

# ELECTRICITY AND GAS INFORMATION DISCLOSURE SEMINAR

JAMES COOK HOTEL GRAND CHANCELLOR, WELLINGTON  
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# Related Party Transactions

Presentation to Information Disclosure Seminar  
March 2013



1. What is a related party?
2. Changes from previous information disclosure regime
3. Overview of related party transaction disclosure
4. Valuation Options:
  - IM – Asset acquisitions (capex)
  - ID – Operating expenditure (opex)
5. Valuing sales to related parties
6. Completing schedules 5b, 14(10)
7. Transitional arrangements
8. Comments on information needs

# 1. What is a related party?

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- Related Party means -
  - a. a person that, in accordance with GAAP, is related to the EDB (/GDB/GTB) in question; or
  - b. any part of the EDB (/GDB/GTB) in question that does not supply electricity distribution services; *(or equivalent)*
- Related party transactions between two regulated entities are required to be disclosed to the Commission by both parties

Source: Definition of a related party, Electricity Distribution Services Input Methodologies Determination 2010, Part 1, General Provisions

## 2. Key changes from 2008 ID Requirements

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- Now have a separate standardised template (schedule 5b) rather than notes
- Have explicit requirements for valuing related party transactions, previously defaulted to GAAP based
- Rationale:
  - incentives around related party transactions may differ from dealings with unrelated parties
  - the value of these transactions can influence the RAB, regulatory profit and ROI, often for many years
  - value these transactions at prices approximating arm's length transactions
  - provide transparency to interested persons

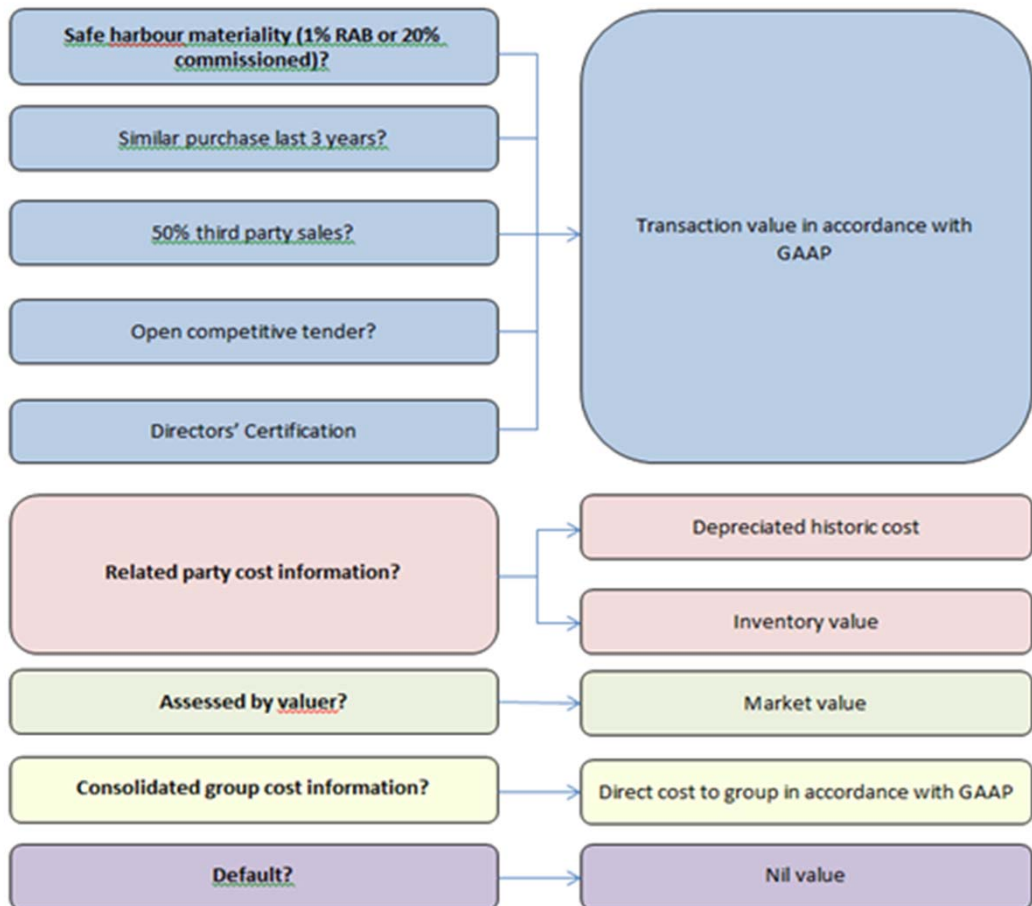
### 3. Overview of related party transaction disclosure

