

Electricity Information Disclosure Handbook

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COMMERCE COMMISSION

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1 Introduction

1.1 Purpose of this Electricity Information Disclosure Handbook

1.1.1 This handbook supports the Electricity Information Disclosure Requirements 2004 (the “Disclosure Requirements”) issued by the Commerce Commission.

1.1.2 This handbook is referred to in requirements 5(2)(a), 6(2)(a) and 24(2) of the Disclosure Requirements. Its purpose is to provide large line owners and large electricity distributors (“disclosing entities”) with:

- a mandatory business accounting separation and allocation methodology to prepare their financial statements under the Disclosure Requirements (their “Disclosure Financial Statements”);
- details of transfer payments that must be disclosed in those Disclosure Financial Statements; and
- details of the asset management plans that must be disclosed under the Disclosure Requirements.

1.2 Role of the Disclosure Requirements

1.2.1 The Disclosure Requirements were issued by the Commerce Commission under section 57T of subpart 3 of Part 4A of the Commerce Act 1986. The purpose of subpart 3 is to promote the efficient operation of markets directly related to electricity distribution and transmission services by ensuring that disclosing entities make publicly available reliable and timely information about the operation and behaviour of those businesses, so that a wide range of people are informed about such factors as the profits, costs, asset values, price (including terms and conditions of supply), quality, security, and reliability of supply of those businesses.

1.3 Summary of this handbook

1.3.1 This handbook covers the:

- Business Accounting Separation and Allocation Methodology for Preparing Financial Statements: Chapter 2 sets out the “avoidable cost” allocation methodology (ACAM) for allocating expenses, revenues, assets and liabilities (“financial statement items”) amongst the “Line” and “Other” businesses of disclosing entities. ACAM is mandatory for all disclosing entities in preparing their Disclosure Financial Statements;
- Disclosure of Transfer Payments: Chapter 3 sets out the disclosure requirements for transactions between persons in a related party relationship. These are mandatory requirements for all disclosing entities under requirement 8 of the Disclosure Requirements; and
- Disclosure of Asset Management Plans: Chapter 4 sets out the disclosure requirements for asset management plans in relation to works.

These are mandatory for disclosing entities (other than Transpower) under requirement 24 of the Disclosure Requirements.

1.4 ODV Handbook

- 1.4.1 The Commerce Commission has issued a separate handbook (the ODV Handbook) describing the methodology for valuing the system fixed assets of disclosing entities. The valuation methodology described in the ODV Handbook must be followed when preparing the ODV reconciliation report under requirement 16 of the Disclosure Requirements. The calculations for the financial performance measures required under requirement 14 of the Disclosure Requirements use the ODV values (for the end of the previous and current financial years) from the ODV reconciliation report. System fixed assets in the Disclosure Financial Statements need not be valued at ODV.

2 Business Accounting Separation and Allocation Methodology

2.1 Requirements under the Disclosure Requirements

- 2.1.1 Requirements 5 and 6 of the Disclosure Requirements require disclosing entities to publish and publicly disclose Disclosure Financial Statements in respect of their line business activities only. “Line business activity” means any of the following:
- the provision and operation of works for the conveyance of electricity, including the control of voltage; or
 - the conveyance of electricity; or
 - the ownership of works used for the conveyance of electricity, including the control of voltage.
- 2.1.2 Disclosing entities must prepare their Disclosure Financial Statements using the business accounting separation and allocation methodology specified in this Chapter.
- 2.1.3 Table 1 at the end of this chapter sets out the financial statement items required to be separately listed in the statement of financial position and the statement of financial performance in respect of line business activities, required as part of the Disclosure Financial Statements under requirements 5(1) and 6(1) of the Disclosure Requirements.
- 2.1.4 Disclosing entities are not required to disclose financial statements under the Disclosure Requirements for “Other” business activities. Examples of “Other” activities include asset construction and maintenance and non-electricity related activities.

2.2 Mandatory Avoidable Cost Allocation Methodology for Disclosing Entities

- 2.2.1 The allocation methodology that must be used by a disclosing entity in preparing its Disclosure Financial Statements is the avoidable cost allocation methodology (ACAM). ACAM assumes that the lines business activities of the disclosing entity are undertaken by the Line business, defines the Line business as the “stand-alone” business, and makes an assessment of the expenses, revenues, assets and liabilities (the “financial statement items”) that would be avoided by the disclosing entity if it did not operate its Other (“incremental”) business. The financial statement items (and components of financial statement items) that would not be avoided are allocated to the Line business, and the financial statement items (and components of financial statement items) that would be avoided are allocated to the Other business. Under ACAM, the “stand-alone cost” of a service is the cost that would be incurred if that was the sole service provided. The “incremental cost” of a service is the cost incurred in supplying that service, excluding all costs which would be incurred if that service were not supplied.

