Aotearoa New Zealand Climate Standard 1
Climate-related Disclosures

Submission to the External Reporting Board

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Address for service:

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Introduction

Transpower is a state-owned enterprise with dual roles of owner and operator of the national electricity transmission system, and an NZX listed entity. We do not generate or sell electricity but are an integral part of the energy sector providing the infrastructure (including 170 substations, 25,000 transmission towers and more than 11,000 kilometres of lines) that connects electricity generators to users and distribution networks in real-time. We also operate the New Zealand electricity market through which generators offer, sell and retailers and major users buy electricity

Transpower would be captured by the mandatory climate-related disclosures under the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill, once passed.

As an organisation that is well along the road on its TCFD reporting journey, Transpower has a significant interest in the development of a fit-for-purpose XRB Aotearoa New Zealand Climate Standard 1 – Climate-related Disclosures, and is keen to ensure this work recognises and takes into account the significant work undertaken in this area.

We want to ensure that a future Climate-related Disclosures reporting framework recognises and reflects other established reporting methods and does not duplicate existing or forthcoming reporting required by other legislation or standards applying to reporting entities. Transpower has reporting obligations under various pieces of legislation and it is more efficient they align, and that a single report meet multiple reporting obligations. As a TCFD-reporting organisation, we strongly support the New Zealand Climate Standard 1 – Climate-related Disclosures approach being closely aligned with the TCFD Guidance on Risk Management Integration and Disclosure, October 2020. This is also our expectation given the Ministry of Environment's statement that the standard would be developed in line with the TCFD recommendations[1].

We are happy to meet and discuss our high-level feedback in more detail– as well as our thoughts on ensuring a consistent, sector-based approach to the Climate-related Disclosures reporting.

[1] Please see https://environment.govt.nz/what-government-is-doing/areas-of-work/climate-change/mandatory-climate-related-financial-disclosures/

Question 1: Primary users have been identified as existing and potential investors, lenders and insurance underwriters. Do you think that all of these users should be included in the primary user category?

Yes, all of the above should be included.

Transpower's current and potential investors will have a keen interest in how the organisation recognises and responds to climate-related risks and opportunities. In our experience Transpower's investors want to understand both the risks to our business associated with a changing climate and the opportunities presented by climate change to support Transpower in the decarbonisation of the energy sector.

Transpower's insurance underwriters are acutely aware of how physical risks are exacerbated by climate change and would, understandably, be keen to see those risks reflected in our financial disclosures.

Question 2: Do you think the proposed Governance section of NZ CS 1 meets primary user needs?

a) Do you think that the information provided under this section of NZ CS 1 will provide information that is useful for decision making to primary users (existing and potential investors, lenders and insurance underwriters)? If not, please explain why not and identify any alternative proposals.

Broadly yes. However, the level of detail suggested seems excessive and, in some areas, risks obfuscating the demarcation between management and board responsibilities:

- Transpower is concerned that Sections 4 (c) (How the board holds management accountable) and 4(d) (board expertise) risks requiring an unwarranted level of detail given the relatively limited scope of the section.
- similarly, Section 5(a) requires a reporting organisation to include whether the board has assigned climate-related responsibilities to management-level positions or committees. Just as the board does not assign responsibility for health, safety and wellbeing to individual managers or management committees, it is Transpower's position that the board should not be required to assign climate-related responsibilities to management.

Transpower recommends that the TCFD wording used in the TCFD Implementation Guide[2] could be applied throughout the NZ CS1 as the TCFD wording more accurately reflects the relationship between board oversight and management responsibilities.

There is a risk that the information required by NZ CS1 will duplicate other existing reporting requirements (which are potentially already undertaken in a more streamlined

[2] TCFD – Implementing the Recommendations of the Taskforce, October 2021, page 17

way; for example, Integrated Annual Report) that combine company financial information with sustainability and materiality information as well as TCFD.

b) Do you consider that this section of the standard is clear and unambiguous in terms of the information to be disclosed? If not, how could clarity be improved?

No. We recommended that NZ CS1 applies the wording proposed in the TCFD Implementation Guide to ensure New Zealand and international consistency in the application of TCFD principles and reporting. Comparable reporting across jurisdictions is useful for those investors who are looking to invest in the global electricity sector.

c) Do you consider that this section of the standard is adequately comprehensive and achieves the right balance in terms of prescriptiveness and specificity? If not, what should be removed or added to achieve a better balance?

No; as set out in our response to section 2a, this section is too detailed.

