

Guidance for financial reporting by electricity distribution businesses in 2024

This document provides guidance to preparers of the financial statements of electricity distribution businesses (EDBs) with 31 March 2024 and 30 June 2024 balance dates. This guidance covers:

- interruptions reporting;
- the impact of the 2020 Default Price-Quality Path Determination on revenue recognition and disclosure for those EDBs subject to price control;
- tax changes: removal of depreciation on buildings;
- reporting on greenhouse gas emissions performance measures within audited information;
- new and amended standards applicable for the first time in 2024;
- standards issued but not yet effective and not early adopted; and
- standards issued by the International Accounting Standards Board (IASB) but not yet issued by the External Review Board (XRB).

In our [2023 guidance for financial reporting](#), we provided detailed guidance on accounting matters arising from the significant weather events in the early part of 2023. EDBs significantly affected by Cyclone Gabrielle may find that guidance is still useful when preparing their 2024 financial statements.

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

Interruptions reporting – definition of System Average Interruption Frequency Index (SAIFI) values and System Average Interruption Duration Index (SAIDI) values

Network reliability is vitally important to many businesses and consumers. This means that network reliability performance measures (SAIFI and SAIDI values) are key measures within an EDB's regulatory reporting and annual report service performance information.

The Commerce Commission (the Commission) modified the definitions of SAIFI and SAIDI for information disclosure reporting, to ensure EDBs record successive interruptions as an additional SAIFI value and SAIDI value if restoration of supply occurs for longer than one minute. This is known as the multi-count approach. Affected EDBs are required to use this methodology to disclose SAIFI and SAIDI values in their information disclosures for the first time in 2024.

Transitional requirements for the 2024 to 2026 regulatory years require EDBs that did not previously use the multi-count approach to continue to record their SAIFI and SAIDI values using the same methodology that they used for the 2023 disclosure year. This is known as the “Transitional SAIFI and SAIDI” approach. However, these EDBs must also separately disclose values consistent with the multi-count definition in their information disclosures.

EDBs must take care to ensure that performance reporting for annual report purposes is consistent with how targets were set. Therefore, if an EDB set the performance target in its corporate planning documents on a “Transitional SAIFI and SAIDI” approach, it should report its actual performance on that basis.

Similarly, if an EDB reports prior year comparatives, then it needs to report the current and prior year’s results on a consistent basis. EDBs will need to have relevant disclosures in the statement of service performance explaining the basis used and any significant differences to regulatory reporting.

We encourage EDBs to include the results for both approaches for consistency with regulatory reporting and to provide better comparability for future-year reporting.

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 Commission revised the mechanism for revenue control with the introduction of a revenue cap involving a wash-up process.

We considered the impact, if any, that the wash-up mechanism would have on revenue recognition and disclosure for EDBs subject to the DPP. Our conclusion on this remains 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.

However, although EDBs cannot recognise an amount for these wash-ups, they should disclose those that are material, along with the impact on future revenue, in the notes to the financial statements.

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. These disclosures also help users of financial statements predict the EDB’s future cash flows, particularly their timing and certainty.

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

The IASB continues to redeliberate proposed requirements in the Exposure Draft *Regulatory Assets and Regulatory Liabilities*. This Exposure Draft sets out the IASB's proposals for a model to account for regulatory assets and regulatory liabilities. If the IASB issues the Exposure Draft as a new IFRS Accounting Standard, it would replace IFRS 14 Regulatory Deferral Accounts. An update on deliberations is available at [IFRS – Rate-regulated Activities](#).

Tax changes: Removal of depreciation on buildings

The tax bill containing the removal of depreciation on commercial and industrial buildings was enacted at the end of March. Essentially, this change takes tax depreciation on buildings back to the previous 2011-2020 settings. Building structure assets will be subject to 0% tax depreciation from the 2024/25 income year onwards. However, building fit-out assets will continue to be depreciable.

As a result of this legislative change, EDBs will need to make an adjustment to deferred tax on buildings in their 2024 accounts. The increase in deferred tax associated with this change will be recognised against tax expense.

This adjustment generally applies to buildings classified as property, plant, and equipment. It also applies to investment property buildings where the presumption of recovery by sale has been rebutted.