Explanatory note: Conceptually, there are two possible approaches to ACAM:

- (a) *the "bottom-up" approach which asks what the financial statements of the disclosing entity would look like if it only provided line business activities; and*
- (b) *the "top-down" approach which asks what the financial statements of the disclosing entity would look like if it ceased operating its Other business (assuming away transitional factors, such as redundancy costs and down-sizing of fixed assets).*

With the bracketed assumption in (b), the bottom-up and top-down approaches should provide identical financial statements.

2.3 Avoidable Cost Allocation Methodology Principles

2.3.1 ACAM consists of two mandatory principles:

- (a) *Principle I.* The stand-alone and incremental businesses are to be defined in such a way that:
 - (i) the stand-alone business is confined solely to the provision of natural monopoly line business activities; and
 - (ii) all contestable (and potentially contestable) activities and any other activities are provided by the incremental businesses.

Explanatory note: Defining the stand-alone and incremental businesses in this way may mean they provide each other with goods and services. Transfer payments are made for any goods and services the businesses provide each other.

- (b) *Principle II.* The financial statement items (and components of the financial statement items) are allocated to the stand-alone and incremental businesses in such a way that:
 - (i) those financial statement items (and components of the financial statement items) that would not be avoided if the disclosing entity did not operate the incremental business are allocated to the stand-alone business; and
 - (ii) those financial statement items (and components of the financial statement items) that would be avoided if the disclosing entity did not operate the incremental business are allocated to the incremental business.

Explanatory note: Financial statement items that are directly attributable to one of the stand-alone or incremental businesses must be allocated to those businesses. Financial statement items that are shared amongst either or both of the businesses must be allocated amongst those businesses, by:

- (i) *directly allocating any components of those financial statement items which are directly attributable to one of the businesses; and*

- (ii) *for any components of those financial statement items that are not directly attributable to one of the businesses:*
 - (a) *by assessing the proportions of those components which are avoidable and non-avoidable; and*
 - (b) *allocating those components amongst the businesses on the basis of those proportions.*

2.4 Exemption

- 2.4.1 If “Other” activities account in aggregate for less than 5 per cent of the disclosing entity’s total assets and revenues in a particular financial year, these may be accounted for in the Line business or separately at the disclosing entity’s discretion for that financial year.

Explanatory note: Inclusion of “Other” activities in the Line business in these circumstances will have an insignificant impact on the (stand-alone) Line business financial statements.

2.5 Interpretation of the Avoidable Cost Allocation Methodology

- 2.5.1 This section provides mandatory rules that clarify how ACAM is to be interpreted.

Interpretation of Principle I: Boundary Between the Line Business and Other Business

- 2.5.2 Principle I specifies that the Line business is to be restricted to natural monopoly line business activities, and that contestable (and potentially contestable) activities and any other activities are to be allocated to the Other business. For the avoidance of doubt, Principle I has the following consequences:

- *Consumer disconnection/reconnection services must be allocated to the Other business. Transfer payments may be made from the Line business to the Other business for provision of disconnection/reconnection services by the Other business to the Line business.*

Explanatory note: Disconnection/reconnection services are potentially contestable, and need not be provided by the Line business.

- *Consumer based load control services must be allocated to the Other business. Transfer payments may be made from the Line business to the Other business for provision of consumer based load control services (including a charge for the provision of equipment) by the Other business to the Line business.*
- *AC loss rental rebates must be allocated to the Line business. AC loss rental rebates are treated as revenue to the Line business. Payment for*

transmission charges should be recorded gross of the rebate. If the Line business passes rebates directly on to electricity retailers or customers, this should be recorded as a separate expense item – “AC loss-rental rebates (distribution to retailers/customers) expense”.¹

- *Rebates to consumers due to ownership interest* must be allocated to the Line business. These rebates are pre-tax rebates paid directly to consumers. They do not include prompt payment discounts, direct debit discounts or any similar discounts arising from some action by the consumer. They arise because the consumer has some sort of ownership interest in the Line business (including equitable ownership interest, e.g. trust beneficiary). These rebates are treated as an expense to the Line business.

- Supervisory, Control and Data Acquisitions (SCADA) must be allocated to the Line business.

Explanatory note: SCADA equipment is used to enable continuous monitoring of parts of the electricity distribution network. SCADA equipment is an integral part of the network. Transfer payments to the Line business from the Other business should be made for the use of SCADA data.

