Guidance for financial reporting by electricity distribution businesses in 2023

This document provides guidance to preparers of financial statements of electricity distribution businesses (EDBs) with 31 March 2023 and 30 June 2023 balance dates. This guidance covers the following matters:

- extreme weather events;
- valuation issues;
- impact of the 2020 Default Price-Quality Path Determination on revenue recognition and disclosure for those EDBs subject to price control;
- new and amended standards applicable for the first time in 2023; and
- standards issued and not yet effective and not early adopted.

If you wish to discuss any of these matters further, please contact your audit team.

Extreme weather events

Parts of New Zealand experienced significant weather events in the early part of 2023. Possible impacts of these events for an EDB's annual reporting could include:

- Accounting for damage to physical assets and insurance claims. Guidance on accounting matters arising from weather events is set out in the appendix to this guide.
- Challenges in completely or accurately recording network interruptions and reporting performance against network reliability measures (SAIDI and SAIFI). If an EDB is unable to accurately report its performance against SAIDI/SAIFI or other performance measures established in the Statement of Corporate Intent then you should discuss this with your Audit Director.

Valuation issues

Economic factors (for example inflation, escalation of costs, and increases in interest rates) could have an impact on fair value assessments and valuations of property, plant, and equipment (PPE).

For PPE valuations based on discounted cash flows, EDBs and their valuers will need to carefully consider the impact of these economic factors on discount rates.

For PPE valuations based on depreciated replacement costs, EDBs and their valuers will need to carefully consider the impact of inflation and cost escalations on replacement costs. They will also need to consider whether recent replacement costs incurred are representative of sustainable market conditions.

Impact of the 2020 Default Price-Quality Path Determination on revenue recognition and disclosure for those EDBs subject to price control

The Electricity Distribution Services Default Price-Quality Path Determination 2020 (the 2020-2025 DPP) issued by the Commerce Commission (the Commission) revised the mechanism for revenue control with the introduction of a revenue cap involving a wash-up process.

We previously indicated that we were considering the impact, if any, of the wash-up mechanism on revenue recognition and disclosure for EDBs subject to the DPP.

Our conclusion on this was that under *existing* New Zealand Generally Accepted Accounting Practice, an EDB cannot recognise a provision/liability at balance date for the amount that it exceeded its maximum allowable revenue in the financial year (or an asset for any additional revenue that can be charged in the future where its revenue was below its cap).

In January 2021, the International Accounting Standards Board (IASB) published the Exposure Draft, Regulatory Assets and Regulatory Liabilities, which sets out the IASB's proposals for a model to account for regulatory assets and regulatory liabilities. If issued as a new IFRS Accounting Standard, the proposals would replace IFRS 14 Regulatory Deferral Accounts. The IASB discussed feedback on the Exposure Draft in October and November 2021 and met on 21 February 2023 to discuss its plan to redeliberate the proposed recognition requirements in the ED (IFRS - Rate-regulated Activities). At this point, there is no new standard or exposure draft of a new standard.

However, while an amount cannot be recognised in respect of these wash-ups, those that are material should be disclosed in the notes to the financial statements along with the impact on future revenue. This is required by accounting standard NZ IAS 1 to help users understand the impact of particular transactions, other events, and conditions on the EDB's financial position and performance, as well as helping users of financial statements predict the EDB's future cash flows, particular their timing and certainty.

If the amount is an estimate at the date the financial statements are issued, we recommend this is disclosed as the "estimated wash-up amount". If the amount is reasonably certain, then the word "estimate" should not be used.

New and amended standards applicable for the first-time in 2023

In preparing the 2023 financial statements, EDBs need to consider whether any new or amended standards that are applicable for the first time this accounting period will have an effect on the financial statements. The disclosures required in paragraph 28 of accounting standard NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* need to be considered when a new or amended standard has had an effect on the financial statements.

There are no new and amended standards that came into effect for 31 March 2023 and 30 June 2023 year-ends that we expect to have a significant impact on EDBs' financial statements.

A complete list of new standards and amendments, including those not yet effective, can be viewed on the XRB's website at the following link: New Accounting Standards » XRB

Standards issued and not yet effective and not early adopted

When an EDB has not yet applied a new or amended standard that is not yet mandatory, paragraph 30 of NZ IAS 8 requires information to be disclosed about that new or amended standard. Our view is that this disclosure applies only to those new standards or amendments that will or might affect an EDB's future financial statements.

In Table 1 below, we provide summary information on new and amended standards that have been issued and are not yet effective that might affect some EDBs in future reporting periods. Note that not all standards issued and not yet effective are listed here. We have only included those that are most relevant to the sector.

Table 1

Standard	Brief outline
Amendments to NZ IAS 1 – Disclosure of Accounting Policies	The amendments apply for annual reporting periods beginning on or after 1 January 2023. The amendments to NZ IAS 1 *Presentation of Financial Statements* require entities to disclose their material accounting policy information rather than their significant accounting policies. The amendments aim to improve the relevance of the information in the financial statements by helping an entity to: • identify and disclose accounting policy information that is material to users of financial statements; and • remove immaterial accounting policy information that might obscure material accounting policy information.
Amendments to NZ IAS 1 *– Classification of Liabilities as Current or Non-current (April 2020)* *– Non-current Liabilities with Covenants (May 2023)*	These amendments apply for annual reporting periods beginning on or after 1 January 2024. The amendments clarify: • a criterion in NZ IAS 1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. • how covenants with which an entity must comply within twelve months after the reporting period affect the classification of a liability.

