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*IM Review Forum
Complexity and compliance
costs*

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Key Topics

1. IM complexity
2. Topics raised
3. Related party transactions
4. Review process

ENA Submissions:

February 2014 - Review of IMs: issues and suggested solutions

April 2014 – Feedback on Orion’s CPP

August and October 2014 - IRIS

December 2014 and March 2015 – ID Amendments

IM complexity

Existing IMs:

- Some complexity unavoidable
- IM mechanisms are designed to implement the policy intent, but may be able to be improved or simplified in some circumstances
- Understanding of IMs improves with time
- Caution against unnecessary change
- Additional guidance now available (worked examples, workshops, IDD templates and issues register)

Focus:

- Remove ambiguity and address unintended consequences
- Reduce complexity, which may disrupt policy intent, eg: incentives
- Reduce compliance cost

Topics raised

Cost allocation	Treatment of taxation	Cost definitions
<ul style="list-style-type: none">• Current method appears to work well• Flexibility to accommodate different business models and cost reporting systems• Some mechanisms currently not widely used (OVABBA)• They may become more relevant in the future and should be retained	<ul style="list-style-type: none">• Deferred tax method is reasonably complex in practice due to 'regulatory adjustments'• Now better understood, and processes in place• Little drive for change to underlying method• Some ambiguity around the treatment of transactions to be addressed	<ul style="list-style-type: none">• Maintain consistency with GAAP where ever possible• GAAP rules assist with understanding and compliance• Any departures must provide a materially better implementation of the policy intent• Opportunities also in asset valuation IM which includes variations to GAAP (disposals, financing)

Topics raised

Related party transactions

Capex rules in asset valuation IMs, opex and revenue rules in IDD with linkages through to the CPP IM

- Remove unnecessary inconsistencies (sequencing, terminology, criteria)
- Shared service models penalised under some criteria which is inconsistent with efficiency and innovation objectives
- Address linkage to cost allocation IM term ‘directly attributable cost’
 - not a GAAP term
 - ignores ‘not directly attributable costs’
 - introduces inconsistency in components of costs able to be recovered
- Broaden the ‘third party’ criterion to include other parties who are not party to the transaction
- Address anomalies regarding when Director’s certification may be used, especially for capex
- Modify CPP related party requirements
 - unable to fully meet valuation criteria on a forward looking basis
 - requirements for evidence are overly onerous

Review process

- Consider issues raised in earlier submissions (including information disclosure consultations), as well as in response to this problem definition phase
- Consider opportunity to improve presentation and usability (equations, definitions, linkages, interim workings, examples, supporting material)
- Consider ways to reduce compliance costs
- Workshops/working groups to resolve the detail
- Robust QA at draft determination phase for all IM changes
- Sufficient consideration of linkages in related determinations (IDD, DPP/CPP, cost of capital) and cross sector