- Centralised load control equipment must be allocated to the Line business.

Explanatory note: Centralised load control equipment is an integral part of the distribution network system.

- *Consumer meters, meter reading and provision of meter reading (or processed energy) information* must be allocated to the Other business. Transfer payments may be made from the Line business to the Other business for provision of metering data and information to the Line business.

Explanatory note: Metering is a contestable activity. While Line businesses may require metering data and information they do not need to provide these themselves.

- *Contracting activities (e.g. line maintenance and construction)* must be allocated to the Other business. Transfer payments may be made from the Line business to the Other business for the provision of contracting services to the Line business.

Explanatory note: Contracting activities can be provided to the Line business either externally or internally, and are contestable.

- *Investments, losses/gains on sale of investments and returns (dividends/interest) on investments.* Short-term investments must be

¹ In this case there will be a revenue item, a transmission charge expense item (gross of rebate) and a separate expense item for the distribution to retailers/customers.

allocated between Line and Other businesses using Principle II of ACAM. Long-term investments must be allocated to the Other business.

Explanatory note: Short-term investments may substitute for holding cash in the bank, and are therefore legitimate for each of the Line business and Other business to hold. Note that these short-term investments and any interest earned from them are not to be included in the calculation of financial performance measures under the Disclosure Requirements. Long-term investments are not part of natural monopoly activities.

Interpretation of Principle II: Allocating Financial Statement Items in a Consistent Manner

2.5.3 Principle II of ACAM requires that the financial statement items that are common to both the Line business and Other business (i.e. the financial statement items that are not directly allocable to one of the two businesses) should be allocated as if the Line business was a stand-alone business. For the avoidance of doubt, Principle II has the following consequences:

- *Intangible assets* must be allocated to the Line business and the Other business in accordance with Principle II.

Explanatory note: Intangible assets (including goodwill) may be common to each of the businesses. Any intangible assets not required for the operation of the distribution network should be allocated to the Other business.

- *Billing system (also used as connection and consumption databases).* This asset and the associated costs are common to (or shared by) each of the Line and Other businesses. The asset and costs must be split between the Line business and the Other business using Principle II.

Explanatory note: Billing systems may be required for charging purposes for both Line business and Other business activities.

- *Merger and acquisition expenses.* Where the disclosing entity is attempting to merge or acquire a Line business (with no Other business), allocate all merger or acquisition expenses to the Line business. Where the disclosing entity is attempting to merge or acquire an Other business (with no Line business), allocate all merger or acquisition expenses to the Other business. Where the disclosing entity is attempting to merge or acquire a Line business and an Other business, the merger or acquisition expenses are to be treated as a common cost and allocated between the Line and Other businesses using Principle II.

Explanatory note: Any of a disclosing entity's businesses can be expected to potentially derive benefits from a merger or acquisition, and this should be reflected in the allocation.

- *Take-over defence expenses* must be treated as a common cost and allocated between the Line business and Other business using Principle II.

Explanatory note: Take-over defence expenses are the flip-side of mergers and acquisition expenses, and therefore may be allocated to each business.

- *Research and development expenses* must be allocated between the Line and Other businesses in accordance with Principle II. A Line business may purchase new products/processes developed as a result of any research and development programme of the Other business (transfer payment) or of any non-related party. This will be capital expenditure by the Line business if it is buying the license and operating expenditure if it is a royalty payment.
- *Fixed assets and related depreciation* must be allocated between the Line business and Other business in a consistent manner. This means that the proportion of depreciation on fixed assets that is allocated to the Line business is to be the same as the proportion of those assets that is allocated to the Line business. The same rule applies to loss on sale of fixed assets; impairment of fixed assets; and devaluation of fixed assets in excess of reserve.
- *Capital works under construction* must be allocated between the Line business and Other business in the same way as they will be allocated once the capital works have been completed and the resultant assets are operational.
- *Short-term investments, bank balances, bank-overdrafts, capital notes, other borrowings and related interest.* Short-term investments and related interest are to be allocated between the Line business and Other business in a consistent manner. This means that interest allocated to the Line business must be based on the proportion of short-term investments that are allocated to the Line business during the relevant financial year. The same allocation rule applies to bank balances, bank-overdrafts, capital notes and other borrowings (whether current or non-current).
- *Income tax.* The amount of income tax allocated to the Line business is to be based on the tax liability that would arise from a taxable business earning the same operating surplus before tax as has been earned by the Line business.

