Guidance for financial reporting by electricity distribution businesses in 2025

This document provides guidance to preparers of the financial statements of electricity distribution businesses (EDBs) with 31 March 2025 and 30 June 2025 balance dates. The good news is that there are limited changes that apply for this year – the most significant new requirement for 2025 balance dates relates to the disclosure of audit fees and clarifications on how covenants impact the classification of liabilities as current or non-current. To help EDBs with the new audit fee disclosure requirements, we have included an example disclosure in the Appendix.

This guidance also covers a number of other matters that may be of interest to professionals in the EDB sector and that you may find useful in preparing your financial statements for audit:

- 2025 reset of the electricity default price-quality path – asset valuation considerations.
- Reporting on greenhouse gas emissions performance measures within audited information.
- Revenue wash-up disclosures for those EDBs subject to price control under the Default Price-Quality Path Determination.
- New and amended standards applicable for the first time in 2025.
- Standards issued but not yet effective and not early adopted (including example disclosure).
- Standards issued by the International Accounting Standards Board (IASB) but not yet issued by the External Reporting Board (XRB).

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

2025 reset of the electricity default price-quality path – asset valuation considerations

EDBs' network valuations (revaluations, fair value assessments, and impairment calculations) are generally based on discounted cash flows.

Where EDBs are subject to price control, the EDB and their valuers will need to carefully consider the impact of the new default price-quality path (which began 1 April 2025) on discounted cash flow assumptions and inputs such as estimated future revenue and costs, and appropriate discount rates to use.

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 in the EDB's annual report. Because substantial judgement and effort can be needed to calculate and audit emissions information, it is important to engage with your auditor early when you include this type of measure for the first time or when there is a substantial change in what you intend to report.

EDBs should ensure that their reporting of their achievements and activities in relation to their environmental impacts, including their greenhouse gas emissions, is unbiased and balanced. It is important to avoid any "greenwashing" of your achievements or activities in this reporting, whether in the audited service performance information or in other information in the annual report. EDBs might find the following resources useful when considering how to report on greenhouse gas emissions:

- Climate Change Reporting: The risks of greenwashing – In this recorded session, Audit New Zealand's Associate Director Technical, Amy Hamilton, discusses why greenwashing is a risk to trust and confidence, and why interest in climate-related disclosures is on the rise.

- Carbon targets and ambiguity: The scrutiny to expect from an auditor – This article clarifies the Auditor-General's expectations and the auditor's approach to statements about greenhouse gas targets and emissions reduction reporting.

Revenue wash-up disclosures for those EDBs subject to price control under the Default Price-Quality Path Determination

Consistent with previous years, our view 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 by in the financial year, and it cannot recognise an asset for any additional revenue that can be charged in the future where its revenue was below its cap.

In our view, EDBs should disclose an amount for these wash-ups (if material), along with the impact on future revenue, in the notes to the financial statements. EDBs should also note if the amount disclosed is an estimate.

The IASB continues to progress the IFRS Accounting Standard that will replace IFRS 14 *Regulatory Deferral Accounts*. This is expected in the second half of 2025. An update on deliberations is available at ifrs.org: IFRS – Rate-regulated Activities.

[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.*

New and amended standards applicable for the first time in 2025

In preparing the 2025 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 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 summarise the new and amended standards that came into effect for 31 March 2025 and 30 June 2025 year-ends that might affect some EDBs.

Table 1

Amendment	Brief outline
Disclosure of Fees for Audit Firms' Services (Amendments to FRS-44)	These amendments apply for annual reporting periods beginning on or after 1 January 2024. These amendments enhance the required disclosures for fees incurred for services received from each audit or review firm. Tier 1 reporting entities are required to disclose the fees incurred for services received from its audit or review firm, and a description of each service, using the following specified categories: (a) audit or review of the financial statements; and (b) each type of other service performed by the entity's audit or review firm during the reporting period, using the following categories: • audit or review related services; • other assurance services and agreed-upon procedures engagements; • taxation services; and • other services. As well as disclosing the quantum of the fee for each category, entities are also required to disclose the nature of the different services performed. Although FRS-44 contains comprehensive guidance, categorising certain services could involve judgement. If you are unclear about which category to use, you should consult with your auditor. The standard now also clarifies that, for the purposes of these disclosures, the fees for services received from the audit or review firm are based on the amount of fees expensed during the reporting period.[2] This includes any disbursements incurred in connection with the services. Common disbursements include travel or accommodation costs and the costs of the auditor's use of independent subject matter experts. Because the amendment must be applied retrospectively, comparative information is also required.

[2] In limited circumstances, some fees received from the audit or review firm might be capitalised, such as fees for certain services performed in relation to capital projects. We expect that this would be rare in the sector.

