Guidance for financial reporting by electricity distribution businesses in 2022

This document provides guidance for preparers of financial statements of electricity distribution businesses (EDBs) with 31 March 2022 and 30 June 2022 balance dates. This guidance covers:

- disclosure expectations for Covid-19 impacts;
- 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 applied for the first time in 2022; 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.

Disclosure expectations for Covid-19 impacts

Although the risks and uncertainties associated with Covid-19 have reduced since the 2020 and 2021 financial statements were prepared, we expect EDBs to continue to disclose information about the impact that Covid-19 has had on their operations and financial statements during the year, where this is significant, in their 2022 financial statements. The Covid-19 disclosures made in the 2021 financial statements will need to be updated to be relevant for 2022.

This disclosure might cover significant impacts on:

- operations, including maintenance and capital programmes (particularly during lockdowns and other disruptions, cost increases, and delays because of supply chain issues);
- revenue and expenses;
- performance measures, such as SAIDI and SAIFI;
- balance sheet valuation uncertainties; and
- any continuing impairment indicators because of Covid-19.

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. We expect EDBs to consider these economic factors and their impact on discount rates when assessing valuations based on discounted cash flow projections.

Recent statistics have also indicated significant increases to the values of land and commercial buildings. EDBs will need to consider the impact of market movements on land and buildings valuations.

In some instances, this may mean EDBs are required to complete an out-of-cycle full valuation rather than a non-revaluation-year fair value assessment.

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 revised the mechanism for revenue control. The DPP introduced a revenue cap with wash-up functionality.

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 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 undercharging).

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 is currently redeliberating specific topics relating to the scope of the proposals in the Exposure Draft.

Although an amount cannot be recognised, material wash-up amounts should be disclosed in the notes to the financial statements, along with the impact on future revenue. This is required by NZ IAS 1 to enable users to understand the impact of particular transactions, and other events and conditions, on the entity's financial position and performance. It also assists users of financial statements in predicting the entity's future cash flows and, in particular, their timing and certainty.

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

New and amended standards applied for the first time in 2022

In preparing the 2022 financial statements, EDBs will need to consider whether any new or amended standards applied for the first time have had an effect on the financial statements. The disclosures of paragraph 28 of NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* will need to be considered when a new or amended standard has had an effect on the financial statements.

Table 1 provides summary information on new and amended standards that came into effect for 31 March 2022 and 30 June 2022 year-ends and that may affect some EDBs.

Note that Table 1 does not list all new and amended standards. A complete list of new standards and amendments, including those not yet effective, can be viewed on the XRB's website at https://www.xrb.govt.nz/accounting-standards/recent-approvals/.

Table 1

Amendment	Brief outline
Interest Rate Benchmark Reform—Phase 2	The amendments apply for annual reporting periods beginning on or after 1 January 2021. The amendments address issues that may affect financial reporting during the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark. The objective of the amendments is to provide practical relief for particular changes to contractual cash flows and relief from specific hedge accounting requirements. The amending standard makes amendments to NZ IFRS 9 *Financial Instruments*, NZ IAS 39 *Financial Instruments: Recognition and Measurement*, NZ IFRS 7 *Financial Instruments: Disclosures*, NZ IFRS 4 *Insurance Contracts*, and NZ IFRS 16 *Leases*. This includes disclosure requirements related to benchmark reform.

Standards issued and not yet effective and not early adopted

When an EDB has not yet applied a new or amended standard, 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 may affect an EDB's future financial statements.

Table 2 provides summary information on new and amended standards that have been issued and are not yet effective that may affect some EDBs in future reporting periods. Note that Table 2 does not list all standards issued and not yet effective. We have included only those that are most relevant to the sector.

Table 2

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 may obscure material accounting policy information.
Amendments to NZ IAS 1 – Classification of Liabilities as Current or Non-current	The amendments apply for annual reporting periods beginning on or after 1 January 2023. 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.

Where a new or amended standard will or may 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 of a disclosure for the *Classification of liabilities as Current or Non-current* amendment:

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 2022 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

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:

- *specify that an entity's right to defer settlement must exist at the end of the reporting period;*
- *clarify that classification is unaffected by management's intentions or expectations about whether the entity will exercise its right to defer settlement;*
- *clarify how lending conditions, such as loan covenants, affect classification; and*
- *clarify requirements for classifying liabilities an entity will or may settle by issuing its own equity instruments.*

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group will not early adopt these amendments and will first apply the amendments in the 31 March 2024 financial statements. The Group has noted that the IASB is reconsidering these amendments. An exposure draft was released with proposed changes to the amendments, including a deferred date of application.

The Group has not yet assessed the effect of these amendments on its loan agreements as it waiting to see what further changes are made to the original amendments to NZ IAS 1.

Where none of the changes have relevance to the EDB, we recommend that this be disclosed. The following is an example of such a disclosure:

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 2022 financial year and have not been early adopted by the Group. The Group has assessed that these are not likely to have an effect on its financial statements.

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