In some circumstances, the income tax expense calculated for the Line business in the above manner may not actually be fully realised. This would arise when either there are taxable losses accruing to the Other business in the current tax year that are effectively utilised by the Line business in the current tax year, or where there are tax losses accruing to the Other business brought forward from previous periods that are utilised by the Line business in the current period.

In instances where one business (the Line business or the Other business) incurs tax losses and the other business earns taxable profits, there should be a notional transfer of tax losses to the business that earned taxable profits, to the extent possible, at no charge.

In instances where there are taxable losses brought forward, these should be utilised to the extent possible and allocated between the Line business and the Other business in proportion to the taxable profits arising in the year in which they are realised.

- *Debt and equity.* The allocation of debt and equity items to the Line business should be in accordance with the principles and rules of ACAM. The disclosing entity should consider the hypothetical question: what would its debt:equity ratio be if it only operated the Line business, with no Other business? The allocation of debt and equity items must reflect the commercial reality of that Line business and the disclosing entity would be expected, consistent with generally accepted accounting practice (GAAP), to apply an allocation basis that is consistent from one year to the next with any change to the allocation methodology being disclosed as a change in accounting policy.

2.6 Statements of Cash Flows and Movements in Equity

- 2.6.1 In preparing the statement of cash flows, disclosing entities must follow (Financial Reporting Standard) FRS-10 “Statement of Cash Flows” and the guidance notes set out in GN/FRS-10 “Guidance Notes on the Preparation of Statements of Cash Flows in Accordance with FRS-10” issued by the Institute of Chartered Accountants of New Zealand.
- 2.6.2 Disclosing entities must apply the same allocation method used for items in the statement of financial performance and the statement of financial position, when preparing disclosures of the corresponding items in the statement of cash flows and the statement of movements in equity.

2.7 Mergers, Acquisitions and Disposals

- 2.7.1 Under requirement 7 of the Disclosure Requirements, where a disclosing entity has acquired a Line business or effected a merger with a Line business during the financial year, the disclosing entity at the end of the financial year is required to include (in the disclosed financial statements) information in respect of the activities of the acquired or merged Line business from the date of acquisition or merger. Equally if a line business disposes of part of its line business during the financial year it is required to disclose financial statements which include information relating to the business disposed up until the date of disposal.
- 2.7.2 Requirement 32 of the Disclosure Requirements applies where there has been a purchase, merger, takeover, part disposal or other similar occurrence involving a disclosing entity and either total consumers or system length has changed by more than 10% as a result. In such cases, a number of variables must be calculated as time-weighted averages. All performance measures must be calculated using these time-weighted averages. Where those variables appear in the statistics section (under clause 2 of Part 4 of Schedule 1 of the Disclosure Requirements), the time-weighted average of the variable should be disclosed. Where those variables appear in the derivation table

(under Part 7 of Schedule 1), rather than calculating the variables as a simple average, the time-weighted average must be inserted.

- 2.7.3 The maximum demand statistic has its own calculation methodology in the event of a purchase, merger etc. The methodology and an example of its application are contained in requirement 32(3) of the Disclosure Requirements.
- 2.7.4 The disclosing entity must publish on the Internet (but not in the *Gazette*) and publicly disclose all the calculations by which the time-weighted averages and maximum demand were calculated.
- 2.7.5 Where a disclosing entity disposes of its line business in its entirety during the financial year, that disclosing entity has no information disclosure reporting obligations under the Disclosure Requirements at the end of the financial year.

2.8 Comparatives

- 2.8.1 For the disclosure of prior year figures in relation to financial statements, performance measures and statistics prepared under the Disclosure Requirements, the following rules must be observed:
 - (a) For the preparation of financial statements, disclosing entities must use the comparative figures relating to the “Line business” disclosed in the preceding year’s financial statements. Where previous year’s figures are based on a cost allocation methodology different from the mandatory ACAM methodology used for the current year, the prior year’s figures do not need to be recalculated.

Where this requirement results in a departure from GAAP, it is nonetheless recommended to minimise compliance costs. Audit reports required under requirement 30 of the Disclosure Requirements may need to be qualified if a departure from GAAP occurs. Form 1 in Schedule 3 of the Disclosure Requirements contains alternative wording for the auditor’s report, including a requirement that the nature of the qualification be disclosed.
 - (b) Where any information is disclosed for the first time with respect to the current disclosure year, comparative figures are not required to be disclosed. Such first time disclosures may occur:
 - (i) in relation to items required to be disclosed as a result of amendments to the Disclosure Requirements; and/or
 - (ii) where the disclosed entity had no disclosure obligations in earlier years.
 - (c) For the preparation of performance measures and statistics, disclosing entities must include the performance measures relating to the three financial years preceding the current disclosure year (see requirements 14(2)(b), 20(2) and 21(3) of the Disclosure Requirements). The comparative information required by requirement 14(2)(b) must be adjusted so as to be consistent with accounting policies applied during

the current financial year. However, adjustment is not required merely because of changes to the Disclosure Requirements. In particular, adjustments are not required because of:

- (i) a change to the methodology in the Disclosure Requirements for calculating the performance measures and statistics, or
- (ii) the introduction in 1999 under the Electricity (Information Disclosure) Regulations 1999 of a mandatory avoidable cost allocation methodology (ACAM).