Question 3: Do you think the proposed Risk Management section of NZ CS 1 meets primary user needs?

a) Do you think that the information provided under this section of NZ CS 1 will provide information that is useful for decision making to primary users (existing and potential investors, lenders and insurance underwriters)? If not, please explain why not and identify any alternative proposals.

The level of information currently proposed under section 4(c) significantly exceeds what is recommended in the TCFD Implementation Guides[3]. The Guide does recommend that an organisation should consider including the impact on its business, strategy and financial planning on its supply value chain. This recommendation makes sense, but in our view the TCFD recommendation should not be turned into an obligation to describe the value chain stages covered. As an alternative, the XRB could include a reference to the value chain or supply chain in its accompanying guidance.

b) Do you consider that this section of the standard is clear and unambiguous in terms of the information to be disclosed? If not, how could clarity be improved?

No. See our response to 2a.

We recommend that NZ CS1should be fully aligned with the TCFD Implementation Guide[4] with additional detail provided in the accompanying guidance. This would ensure good alignment with the TCFD approach internationally and in NZ and ensure improved sector-based alignment in TCFD reporting.

[3] TCFD Implementing the Recommendations of the Taskforce, page 11
[4] TCFD Guidance on Risk Management Integration and Disclosure, October 2020

Furthermore, the difference between sections 5a) and 5b) is unclear; they appear similar. By way of example, Transpower's approach to TCDF and risk reporting is to determine the relative significance of any identified risks (including climate-related risks) in relation to other risks to the organisation. The language used in section 5b) provides more clarity than section 5a).

c) Do you consider that this section of the standard is adequately comprehensive and achieves the right balance in terms of prescriptiveness and specificity? If not, what should be removed or added to achieve a better balance?

No. Parts of this section are too detailed (see our response above under section 3a.

We recommend the reference to 'value chain' is removed and included in the accompanying guidance.

Question 4: The XRB has primarily drawn from the TCFD's definitions for its defined terms. Do you agree that we should align closely with the TCFD's definitions?

Yes. However, to ensure consistency with other adopted good-practice reporting standards in New Zealand (such as AS/NZS ISO31000:2018 for Risk Management) we recommend that related definitions apply.

Transpower's risk and assurance management framework is aligned to AS/NZS ISO 31000:2018. This standard defines risk management as: *"coordinated activities to direct and control an organization with regard to risk*[5]". We recommend the XRB adopts this AS/NZS ISO 31000:2018 terminology throughout the NZ CS1 instead of using the more US-focused COSO definition applied by TCFD.

Question 5: The XRB is particularly interested in feedback on the following defined terms as they are currently proposed: 'climate-related risk', 'climate-related opportunities', 'climate-related issues', 'physical risk', and 'transition risk'.

a) Do you consider that the XRB should align with the TCFD and use the terms 'climate-related opportunities' and 'climate-related issues', or should we only refer to 'climate-related risks'?

In general, yes. Alignment with the TCFD approach is supported throughout. However, we consider the term 'climate-related issues' as an umbrella term is confusing and we recommend removing reference to this term throughout the NZ CS1 and associated guidance documentation.

[5] AS/NZS ISO31000:2018 s.3.2 Risk Management

In the risk management discipline, the term 'issue' is generally used to denote a risk that has materialised. Risk management is aimed at identifying, assessing and managing risks whereas issues management is used to describe the process of managing the aftermath of a risk that has eventuated. It is worth noting that neither the prevailing standard AS/NZS ISO3100:2018 nor the TCFD Implementation Guide provides a definition of the term 'climate-related issues'. Interestingly, the TCFD Implementation Guide refers to the term in the context of a risk that has eventuated[6].

Furthermore, we recommend the XRB and the NZ CS1 refer to both 'climate-related risks' and 'climate-related opportunities', as is recommended in the TCFD Implementation Guide. A pure focus on risk would provide an inaccurate view of an organisation's strategy, planning and response[7].

b) Do you consider that the proposed definitions for these terms are accurate, sufficiently clear and well-explained? Do they need further detail or explanation? If so, should that detail be included in the defined terms or in guidance?

Not entirely. For example, the good-practice risk-management standard AS/NZS ISO31000:2018 provides a clear definition of risk management which is widely adopted in New Zealand: *"coordinated activities to direct and control an organization with regard to risk".* This definition is wider than the one proposed by XRB which risks narrowing risk management solely to a process, carried out by a board and management, to support the achievement of objectives by addressing risks and managing the combined potential impact.