Where a new or amended standard will or might affect an EDB's financial statements on adoption, the EDB is required to provide the disclosures set out in paragraphs 30 to 31 of NZ IAS 8. The following is an example disclosure for the *Amendments to NZ IAS 1.*

Standards issued and not yet effective and not early adopted

Certain new accounting standards and amendments have been issued that are not mandatory for the 31 March 2023 financial year and have not been early adopted. Those new standards and amendments that are relevant to the Group are:

Amendments to NZ IAS 1 – Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants

The amendments clarify a criterion in NZ IAS 1 for classifying a liability, such as loans, as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. The amendments also clarify how covenants with which an entity must comply within twelve months after the reporting period affect the classification of a liability.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024. These amendments were updated in May 2023 and cannot be early adopted as the early adoption period commences after the Group's balance date. The Group has not yet assessed the effect of these amendments on the future reporting for its loan agreements.

Where none of the changes have relevance to the EDB, we recommend that this be disclosed. An example disclosure is provided below.

Standards issued and not yet effective and not early adopted

Certain new accounting standards and amendments have been issued that are not mandatory for the 31 March 2023 financial year and have not been early adopted by the Group. The Group has assessed that these are not likely to have a significant effect on its financial statements.

Appendix 1: Accounting and reporting issues for consideration by EDBs affected by extreme weather events

Below we set out some of the more significant accounting and disclosure matters to consider for EDBs affected by severe weather events. EDBs affected should discuss these matters with their audit team.

Accounting for damage to assets
• Assets that have been destroyed or damaged to such an extent that they cannot be used are derecognised with an expense recognised for the previous carrying value. • For assets that are still usable but have suffered minor damage that can be fixed through typical repairs and maintenance work, the appropriate accounting is to recognise an expense as the repairs and maintenance expenditure is incurred. • Significant damage to assets that significantly reduces the economic benefits or service potential to be derived from the assets is an impairment indicator (for example, a transformer that is damaged but fixable, but cannot be used or only used at less than capacity until repair work fixes the significant damage). Impairment testing is generally performed at the cash generating unit level, following the detailed guidance in NZ IAS 36 *Impairment of Assets*. Paragraph 107 of NZ IAS 36 gives an example of how impairment testing is applied to a damaged asset that is part of cash generating unit. • The remaining useful lives of assets may also need to be reassessed. • Inventory may be damaged and will need to be valued at the lower of cost or net realisable value.
Accounting for insurance claims and receivables
• EDBs should only recognise insurance revenue and receivables when receipt of insurance recoveries is considered virtually certain. Generally this is when the EDB's insurer has confirmed acceptance of a claim. If the amount of the claim has not yet been agreed, the insurance receivable is measured at the best estimate of what is expected to be received, provided it can be measured reliably. If an insurance receivable cannot be reliably measured, an asset is not recognised. • For insurance claims not yet accepted by the insurer or claims not yet provided to an insurer, a contingent asset will be disclosed if the insurance claim is not recognised as an asset and the EDB expects it is probable the claim will be accepted by their insurer. • Consistent with the general principle in NZ IAS 1, insurance revenue and receivables and the related expenses and liabilities should be presented on a gross basis unless expressly permitted by an accounting standard.

Accounting for any financial assistance received from central or local government

- Financial assistance received from central or local government is accounted for under NZ IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. Government grants are not recognised until there is reasonable assurance that: (a) the EDB will comply with the conditions attaching to them and (b) the grants will be received.
- Government grants shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. If the grant compensates for operating costs that have already been incurred then it is recognised in profit and loss when receivable.
- Government grants to fund capital expenditure are either recognised as deferred income or deducted in arriving at the carrying amount of the asset. Both approaches recognise the grant in profit or loss on a systematic basis over the useful life of the asset.

Financial statement disclosures

We encourage EDBs that are significantly affected by severe weather events to include a single note about the event dealing with all the required disclosures, rather than having disclosures about the event scattered throughout the financial statements. The detail and extent of disclosure will depend on the effects of the events on the EDB. The following financial statement disclosures may be relevant for EDBs affected by these events.

- NZ IAS 36 *Impairment of Assets*:
  - Paragraph 126 – Disclose the amount of impairment losses (and any reversals of impairment losses) recognised in the surplus/deficit and in other comprehensive income during the period.
  - Paragraph 130 sets out the disclosure requirements for individual assets and cash-generating units for which an impairment has been recognised or reversed during the period, including the events and circumstances that led to the recognition or reversal of the impairment loss.
- NZ IAS 1 *Presentation of Financial Statements*:
  - Paragraph 122 – Disclose significant judgements made in applying accounting policies. For example, if significant judgement has been exercised in determining whether damage should be treated as impairment, derecognition, or repairs and maintenance.
  - Paragraph 125 – Disclose significant assumptions and estimates applied in accounting for the effects of the event. For example, disclose information about the uncertainties surrounding the estimate of asset impairments or measurement of insurance receivables.
- NZ IAS 16 *Property, Plant and Equipment*:
  - Paragraph 74A(a) – If not disclosed separately in the statement of comprehensive revenue and expense/income, disclose the amount of compensation from third parties for items of PPE that were impaired, lost, or given up.

- NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*:
  - Paragraph 85 sets out the disclosures relevant to provisions created as a result of the events, while paragraph 89 sets out the disclosures relevant to contingent assets (such as insurance claims not yet recognised).
- NZ IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*:
  - Paragraph 39 – Disclose the nature and extent of government grants and assistance recognised in the financial statements and unfulfilled conditions or other contingencies attached to them.

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