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VUW/XRB: Mandatory climate risk disclosure

Nicola Swan, Partner

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New mandatory climate-related financial disclosure

- Financial Sector (Climate-related Disclosures) Bill introduced April 2021
- Submissions due to the Economic Development, Science and Innovation Committee on **28 May**
- New annual climate statements to be required from:
  - All listed issuers of quoted equity securities or quoted debt securities
  - Large registered banks, credit unions and building societies (total assets $1b+)
  - Large licensed insurers (total assets $1b+ or premiums $250m)
  - Large managers of registered (investment) schemes (total assets under management $1b+)

New mandatory climate-related financial disclosure

- Requires record-keeping and disclosure in line with standard(s) to be issued by the XRB
- Climate standard(s) will be based on TCFD: physical risk + transition risk
- Penalties for non-compliance: up to $2.5 million or civil liability up to $5 million (for an entity)
- FMA to regulate and enforce
- Assurance engagements required for:
  - disclosure of GHG emissions or
  - reliance on exemption that the entity is not materially affected by climate change

TCFD recommendations: mandatory disclosure

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy and financial planning where such information is material.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
Recommended Disclosures	**Recommended Disclosures**	**Recommended Disclosures**	**Recommended Disclosures**
a) Describe the board's oversight of climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	a) Describe the organization's processes for identifying and assessing climate-related risks.	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
b) Describe management's role in assessing and managing climate-related risks and opportunities.	b) Describe the impact of climate-related risks and opportunities on the organization's business, strategy, and financial planning.	b) Describe the organization's processes for managing climate-related risks.	b) Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
	c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Climate related risks and opportunities

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Risks	
Transition risks	**Policy and Legal** ▶ Carbon pricing and reporting obligations ▶ Mandates on and regulation of existing products and services ▶ Exposure to litigation **Technology** ▶ Substitution of existing products and services with lower emissions options ▶ Unsuccessful investment in new technologies **Market** ▶ Changing customer behavior ▶ Uncertainty in market signals ▶ Increase cost of raw materials **Reputation** ▶ Shift in consumer preferences ▶ Increased stakeholder concern/negative feedback ▶ Stigmatization of sector
Physical risks	▶ Acute: Extreme weather events ▶ Chronic: Changing weather patterns and rising mean temperature and sea levels

Opportunities	
Resource Efficiency	▶ Use of more efficient modes of transport and production and distribution processes ▶ Use of recycling ▶ Move to more efficient buildings ▶ Reduced water usage and consumption
Energy Source	▶ Use of lower-emission sources of energy ▶ Use of supportive policy incentives ▶ Use of new technologies ▶ Participation in carbon market
Products & Services	▶ Development and/or expansion of low emission goods and services ▶ Development of climate adaption and insurance risk solutions ▶ Development of new products or services through R&D and innovation
Markets	▶ Access to new markets ▶ Use of public-sector incentives ▶ Access to new assets and locations needing insurance coverage
Resilience	▶ Participation in renewable energy programs and adoption of energy-efficiency measures ▶ Resource substitutes/diversification

Voluntary market disclosures to date

- Broad range of reporting trends:
  - ESG / CSR reporting
  - Voluntary reporting on GHG emissions
  - Voluntary reporting on climate risk

Risk	15-year risk assessment	50-year change in risk assessment	Impact	Risk treatment	Commitments and targets
Vegetation and treefall	Medium to high	Increasing	Vegetation and treefall are some of our biggest challenges in maintaining network reliability, mostly in areas with overhead network. We expect vegetation issues to increase due to weather events and higher growth rates from warmer temperatures.	We have a robust ongoing vegetation management programme that will need to adapt to changes in growing conditions. We work with our community and Councils to explain the importance of controlling vegetation near power lines, this includes choosing the right tree to plant near our network.	Vegetation management processes that are continuously monitored and improved.
Severe storms and wind speed	Low for urban network. High for rural network.	Increasing	Overhead lines are more at risk from severe storms and high winds, which means our rural customers are more exposed to this risk. Damage to our network due to severe storms and winds can also create a safety risk.	Our design standards for the inland network have been modified to increase network resilience to high winds. We will assess design specifications against future wind speeds as part of our continuous improvement approach to management of network assets.	Dynamic network monitoring, future-fit technical specifications and remote switching capability .
Fire conditions	Medium	Increasing	Drier conditions will lead to longer and more severe periods of fire risk across more of our region. This may increase the frequency and severity of network impacts from fire. There is legal risk to Orion if a fire starts within our network and causes losses to third parties.	We're proactive about cutting back vegetation around our lines. Following Australia's example, we use real-time hourly fire risk ratings from NIWA and stop our network from automatically re-livening during times of high fire risk.	We will continue to learn from fire response in Australia and the USA to update our resilience and recovery plans.
Sea level rise	Low	Gradual increase, particularly for coastal parts of our network.	Sea level rise over the next 15 years is likely to affect minor parts of our network. In the longer term, sea level rise will also increase the water table level in coastal areas, which reduces the season for cable work and could increase the frequency of faults in a small area of our underground network.	Since 2011, we have reduced the potential impacts of major coastal events as our key service providers have moved inland. When installing new equipment near the coast, we consider the latest sea level rise projections from NIWA to make sure the foundations of equipment are above the level of potential risk.	Continuously update design standards based on latest NIWA information and future scenario analysis.

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Z Energy TCFD Roadmap

FY2020	FY2021	FY2022	FY2023
Conducted a gap analysis of the 11 TCFD disclosures. This gap analysis was used to inform the TCFD Index table on page 158	Identify, assess and manage physical risks using the findings of the natural hazard exposure review	Review performance against revised climate-related metrics and targets	Review results of scenario analysis and management of related risks and opportunities to fully integrate into strategic and financial plans
Achieved Executive alignment. Established a team across Governance, Finance, Risk & Sustainability to define scope, approach and roadmap for TCFD	Review climate-metrics and targets	Integrated the 2-degrees scenario analysis into business decision-making process	
Documented current approach to identify, assess and manage climate-related risk management into governance and risk processes, at Board and management level	Conduct and document a robust risk assessment of transitional risks	Carry out risk review of how climate-related risks and opportunities are integrated into overall risk management	
Formalised the impact of carbon on business decisions through making this an explicit consideration when planning initiatives	Provide guidance to the organisation on how to integrate climate risks and opportunities into the overall risk management process	Carry out quality assurance	
Used BEC Kea and Tūī Scenarios as proxy to inform decisions and Z's capital strategy	Expand scenario analysis to include at least a 2-Degree scenario and one other comparison		
Achieved Board approval of TCFD approach	Prepared for quality assurance		

Key

- Complete
- In Progress
- Planned

Questions?

Nicola Swan – Nicola.swan@chapmantripp.com

www.chapmantripp.com

chapman tripp

AUCKLAND

Level 34, PwC Tower

15 Customs Street West

PO Box 2206

Auckland 1140

New Zealand

T: +64 9 357 9000

WELLINGTON

Level 17

10 Customhouse Quay

PO Box 993

Wellington 6140

New Zealand

T: +64 4 499 5999

CHRISTCHURCH

Level 5

60 Cashel Street

PO Box 2510

Christchurch 8140

New Zealand

T: +64 3 353 4130