Transpower's risk management policy, and associated risk and assurance management framework, are underpinned by this wider[1] AS/NZS ISO 31000:2018 standard definition. Adding a different definition solely for climate- risk related purposes would be confusing and, in our view, unnecessary. We recommend the XRB adopt the AS/NZS ISO31000:2018 standard definition for risk management throughout the NZ CS1.

The TCFD Guidance on Risk Management Integration and Disclosure describes the unique characteristics of climate-related risks. Table C1 "Characteristics of Climate-related Risks"[8] is helpful as a *guide*, as it is open ended and illustrative. Hardcoding a definition of climate-related risks in NZ CS1 however might be too limiting. Transpower has an established risk profile which includes risks which are exacerbated by climate change. These risks are either physical (both acute and chronic), transitional (e.g. related to NZ moving to a zero-carbon economy) or liability related. TCFD Guidance on Risk Management Integration and Disclosure uses open-ended terminology, usefully allowing reporting organisations to adapt the TCFD framework to their unique

[6] See for example TCFD Implementation Guide, October 2021 page 9
[7] TCFD Implementation Guide, October 2021 Figure 3 on page 9
[8] TCFD Guidance on Risk Management Integration and Disclosure, page 5

circumstances. We recommend adopting a similar approach and provide any associated detail in the accompanying guidance.

Question 6: Do you have any other views on the defined terms as they are currently proposed?

No.

Question 7: The XRB is currently of the view that adoption provisions for some of the specific disclosures in NZ CS 1 will be required. However, the XRB does not believe it is necessary to provide any adoption provisions for entities in relation to the Governance and Risk Management disclosures. Do you agree with this view? Why or why not?

Transpower does not require adoption provisions for the Governance and Risk Management disclosures.

Question 8: The XRB currently intends NZ CS 1 to be concise and sector neutral, with sector specific requirements to be contained in guidance. Do you agree with this approach?

Yes.

Question 9: Do you have any other comments?

Yes, Transpower wishes to add the following comments.

Types of risk

In par. 7.3.1 of the Consultation Document, the XRB notes it will not prescribe the detailed types of risk in the standard, instead referring to 'physical risks' and 'transition risk'.

Transpower believes these types of risk should be widened and brought in line with the TCFD Implementation Guide, which adds a third category (for insurance companies) on Liability Risk[9]. Transpower, while not an insurance company, has chosen to disclose its climate-related risks along the three categories provided by the TCFD as it better fits with the regulated nature of our business and the liability risks we are exposed to (a

[9] TCFD – Implementing the Recommendations of the Taskforce, October 2021, page 34

relevant example is the claim against Pacific Gas and Electric following the devastating forest fires in California several years ago).

We recommend the XRB NZ CS1 provides greater opportunities for disclosing organisations to decide which risk categories it applies to describe its climate-related risks and opportunities. There has been a substantial amount of background work in reporting organisations to determine this structure and it is important that the NZ CS1 takes this work into account.

Integrating the disclosure statements

In par. 10.4 of the Consultation Document, the XRB states that "it wants to ensure that the intent of the TCFD to integrate climate issues is upheld, and that it wants to allow an entity to describe its climate journey in a meaningful way".

In its recent Annual Reports (FY2020 and FY2021), Transpower has provided the climate narrative (including an overview of key climate-related risks and opportunities) in the main body of the report, while making specific disclosures either in the notes to the Financial Accounts (for financial impact) or in a separate location (for example, GHG emissions).

We aim to fully integrate our climate-related risks and opportunities into our risk section and report these by FY 2023 in our Integrated Report and expect that by then our climate journey will have been fully integrated in our narrative. This approach would reduce the requirement for a separate section or a reference table in the body of our Annual Report. We envisage that financial disclosure of our exposure to climate-related risks will be reported via the notes to the Financial Accounts[10], which is also the externally audited part of our Annual Report. In this way we believe Primary Users (as defined by XRB) will get the best integrated view of an organisation's exposure to climate-related risks.

We recommend the XRB, if it decides to continue with the development of its reporting requirements as proposed, adds these guidelines to the accompanying guidelines instead of NZ CS1; this will allow companies to provide a fully integrated view of its climate-related risks and opportunities.

[10] As recommended by TCFD, see TCFD – Implementing the Recommendations of the Taskforce, October 2021, page 71 under Principle 5. Also, TCFD Guidance on scenario analysis for non-financial companies page 51