In most instances, the increase in deferred tax on buildings for 2024 is expected to be similar to the reduction in deferred tax recognised in the 2020 accounts (after tax depreciation on buildings was reintroduced).

Reporting on greenhouse gas emissions performance measures within audited information

Several New Zealand organisations are choosing to report a measure of their greenhouse gas emissions within their service performance information.

If an EDB's statement of corporate intent includes a measure of greenhouse gas emissions within the performance targets required by the Energy Companies Act 1992,¹ this measure will be part of the audited performance information within the EDB's annual report. Because substantial judgement and effort can be needed to calculate and audit emissions information, it is important to engage early with your auditor when including such a measure for the first time.

New and amended standards applicable for the first time in 2024

In preparing the 2024 financial statements, EDBs need to consider whether any new or amended standards that are applicable for the first time during this accounting period will have an effect on the financial statements. EDBs need to consider the disclosures required in paragraph 28 of

¹ Para 39(2)(e) – *The performance targets and other measures (including the rate of return on shareholders' funds after payment of tax) by which the performance of the group may be judged in relation to its objectives.*

accounting standard NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* when a new or amended standard has had an effect on the financial statements.

In Table 1, we provide summary information on new and amended standards that came into effect for 31 March 2024 and 30 June 2024 year ends that might affect some EDBs.

Table 1

Amendment	Brief outline
<p><i>Amendments to NZ IAS 1 – Disclosure of Accounting Policies</i></p>	<p>The amendments apply for annual reporting periods beginning on or after 1 January 2023.</p> <p>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.</p> <p>The amendments aim to improve the relevance of the information in the financial statements by helping an entity to:</p> <ul style="list-style-type: none"> • 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. <p>We expect EDBs to work closely with their audit teams when determining what impact, if any, this amendment has on the disclosed accounting policy information.</p> <p>EDBs should also keep in mind that balances or classes of transactions that are not quantitatively material for the current year might be material for the comparative in the future or might be material in the context of the business.</p>
<p><i>Amendments to NZ IAS 8 – Definition of Accounting Estimates</i></p>	<p>The amendments apply for annual reporting periods beginning on or after 1 January 2023.</p> <p>The amendments to NZ IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors clarify how accounting policies and accounting estimates relate to each other by:</p> <ul style="list-style-type: none"> • explaining that accounting estimates are used in applying accounting policies; and • making the definition of accounting estimates clearer and more concise. <p>Consequently, entities should find it easier to distinguish changes in accounting policies from changes in accounting estimates.</p> <p>This distinction is important because changes in accounting estimates are applied prospectively but changes in accounting policies are generally applied retrospectively to past transactions and other past events.</p>

A complete list of new standards and amendments, including those that are not yet effective, can be viewed on the XRB’s website at [New Accounting Standards for For-Profit Entities » XRB](#).

Standards issued but 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 2, we provide summary information on new and amended standards that have been issued but are not yet effective that might affect some EDBs in future reporting periods. Note that not all standards issued but not yet effective are listed here. We have included only those that are most relevant to the sector.

Table 2

Standard	Brief outline
<p><i>Amendments to NZ IAS 1</i> – <i>Classification of Liabilities as Current or Non-current (April 2020)</i> – <i>Non-current Liabilities with Covenants (May 2023)</i></p>	<p>These amendments apply for annual reporting periods beginning on or after 1 January 2024.</p> <p>The amendments clarify:</p> <ul style="list-style-type: none"> • 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; and • how covenants that an entity must comply with within 12 months after the reporting period affect the classification of a liability. <p>Only covenants that an entity must comply with on or before the reporting date affect the classification of a liability as current or non-current.</p> <p>Entities must disclose information to enable users to understand the risk that non-current liabilities with covenants could become repayable within 12 months.</p> <p>Early adoption is only permitted for accounting periods that end on or after 22 June 2023.</p>
<p><i>Amendments to FRS-44 – Disclosure of Fees for Audit Firms’ Services</i></p>	<p>This amendment applies for annual reporting periods beginning on or after 1 January 2024.</p> <p>This amendment updates the required disclosures for fees relating to services provided by an entity’s audit or review firm. The amendment aims to ensure that entities disclose these fees consistently.</p> <p>The disclosure is to be disaggregated into specified categories of services and includes guidance to assist entities.</p> <p>Early adoption is only permitted for accounting periods ending on or after 15 June 2023.</p>