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- Several options available for valuing related party transactions
- Transaction types
  - capex - e.g. building new network assets
  - opex - e.g. managerial or administrative functions, tree trimming, lines maintenance
  - Sales – e.g. sale of your assets, operational sale of services
- Maui limited to non-routine transactions due to Maui's unique circumstances (except for capex)
- Audited and certified schedule

## 4. Input Methodology: Value of Commissioned Assets

An example of how related party transaction criteria might be applied in practice for information disclosure



- This chart is for valuing newly commissioned assets
- See IM for Asset Valuation for full explanation

## 4. Input Methodology: Value of Commissioned Assets

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- Several options for valuing purchases of assets
- The options seek to:
  - assign a value which is a proxy for arm's length transactions
  - be based on objective and verifiable information
  - have links to IM for assets
- The options are linked to:
  - costs incurred by the related party; or
  - prices paid to or received from an unrelated party; or
  - tendered by unrelated parties.



# 4. Valuation Options

## Valuation Options

### Criteria under IM - CAPEX

#### Price Paid - Thresholds

The price paid where the cost of all assets acquired from the related party first commissioned in that disclosure year is less than –

- **1%** of the sum of opening **RAB values, or**
- **20%** of the cost of all assets **first commissioned** in that year

The price paid where -

- at least 50% of the related party's sales of **assets** are to third parties, and third parties may purchase the same or substantially similar **assets** on **substantially** the same terms including price; or
- that price is substantially the same as the price paid for **substantially similar assets** in the preceding 3 disclosure years from a party other than a related party

### Criteria under ID - OPEX

At the price paid where -

- transactions with **that** related party are less than **1% of revenue** from regulated services; **and**
- total value of **all** related party transactions is less than **5% of revenue** from regulated services

The price paid where -

- at least 50% of the related party's sales of **goods or services** are to third parties and they may purchase the same (or similar) on **substantially** the same terms including price (current sales); or
- The price is substantially the same as that paid to an unrelated party in the preceding 3 disclosure years (indexed) for same or similar **goods and services**

# 4. Valuation Options

## Valuation Options

### Criteria under IM - CAPEX

### Criteria under ID - OPEX

Price Paid - Tender

- Following a competitive tender, provided that -
- not more than 5% above the lowest conforming tender
  - material information provided or made available
  - one other qualifying tender was received
  - no special contract terms
  - data retention for 7 years

Same key criteria as for CAPEX

Price Paid – Directors’ Certificate

- Price paid provided that -
- none of the other ‘positive’ valuation options apply
  - minimum of 2 directors certify that the price paid reflects an arm’s length price

Same key criteria as for CAPEX

## 4. Valuation Options

### Valuation Options

#### Criteria under IM - CAPEX

#### Criteria under ID - OPEX

Directly attributable cost

- Its directly attributable cost as would be incurred by the group to which the EDB/GDB/GTB and related party are a part, determined in accordance with GAAP, as if the consolidated group was the EDB/GDB/GTB;

- ‘fair and reasonable to the’ EDB/GDB/GTB; and
- Substantially the same as the costs incurred by the related party in providing the same type of services to third parties

Mark up

- N/a

- Electrical contracting services at directly attributable cost incurred by the related party plus a mark up of up to 17.2% (opex only)

## 4. Valuation Options

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<b>Valuation Options</b>	<b>Criteria under IM - CAPEX</b>	<b>Criteria under ID - OPEX</b>
Depreciated Historic Cost	<ul style="list-style-type: none"><li>Value on the day before the acquisition determined in accordance with GAAP;</li></ul>	
Inventory Value	<ul style="list-style-type: none"><li>Value on the day before the acquisition determined in accordance with GAAP;</li></ul>	
Market Value	<ul style="list-style-type: none"><li>At its commissioning date as determined by a valuer;</li></ul>	
Nil value	If none of the other valuation options apply	If none of the other valuation options apply