2.9 Separate Disclosure of Line Business Financial Statement Items

- 2.9.1 Under requirements 5 and 6 of the Disclosure Requirements, disclosing entities must separately identify in their Disclosure Financial Statements the monetary amount of those items specified in Part 2 of Schedule 1 of the Disclosure Requirements. Those items must be separately identified even where the monetary amount associated with them is nil.
- 2.9.2 Disclosing entities must also separately disclose any financial statement items (assets, liabilities, revenue and expenses) not included in Part 2 of Schedule 1 that comprise a material proportion of the revenue, cost, asset, or liability category in which they are classified. When disclosing those financial statement items, they should be listed under the category in which they are classified.
- 2.9.3 Disclosing entities must also separately disclose all items of a size, nature, or incidence where their disclosure is necessary for an understanding of the business to which the disclosure relates.

Table 1: Financial Statement Items Required to be Separately Disclosed in the Statement of Financial Position and Statement of Financial Performance

Statement of Financial Position

1. Current assets

- (a) cash and bank balances:
- (b) short-term investments:
- (c) inventories:
- (d) accounts receivable:
- (e) other current assets not listed in (a) to (d):
- (f) **total current assets** (sum of (a) to (e)).

2. Fixed assets

- (a) system fixed assets:
- (b) consumer billing and information system assets:
- (c) motor vehicles:
- (d) office equipment:
- (e) land and buildings:
- (f) capital works under construction:
- (g) other fixed assets not listed in (a) to (f):
- (h) **total fixed assets** (sum of (a) to (g)).

3. Other tangible assets not listed above

4. Total tangible assets (1(f) + 2(h) + 3)

5. Intangible assets

- (a) goodwill:
- (b) other intangibles not listed in (a):
- (c) **total intangible assets** (sum of (a) and (b)).

6. Total assets (4 + 5(c))

7. Current liabilities

- (a) bank overdraft:
- (b) short-term borrowings:
- (c) payables and accruals:
- (d) provision for dividends payable:
- (e) provision for income tax:
- (f) other current liabilities not listed in (a) to (e):
- (g) **total current liabilities** (sum of (a) to (f)).

8. Non-current liabilities

- (a) payables and accruals:

- (b) borrowings:
- (c) deferred tax:
- (d) other non-current liabilities not listed in (a) to (c):
- (e) **total non-current liabilities** (sum of (a) to (d)).

9. Equity

- (a) shareholders' equity–
 - (i) share capital:
 - (ii) retained earnings:
 - (iii) reserves:
 - (iv) **total shareholders' equity** (sum of (i) to (iii)):
- (b) minority interests in subsidiaries:
- (c) **total equity** (sum of (a) and (b)):
- (d) capital notes:
- (e) **total capital funds** (sum of (c) and (d)).

10. Total equity and liabilities (7(g) + 8(e) + 9(e))

Statement of Financial Performance

11. Operating revenue

- (a) revenue from line/access charges:
- (b) revenue from “other” business for services carried out by the line business (transfer payment):
- (c) interest on cash, bank balances, and short-term investments:
- (d) AC loss-rental rebates:
- (e) other operating revenue not listed in (a) to (d):
- (f) **total operating revenue** (sum of (a) to (e)).

12. Operating expenditure

- (a) payment for transmission charges:
- (b) transfer payments to the “other” business for–
 - (i) asset maintenance:
 - (ii) consumer disconnection/reconnection services:
 - (iii) meter data:
 - (iv) consumer-based load control services:
 - (v) royalty and patent expenses:
 - (vi) avoided transmission charges on account of own generation:
 - (vii) other goods and services not listed in (i) to (vi):
 - (viii) **total transfer payment to the ‘Other’ business** (sum of (i) to (vii)):
- (c) expense to entities that are not related parties for–
 - (i) asset maintenance:
 - (ii) consumer disconnection/reconnection services:
 - (iii) meter data:
 - (iv) consumer-based load control services:

- (v) royalty and patent expenses:
- (vi) **total of specified expenses to non-related parties** (sum of (i) to (v)):
- (d) employee salaries, wages and redundancies:
- (e) consumer billing and information system expense:
- (f) depreciation on–
 - (i) system fixed assets:
 - (ii) other assets not listed in (i):
 - (iii) **total depreciation** (sum of (i) and (ii)):
- (g) amortisation of–
 - (i) goodwill:
 - (ii) other intangibles:
 - (iii) **total amortisation of intangibles** (sum of (i) and (ii)):
- (h) corporate and administration:
- (i) human resource expenses:
- (j) marketing/advertising:
- (k) merger and acquisition expenses:
- (l) takeover defence expenses:
- (m) research and development expenses:
- (n) consultancy and legal expenses:
- (o) donations:
- (p) directors' fees:
- (q) auditors' fees–
 - (i) audit fees paid to principal auditors:
 - (ii) audit fees paid to other auditors:
 - (iii) fees paid for other services provided by principal and other auditors:
 - (iv) **total auditors' fees** (sum of (i) to (iii)):
- (r) cost of offering credit–
 - (i) bad debts written off:
 - (ii) increase in estimated doubtful debts:
 - (iii) **total cost of offering credit** (sum of (i) to (ii)):
- (s) local authority rates expense:
- (t) AC loss-rental rebates (distribution to retailers/customers) expense:
- (u) rebates to consumers due to ownership interest:
- (v) subvention payments:
- (w) unusual expenses:
- (x) other expenditure not listed in (a) to (w).

13. Total operating expenditure (sum of 12(a) to 12(x))

14. Operating surplus before interest and income tax (11(f) – 13)

15. Interest expense

- (a) Interest expense on borrowings:

- (b) Financing charges related to finance leases:
- (c) Other interest expense:
- (d) **Total interest expense** (sum of (a) to (c)).

16. Operating surplus before income tax (14 – 15(d))

17. Income tax

18. Net surplus after tax (16 - 17)

3 Disclosure of Transfer Payments

3.1 Requirements under the Disclosure Requirements

- 3.1.1 Requirement 8 of the Disclosure Requirements requires every disclosing entity to which requirements 5 and 6 of the Disclosure Requirements apply, to disclose information relating to transfer payments (both income and expenditure, including certain capital expenditure) made between the Line business and the Other business. Transfer payments mean the financial statements are prepared as if the Line and Other businesses were operated at arm's length.
- 3.1.2 The rationale for such disclosures is to make transparent the pricing of transfers between contestable and non-contestable business activities and thus highlight any abuse of market power.
- 3.1.3 Requirement 8 also requires disclosure of information relating to transactions (transfer payments) between persons in a "related party" relationship including disclosure of prices, terms and conditions for transfers of goods and/or services.
- 3.1.4 A "related party" is defined in requirement 2 of the Disclosure Requirements and is supported by the GAAP definition contained in the Standard Statement of Accounting Practice issued by the Institute of Chartered Accountants of New Zealand: "SSAP 22 – Related Party Disclosures".
- 3.1.5 Essentially, requirement 8 requires disclosure of details of transfers between the Line business and the Other businesses with which they are in a related party relationship, such as, for example, between a Line business and its asset construction and maintenance businesses.
- 3.1.6 The disclosure of related party transactions under the Disclosure Requirements is in accordance with GAAP. In particular, "SSAP 22 Related Party Disclosures" requires disclosure of the following information relating to transactions, both revenue and expenditure, including certain capital expenditure, between related parties:
- the identity of each related party involved and the nature of the relationships; and
 - a detailed description of the good or service provided or received; and
 - the unit price, quantity and recorded income and expenditure values as appropriate, of the transactions with each related party expressed in dollar terms of each type of good or service; and
 - the period during which the good or service was supplied; and
 - the total outstanding balances arising from related party transactions for each related party together with an indication of the terms of settlement for these balances; and

- total debts with each related party that have been written off or forgiven during the financial year; and
 - where transactions take place at nil or nominal value, a brief description of such transactions and the fact that no charge has been made, or if made at nominal value, details of that nominal value.
- 3.1.7 Furthermore, to enable scrutiny of the appropriateness of transfer payments for asset construction activities, Line businesses are required to disclose disaggregated details, in the following categories:
- subtransmission assets;
 - zone substations;
 - distribution lines and cables;
 - medium voltage switchgear;
 - distribution transformers;
 - distribution substations;
 - low voltage lines and cables; and
 - other system fixed assets, as categorised in standard asset tables in the ODV Handbook
- 3.1.8 Transfer payments relating to maintenance expenditure on system fixed assets are also required but there is no need for them to be disaggregated as above. It is sufficient to disclose the total of such payments.
- 3.1.9 Transfer payments relating to consumer connections and disconnections are also specifically required to be disclosed.
- 3.1.10 It is mandatory for all disclosing entities to disclose the above information, which must be included within the notes to the financial statements.
- 3.1.11 Disclosing entities applying the exemption referred to in Chapter 2 (paragraph 2.4.1) must eliminate from their financial statements any transfer payments that were made during the financial year, so as to reflect that no transfer payments took place. No disclosure of transfer payments would be required under requirement 8 of the Disclosure Requirements.