Standard	Brief outline
<p><i>Amendments to NZ IFRS 16 Leases – Lease Liability in a Sale and Leaseback</i></p>	<p>This amendment applies for annual reporting periods beginning on or after 1 January 2024.</p> <p>This amendment applies to sale and leaseback transactions that are accounted for as a sale under NZ IFRS 15 <i>Revenue from Contracts with Customers</i>.</p> <p>In subsequently measuring the lease liability, a seller-lessee shall determine the lease payments in a way that it would not recognise any amount of the gain or loss that relates to the right of use retained by the seller-lessee.</p> <p>However, this amendment does not prevent the seller-lessee from recognising in profit or loss any gain or loss relating to the partial or full termination of a lease.</p> <p>This is applied retrospectively in accordance with NZ IAS 8 to sale and leaseback transactions entered into after the date of initial application. The date of initial application is the beginning of the reporting period in which the entity first applied NZ IFRS 16.</p>
<p><i>Supplier Finance Arrangements</i></p>	<p>These amendments apply for annual reporting periods beginning on or after 1 January 2024.</p> <p>The amending standard <i>Supplier Finance Arrangements</i> introduces disclosures to enhance the transparency of an entity's supplier finance arrangements and their effects on its liabilities, cash flows, and exposure to liquidity risk.</p> <p>The amendments are to NZ IAS 7 <i>Statement of Cash Flows</i> and NZ IFRS 7 <i>Financial Instruments: Disclosures</i>.</p> <p>Early adoption is only permitted for accounting periods ending on or after 10 August 2023.</p> <p>Reduced Disclosure Regime</p> <p>The amending standard <i>Supplier Finance Arrangements RDR</i> exempts Tier 2 for-profit entities from all of the new disclosure requirements.</p>
<p><i>Amendments to NZ IFRS 10 Consolidated Financial Statements and NZ IAS 28 Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i></p>	<p>These amendments apply for annual periods beginning on or after 1 January 2025.</p> <p>The amendments to NZ IFRS 10 and NZ IAS 28 to the accounting for a sale or contribution of assets between an investor and its associate or joint venture require entities to recognise a full gain or loss when the transaction involves a business. Entities recognise a partial gain or loss when the transaction involves assets that do not constitute a business.</p> <p>This includes when the business or assets are housed in a subsidiary.</p>

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 but not yet effective and not early adopted

Certain new accounting standards and amendments have been issued that are not mandatory for the 31 March 2024 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 that an entity must comply with within 12 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. The Group does not expect these amendments to change the classification of our loans between current and non-current, but will require additional disclosures about loan covenants.

Where none of the changes have relevance to the EDB, we recommend that this be disclosed. We provide an example disclosure below:

Standards issued but not yet effective and not early adopted

Certain new accounting standards and amendments have been issued that are not mandatory for the 31 March 2024 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.

Standards issued by the International Accounting Standards Board but not yet issued by the External Reporting Board

FRS 44 *New Zealand Additional Disclosures* requires Tier 1 EDBs to disclose the information specified in paragraphs 30 and 31 of NZ IAS 8 when the IASB has issued an IFRS but the XRB has not yet issued the equivalent NZ IFRS.

The IASB issued IFRS 18 *Presentation and Disclosure of Financial Statements* in April 2024. IFRS 18 introduces new requirements intended to improve how information is communicated in the financial statements – in particular, information in the statement of profit or loss. The XRB is expected to approve the New Zealand equivalent standard in May this year. The new standard will replace NZ IAS 1 and will become mandatory on 1 January 2027.

May 2024

Audit New Zealand National Office
100 Molesworth Street

Thorndon
PO Box 99
Wellington 6140
Ph 04 496 3099
www.auditnz.parliament.nz

© Audit New Zealand 2024

New Zealand public sector organisations can reproduce or use our material without further permission. Other parties can reproduce or use our material only for non-commercial purposes and only if the source is acknowledged.