Amendment	Brief outline
	Reduced Disclosure Regime Tier 2 entities have reduced disclosure requirements. However, those entities are still required to disclose the total fee for the audit or review of the financial statements and, separately, the total fee for all other services provided by the entity's audit or review firm, along with a general description of these services. An example disclosure is included in the Appendix.
Non-current Liabilities with Covenants (Amendments to NZ IAS 1)	These amendments apply for annual reporting periods beginning on or after 1 January 2024. These amendments to NZ IAS 1 clarify how covenants that an entity must comply with within twelve months after the reporting period affect the classification of a liability as current or non-current. 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. This is the case even if compliance with the covenant is assessed only after the reporting period (for example, a covenant based on the entity's financial position at the end of the reporting period but assessed for compliance only after the reporting period). The amendments also improve disclosure of the information an entity provides when its right to defer settlement of a liability for at least twelve months is subject to compliance with covenants within twelve months after the reporting period. In such situations, the entity shall disclose information in the notes that enables users of financial statements to understand the risk of the liabilities becoming repayable within twelve months after the reporting period, including: • Information about the covenants, including the nature of the covenants and when the entity is required to comply with them and the carrying amount of related liabilities. • Facts and circumstances, if any, that indicate the entity may have difficulty complying with the covenants — this could also include the fact that the entity would not have complied with the covenants if they were to be assessed for compliance based on their circumstances at the end of the reporting period. The amendment must be applied retrospectively.

Amendment	Brief outline
Supplier Finance Arrangements (Amendments to NZ IAS 7 Statement of Cash Flows and NZ IFRS 7 Financial Instruments: Disclosures)	These amendments apply for annual reporting periods beginning on or after 1 January 2024. The amending standard *Supplier Finance Arrangements* 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. An entity is required to include additional disclosures for their supplier finance arrangements in aggregate, including the terms and conditions of the arrangements, carrying amounts and associated line items subject to a supplier finance arrangement (including disclosure of those that have already been paid by the finance provider), the range of payment due dates for these and comparable trade payables not part of a supplier finance arrangement, and the type and effect of non-cash changes in the carrying amounts of the financial liabilities disclosed under these requirements. **Reduced Disclosure Regime** Tier 2 for-profit entities are exempt from all of the new disclosure requirements.
Lease Liability in a Sale and Leaseback (Amendments to NZ IFRS 16 Leases)	This amendment applies for annual reporting periods beginning on or after 1 January 2024. This amendment applies to sale and leaseback transactions that are accounted for as a sale under NZ IFRS 15 *Revenue from Contracts with Customers*. 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. 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. 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.

A complete list of new standards and amendments, including those that are not yet effective, is available at xrb.govt.nz: New Accounting Standards for For-Profit Entities.

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 summarise the 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
NZ IFRS 18 Presentation and Disclosure in Financial Statements	NZ IFRS 18 introduces new requirements to improve how information is presented in the financial statements – in particular, information in the statement of profit or loss. NZ IFRS 18 will replace NZ IAS 1 *Presentation of Financial Statements* once it becomes mandatory for the period beginning on or after 1 January 2027. Key changes include: • New requirements to **classify income and expenses into defined categories** in the statement of profit or loss. • Introduction of **two new defined subtotals** in the statement of profit and loss: “Operating Profit” and “Profit or Loss before Financing and Income Taxes”. • Enhanced requirements for the **disclosure of information about management-defined performance measures** (that is, non-IFRS defined measures). • Enhanced requirements and principles for the **location of information** and the **aggregation/disaggregation** of information in the primary financial statements notes. Early adoption is permitted for accounting periods that end after the Standard took effect on 20 June 2024. The standard applies retrospectively, so EDBs need to consider the impact on financial reporting in advance of the application date, as for some this may require setting up new systems or changes to existing systems. The XRB are seeking feedback (via an Exposure Draft) on proposed Reduced Disclosure Regime concessions for Tier 2 for-profit entities on certain new disclosure requirements.

Standard	Brief outline
Amendments to the Classification and Measurement of Financial Instruments	These amendments apply for annual reporting periods beginning on or after 1 January 2026. Amendments to NZ IFRS 9 *Financial Instruments* and NZ IFRS 7 *Financial Instruments: Disclosures* include: (a) Amendments to clarify classification of financial assets with environmental, social, and corporate governance (ESG) and similar features – in respect to whether these features affect whether an asset is measured at amortised cost or fair value. (b) Financial liabilities settled via electronic payment – option to derecognise the liability before cash is delivered on "settlement date", if specified criteria are met. (c) New disclosures for investments in equity instruments designated at FVOCI and for financial instruments with contingent features. Tier 2 for-profit entities are exempted from some of the new disclosure requirements.
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	These amendments apply for annual periods beginning on or after 1 January 2028. This has been deferred from 1 January 2025. Early adoption is permitted for accounting periods that begin before 1 January 2025 but have not ended or do not end before 20 June 2024. 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. This includes when the business or assets are housed in a subsidiary.
Lack of Exchangeability	These amendments apply for annual reporting periods beginning on or after 1 January 2025. The amending standard defines when a currency is exchangeable and introduces new requirements, guidance, and disclosures relating to estimating the spot exchange rate when a currency is not exchangeable. Currencies that are not exchangeable includes those where there are strict government controls, such as the Venezuelan Bolivar. This amends NZ IAS 21 and NZ IFRS 1 and will likely have limited application to EDBs. Tier 2 entities are exempt from some of the new disclosure requirements.