4 Disclosure of Line Business Asset Management Plans

4.1 Requirements under the Disclosure Requirements

4.1.1 Under requirement 24 of the Disclosure Requirements, every disclosing entity (other than Transpower) is required to disclose an asset management plan (AMP) in relation to their works. Every AMP must contain the information set out in Schedule 2 of the Disclosure Requirements, and reproduced on pages 20-24 of this handbook.

4.1.2 This chapter includes a description of the mandatory disclosure requirements of requirement 24 of the Disclosure Requirements, and a commentary on those requirements.

4.1.3 “Disclosure” of an AMP entails:

- making copies available for inspection at the principal office of the disclosing entity;
- providing a copy (by post, or for collection) to any person who requests it;
- publishing advice notices on the Internet when AMPs are concluded;
- disclosing via the Internet the date the AMP was completed and the period to which the plan relates;
- disclosing via the Internet the estimated date for completion of the next AMP;
- publicly disclosing the website address (Uniform Resource Locator (URL)) of any information published on the Internet; and
- sending copies of all publicly disclosed information (including AMPs and URLs) to the Commerce Commission within 5 working days of disclosure.

As with all other disclosures, copies of all published and publicly disclosed information, asset management planning information and URLs must be sent to the Commerce Commission within 5 working days of disclosure.

4.2 Core Elements of Asset Management

4.2.1 A number of approaches can be taken to the development of AMPs. Best practice calls for AMPs that:

- focus on performance measurement, monitoring and continuous improvement;
- are driven by business objectives and service level targets;
- clearly assign accountabilities and responsibilities for asset management;

- emphasise knowing what assets are owned and why, the location of the assets and the condition of the assets;
- emphasise optimising asset utilisation and performance;
- encourage the use of “non-asset” solutions and demand management techniques as alternatives to asset acquisition; and
- take a total life-cycle approach.

4.3 Disclosure Criteria

4.3.1 AMP disclosure should be sufficient to provide assurances as to the suitability of network assets for future and current service targets, and that AMPs provide a sound basis for the ongoing assessment of asset-related risks.

4.3.2 The AMP disclosure requirements include what may be regarded as “core” and “non-core” elements of asset management, and are designed to produce AMPs that:

- are based on, but not limited to, “core elements” of asset management;
- explicitly support service level objectives;
- ensure unambiguous and consistent definitions of asset management planning, promote best practice, and maximise comparability; and
- keep compliance costs to a minimum.

4.3.3 AMP disclosure in the prescribed format does not prevent disclosing entities from having AMPs for their own use in a different format or comprising a different set of data. However, AMPs disclosed under the Disclosure Requirements must conform with the prescribed format.

4.3.4 In addition, the disclosure of an AMP does not constrain disclosing entities from managing their assets in a way that differs from the plan if necessary.

Asset Management Plans

Introduction

- Disclosing entities (other than Transpower) must disclose a current AMP in the manner set out in requirement 24 of the Disclosure Requirements and listed in paragraph 4.1.3 of this handbook.
- AMPs must be disclosed within 3 months of the beginning of each financial year.
Comments: *AMPs are dynamic documents that are normally updated annually. AMPs will support annual performance measure disclosures and performance assessment.*
- Disclosed AMPs must include a summary.
Comments: *The inclusion of a summary will aid understanding and readability. Minimum requirements for summaries are indicated in Schedule 2 of the Disclosure Requirements, and are shown below.*
- Disclosed AMPs must consist of a single document.
Comments: *Disclosure of AMPs as a single document will prevent disclosure of disjointed, poorly co-ordinated material that is difficult to understand. In some cases this will require disclosing entities to amalgamate various documents for disclosure purposes; for example, separate network development plans. This does not necessarily require integration of separate plans into a new framework if the linkages between parts of the plan are made apparent and indexed.*
- The disclosed AMP should:
 - permit assessment of the suitability of asset management practice and assets for current and future service;
 - specifically support the achievement of disclosed reliability performance targets; and
 - provide a sound basis for on-going risk assessment.**Comments:** *This is the overriding intention of AMP disclosure. AMPs should be compiled with these primary criteria firmly in mind.*
- Disclosed AMPs must clearly identify limitations in availability or completeness of information, and include details of:
 - the assumptions made and basis for asset management planning in the absence of such information, including estimation and assessment methodologies used; and
 - plans for improvement in information quality.**Comments:** *The detail and accuracy of information available will vary. Information gaps should be specifically addressed to enhance the transparency of disclosure, place emphasis on identifying deficiencies and promote improvement.*

