Overall, Mercury strongly supports the proposed Framework. Climate risk reporting has been the subject of regular discussion for our Executive Management Team and Board since 2018. We have been voluntarily reporting against Task Force on Climate-related Financial Disclosures (*TCFD*) recommendations for four years. The TCFD reporting process has deepened our understanding of how best to identify, assess and manage our climate-related risks and opportunities. During this period we have improved our governance and disclosure of climate risks and opportunities. We see significant value (both for investors and corporates) in reporting on climate-related risks and opportunities and welcome the introduction of these mandatory reporting requirements.

3. Our detailed submission points are set out below but by way of overarching comment:

    - Mercury supports the alignment with TCFD and International Sustainability Standards Board (*ISSB*) recommendations. Alignment with international standards will ensure consistency within reporting in New Zealand and overseas, and will assist entities which have already been reporting to transition to the new mandatory reporting regime.

    - We support the XRB's proposed principles-based approach set out in NZ CS 3 which allows Climate Reporting Entities (*CREs*) to focus on what is most meaningful and material for their primary users, and which allows CREs to align with their existing business requirements and reporting obligations.

    - Mercury welcomes the opportunity to work with the XRB to assist in providing guidance for the energy sector.

MERCURY AND CLIMATE-RELATED REPORTING

4. Mercury is an electricity generator and multi-product retailer of electricity, gas, broadband and mobile services. Mercury generates all of its electricity from 100% renewable energy sources (hydro, geothermal, and wind). Mercury is listed on the New Zealand Stock Exchange and the Australian Stock Exchange with foreign exempt listed status.

5. As a 100% renewable electricity generator, we are at the forefront of New Zealand's transition to a low emissions economy. We are keenly aware of the challenges and opportunities presented by the drive to decarbonise New Zealand's energy system. We have a key role to play in that transition.

6. 2022 was the fourth year that Mercury has reported on climate-related disclosures in accordance with the recommendations of the TCFD. (Our 2022 TCFD Report can be accessed here). We see climate-related disclosures as a major opportunity to support and structure thinking within our organisation on climate related risks and opportunities. Consequently, we welcome the entry into force of the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021.

7. We have been able to provide steadily more comprehensive Climate Related Disclosure information each year, and in FY21 we completed our first scenario analysis consistent with our FY20 Climate Change Management Plan commitments. Our FY21 Climate Change Disclosures were featured in the Climate Disclosure Standards Board's (*CDSB*) "TCFD Good Practice Handbook".[1]

8. We are currently working to deepen our understanding of the physical climate risks to our generation assets and aim to incorporate climate change into our existing extreme event modelling.

MERCURY'S SUBMISSION POINTS

9. As noted above, there are many aspects of the proposed disclosures in the Framework that Mercury considers to be appropriate and strongly supports. We have focused our submission points on key areas of interest.

Governance

10. Mercury supports removal of the requirement to disclose information as to specific board expertise and the shift in focus in NZ CS 1, 7(b) to how governance bodies "*ensure that appropriate skills and competencies are available*" to provide oversight of climate-related risks and opportunities.

11. We have some concern that NZ CS 1, 8(a) describing "*how climate-related responsibilities are delegated to management-level positions or committees…*" might suggest that CREs have delegated ultimate responsibility from the Board to management, rather than delegating certain tasks but retaining ultimate accountability. Given that our executive management is involved in developing strategies to identify, assess and manage climate-related risks and opportunities, we would find it useful for the XRB to clarify the intent of this wording.

Risk Management

12. Mercury supports the proposed language requiring CREs to state the processes for identifying, assessing and managing climate-related risks at NZ CS 1, 17(a), noting that as CREs' processes and inputs improve, this information will become more granular. It is important for the standards to contain flexibility to recognise and allow for incorporation of improved information and data that is currently unavailable. For example, Mercury's voluntary reporting recognises dataset constraints that prevent the granular application necessary for robust assessment and notes that more detailed statements will be possible once more data is available. The timing for additional public datasets proposed under the National Adaptation Plan is unlikely to benefit

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[1] Climate Disclosure Standards Board *Good Practise Handbook* (November 2021), online at https://www.cdsb.net/sites/default/files/tcfd_good_practice_handbook_v5_pages.pdf, pp 17 & 18.

CREs before mandatory reporting commences. Consequently, it is important that NZ CS 1 recognise that improvements may not be incremental or linear but may jump substantially upon step change improvements in input data quality and availability.