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 and 31 of NZ IAS 8. The following is an example disclosure for *NZ IFRS 18 Presentation and Disclosure in Financial Statements*:

> ***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 2025 financial year and have not been early adopted. Those new standards and amendments that are relevant to the Group are:*
>
> *<u>NZ IFRS 18 Presentation and Disclosure in Financial Statements</u>*
>
> *NZ IFRS 18 will replace NZ IAS 1 Presentation of Financial Statements once it becomes mandatory on 1 January 2027.*
>
> *Key changes include:*
>
> - *New requirements to classify income and expenses into defined categories in the statement of profit or loss.*
> - *Introduction of two new defined subtotals in the statement of profit and loss: "Operating Profit" and "Profit or Loss before Financing and Income Taxes".*
> - *Enhanced requirements for the disclosure of information about management-defined performance measures (that is, non-IFRS defined measures).*
> - *Enhanced requirements and principles for the location of information and the aggregation/disaggregation of information in the primary financial statements notes.*
>
> *The Group has done a preliminary assessment and expects significant changes to the structure of the Group Statement of Profit or Loss will be required including the key changes as mentioned above.*

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.

Standard	Brief outline
Targeted amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures.	The amendments apply for annual reporting periods beginning on or after 1 January 2026. In December 2024, the International Accounting Standards Board (IASB) issued targeted amendments to help companies better report the financial effects of nature-dependent electricity contracts, which are often structured as power purchase agreements (PPAs). XRB consultation on the New Zealand equivalent amendments has closed but these amendments have not yet been issued by the XRB at the date of this commentary.

<table>
<tr><th>Standard</th><th>Brief outline</th></tr>
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PPAs can be broadly grouped into physical or virtual PPAs. Physical PPAs are contracts in which a generator delivers a specific volume of electricity to a customer at a specific price. Under these agreements the customer pays the generator directly for the whole amount of electricity purchased.
Virtual PPAs are contracts in which a generator and a customer sell/purchase electricity to/from the grid at the current market price and settle the difference between the market price of the electricity and the agreed upon price, typically to fix the price.
Both fall within the scope of IFRS 9. Physical PPAs may qualify for the “own-use” exception, allowing them to be accounted for as an ordinary sale/purchase. Virtual PPAs meet the definition of a derivative or could be a cash flow hedge if conditions are met.
The primary issue for both is whether entities can accurately predict the volume of electricity required, so it can be challenging to meet the conditions of the “own-use exception” or hedge accounting, in which case these are accounted for as derivatives which can have a volatile impact on profit and loss.
The targeted amendments are to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures. The amendments include:

Clarifying the application of the “own-use” requirements.
Permitting hedge accounting if these contracts are used as hedging instruments.
Adding new disclosure requirements to enable investors to understand the effect of these contracts on a company’s financial performance and cash flows.

Certain entities overseas can apply the amendments earlier.
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Appendix: Example audit fee disclosure

This appendix provides an example disclosure for a Tier 1 EDB. This example assumes a single audit firm is involved in the audit of the consolidated financial statements (including subsidiary audits) and that the audit firm has not provided any services in the categories "taxation services", or "other services". When no such services are provided, these categories do not need to be included in the disclosure.

Fees incurred for services provided by the audit firm	**2025**	**2024**
Audit of the financial report[3]	x	**x**
Audit or review related services		
Default Price Path assurance engagement[4]	x	x
Information Disclosure assurance engagement[5]	x	x
Total	**x**	**x**
Other assurance services and other agreed-upon procedures engagements		
Greenhouse gas inventory assurance engagement[6]	x	x
Total fees incurred for services provided by the audit firm	**x**	**x**

[3] Fees for the audit of the financial reports also include the service performance information that EDBs are required to report and have audited in their annual reports. The total fees under this category also include, when consolidated financial statements are presented, any fees incurred for the audit or review of the entity's subsidiaries' financial information. The total fees disclosed under this category will include any additional fees incurred as a result of issuing an audit opinion or review conclusion on the financial statements of the subsidiary entities (FRS 44.8.14).
[4] Relies on synergies from the financial report audit (FRS 44.8.18). These services are closely related to the work performed as part of the financial statements audit, and it is reasonable to expect that the auditor of the entity's financial statements will carry them out (FRS 44.8.17).
[5] Relies on synergies from the financial report audit (FRS 44.8.18). These services are closely related to the work performed as part of the financial statements audit, and it is reasonable to expect that the auditor of the entity's financial statements will carry them out (FRS 44.8.17).
[6] See FRS 44.8.27(a).

April 2025

Audit New Zealand National Office
100 Molesworth Street
Thorndon
PO Box 99
Wellington 6140
Ph 04 496 3099
www.auditnz.parliament.nz

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