Mandatory Disclosure in AMPs

Summary

- The AMP is to include a summary that provides a brief overview of:
 - the purpose of the plan;
 - the date the plan was completed and the period to which the plan relates;
 - asset management systems and information;
 - network and asset description;
 - service level objectives;
 - lifecycle asset management and development plans;
 - risk assessment; and
 - performance and plans for improvement.

Background and Objectives

- This section of the disclosed AMP must include the following:
 - a description of the interaction between the AMPs background and objectives and other corporate goals, business planning processes, and other plans;
 - planning periods adopted;
 - stakeholder interests (owners, consumers, etc);
 - accountabilities and responsibilities for asset management; and
 - details of asset management systems and processes including asset management information systems/software and information flows.

Comments: *The outline of the AMP's structure, and its links to and relationships with business, financial, human resource, business continuance, information systems and other plans will reconcile corporate objectives with asset management objectives, put the detailed provisions in context and reveal the overall approach.*

Skills and resources must be available to support the asset management strategy, and the organisation and identification of personnel accountability support this requirement.

The AMP should explain how information systems support asset management processes.

Assets Covered

- Details of assets covered by the disclosed AMP must include:
 - description of the asset configuration;
 - identification of assets by category;
 - justification for asset; and
 - location, age and condition.

Comments: *What assets are owned and why, where the assets are located and the condition of the assets.*

Service Levels

- The disclosed AMP must detail proposed levels of service, including:
 - consumer oriented reliability, security, and availability performance targets;
 - other targets relating to asset performance, asset efficiency, and effectiveness and efficiency of line business activity; and
 - justification for target levels of service based on consumer, legislative, regulatory, shareholder and other requirements.

Comments: *The asset management process is based on the identification of the business need for the use of the assets. For the purposes of information disclosure under the Disclosure Requirements it is appropriate to concentrate on consumer-related performance measures, although the AMP should also state other commonly used efficiency measures for assessing asset management performance.*

Most line businesses have documented service levels, so their inclusion in the disclosed AMP should not be onerous. The service levels will require careful consideration and definition by each disclosing entity.

Disclosing entities may wish to incorporate the reliability measures required to be disclosed under requirement 21 of the Disclosure Requirements in preparing this material (the adoption of this approach would not however eliminate the need to comply with requirement 24 of the Disclosure Requirements).

Network Development Planning and Lifecycle Asset Management Planning

- Disclosed AMPs must detail network development and lifecycle asset management plans, including:
 - a description of planning criteria and assumptions;
 - details of demand forecasts, network configuration analysis, reliability assessments, and the specific network locations where constraints are expected;
 - policies with respect to non-asset solutions, distributed generation, redeployment and upgrade of existing assets, acquisition of new assets, adoption of new technology, and disposal of existing assets;
 - analysis of the options available and details of the decisions made to satisfy and meet target levels of service;
 - description and identification of maintenance policies, programmes and actions to be taken for each asset group, including associated expenditure projections; and
 - description and identification of the network development programme (included distributed generation) and actions to be taken, including associated expenditure projections.

Comments: *These requirements will probably form the largest part of the AMP. The requirements are intended to be sufficiently non-prescriptive to avoid compliance costs associated with undue adaptation of existing plans.*

Adoption of asset management practices that recognise all elements of the asset lifecycle, including design and planning, procurement, operation and maintenance and disposal costs assists in long-term efficiency improvement.

Maintenance policies and strategies designed to specifically address the needs of individual asset groups can be disclosed. Disclosure will reveal whether appropriate steps are being taken to ensure that predictive, failure finding or scheduled maintenance tasks have been identified and are being undertaken.

Risk Management

- Disclosed AMPs must include details of risk policies, assessment and mitigation, including:
 - methods, details and conclusions of risk analysis; and
 - details of emergency response and contingency plans.

Evaluation of Performance

- Disclosed AMPs must cover details of performance measurement, evaluation and improvement, including:
 - review of progress against plan (both physical and financial);
 - evaluation and comparison of actual performance against targeted performance objectives; and
 - gap analysis and identification of improvement initiatives.