13. Amended NZ CS 1, 18(c) requires disclosure as to whether any parts of the value chain are excluded. The Guidance for All Sectors currently states that "*where necessary, entities could provide a rationale for why a given value chain component has been excluded*". Mercury seeks clarification that there is a materiality overlay to this disclosure – for example, if a certain part of the value chain has been excluded, but it is not considered material, it would be useful for the Guidance to note that its exclusion need not be specifically identified.

Strategy

14. Mercury supports the inclusion of the ISSB's qualifier of anticipated impacts and financial impacts of climate-related risks and opportunities being those "reasonably expected" by an CRE at NZ CS 1, 14. This pragmatic suggestion makes it clear to CREs that reporting and resourcing can be focused on impacts that are reasonably expected, as opposed to more remote impacts.

15. Mercury supports the clarification on the distinction between current and anticipated impacts (and financial impacts) of climate change.

16. Mercury is supportive of the inclusion of adaptation elements into transition planning. Mercury considers that additional clarity would be useful on the level of detail to include in a CRE's transition planning. The Guidance for All Sectors could usefully provide further detail/examples on this.

17. Forecasting and quantifying financial risks and opportunities raises additional risk factors related to a lack of certainty. Mercury seeks that the XRB expand the Guidance for All Sectors to recognise the inherent uncertainty associated with forecasting and the limited nature of reliance and liability to be associated with quantified long term and future risks and opportunities. We note that CREs are likely to be more strategic if opportunity and risk accounting is (at least for initial years) explicitly recognised to involve uncertainty. The Guidance could, for example, give an indication as to the nature of disclaimers/limitations that are anticipated or explain to users how such statements are prepared and can be utilised.

18. Mercury supports the new scenario analysis requirements and, in particular, the recognition in the Guidance (page 21) that "*entities should take a relatively high-level approach in their first year of scenario analysis*". Mercury also strongly supports the detailed requirements in NZ CS 3 (page 50) to disclose the methodologies and assumptions underlying the climate-related scenarios used.

19. Mercury suggests that as part of establishing the Framework, the XRB communicate to the relevant Government entities the importance of and urgent need to support reporting with transparency and publicly available datasets. There remains a lack of publicly available physical data and information from which to build climate scenarios in New Zealand. In particular, there is a significant gap between the national-level data and regional-scale information which is needed to effectively inform more granular assessments of impacts on CREs' operations.

Metrics and Targets

20. Mercury supports the removal of the requirement to disclose the proportion of revenue aligned with climate-related opportunities as a cross-industry metric to protect commercially sensitive information.

21. Mercury supports the new requirement to disclose offsets at NZ CS 1, 22(e)(iii) and seeks clarification (perhaps through reference to Ministry for the Environment guidance)[2] of the treatment of NZUs surrendered in response to Emissions Trading Scheme compliance obligations. For example, it would be useful for the Guidance to clarify the appropriate treatment of NZU surrenders in response to compliance obligations, such as those undertaken by Mercury at its geothermal generation stations.

22. NZ CS 3, 39 requires that "*for each metric disclosed in the current reporting period an entity must disclose at least two years of comparative information*". NZ CS 2 provides an exemption from this disclosure requirement in a CRE's first reporting period, and requires only one year of comparative information in the second reporting period. However, it will not be possible to include comparative information for scope 3 emissions for CREs that only begin reporting scope 3 emissions in the second reporting year. Mercury seeks clarification that comparatives for metrics required in a CRE's second reporting period will not include scope 3 emissions metrics (which are not required to be disclosed in the first reporting period).

Other

23. Mercury supports requiring only limited assurance of its GHG emissions disclosures, with CREs having the option of seeking reasonable assurance on a voluntary basis – this reflects the stage in development of climate-related disclosures and the need to continue to build capacity and capability in this area, including among assurance providers.

24. Mercury supports the acknowledgment at NZ CS 3, 15 – 17 that disclosures may be made via existing channels and cross-referenced where appropriate, so long as the cross-referencing complies with the fair presentation principle and improves, rather than detracts, from the coherence of disclosures.

25. Mercury continues to support the XRB's proposed approach to adoption, including the option for CREs that are more advanced to choose not to use first-time adoption provisions, if they are able to comply with the main disclosure requirements in their first climate statement.

CONCLUSION

26. Mercury looks forward to publication of the final Framework in December 2022. We welcome the opportunity to provide input into guidance for the energy sector in due course.

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[2] Ministry for the Environment, 2022, 'Interim guidance for voluntary climate change mitigation'.