## 5. ID Determination: Sale or supply to a related party

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**Default for sales:** If the customer is another EDB, GDB, or GTB who must disclose the price paid under ID, **then you must value the sale at the price they disclose**

- This ensures both parties disclose the same price and means the requirements for valuing commissioned assets and expenses are mirrored in valuing sales to related parties
- How
  - draws on IM rules for commissioned assets (must be concluded at current RAB value)
  - ID rules for expenditure and sales or supply of services, goods, or assets to a related party

## 5. ID Determination: Sale or supply to a related party

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If the default does not apply;

### Valuation Options

### Criteria

Price received from related party

If price cannot be determined

- where EDB makes at least 50% of its revenue from the provision of similar services to unrelated parties at substantially the same prices/terms (e.g. an EDBs selling to multiple retailers); or
- provided that no fewer than 2 Directors certify that price received reflects prices that would be received in an arm's length transaction;

Cost incurred

If price cannot be determined

- cost incurred in providing the service, good, or asset

## 6. ID Determination: Completing Schedule 5b

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- 5b(i) Summary – Related Party Transactions
  - high level view for interested persons
  - draws on information later on in the schedule

Company Name **Apex Distribution Board**

For Year Ended **30 June 2013**

### SCHEDULE 5b: REPORT ON RELATED PARTY TRANSACTIONS

This schedule provides information on the valuation of related party transactions, in accordance with section 2.3.6 and 2.3.7 of the ID determination. This information is part of audited disclosure information (as defined in section 1.4 of the ID determination), and so is subject to the assurance report required by section 2.8.

ref

		(\$000)
7	<b>5b(i): Summary—Related Party Transactions</b>	
8	Total regulatory income	550
9	Operational expenditure	4,400
10	Capital expenditure	3,500
11	Market value of asset disposals	550
12	Other related party transactions	

Values are for illustration only.  
Source: Electricity Distribution Information Disclosure Determination 2012, Schedule 5b

## 6. ID Determination: Completing Schedule 5b

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- 5b(ii) Entities involved in Related Party Transactions
  - descriptive text – free form

### 5b(ii): Entities Involved in Related Party Transactions

Name of Related Party	Related Party Relationship
Apex Field Services Ltd	An associate company which is a fully owned part of the Apex group
Local Fibre South Ltd	The Apex group is a co-investment partner in this local fibre company
AFS Holdings Ltd	AFS Holdings owns 70% of the shares in the Apex group
Treertrimmers South Ltd	An associate company which is 50% owned subsidiary of the Apex group.

Values are for illustration only.  
Source: Electricity Distribution Information Disclosure Determination 2012, Schedule 5b



## 6. ID Determination: Completing Schedule 5b

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- Free form text to list related party transactions and describe basis for determining value
- Need to balance transparency and compliance costs

### 5b(iii): Related Party Transactions

Name of Related Party	Related Party Transaction Type	Description of Transaction	Value of Transaction (\$000)	Basis for Determining Value
Apex Field	Opex	Supply of field force services to maintain the distribution network	2,000	price paid for substantially the same services to unrelated parties, direct attributable costs plus mark-up
Apex Field Services Ltd	Capex	Installation of new subtransmission lines	3,500	Tender process and directly attributable costs
Local Fibre South Ltd	Sales	Access to poles and other plant	500	Directors certification
AFS Holdings Ltd	Opex	On going management services	400	Directly attributable cost
Treertrimmers South Ltd	Opex	On going vegetation management	2,000	Price paid as more than 50% or the related parties sales are to third parties
Treertrimmers South Ltd	Sales	Sale of warehouse	550	Market value
AFS Holdings Ltd	Opex	Use of Apex branding	0	None of the prescribed valuation options applies
Local Fibre South Ltd	Sales	Call centre services	50	cost incurred

## 6. ID Determination: Completing Schedule 14

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- Mandatory disclosure required in schedule 14(10)
- May include text based on the statutory disclosures
- Provides context and greater transparency to main disclosure

*Related party transactions: disclosure of related party transactions (Schedule 5b)*

1. In the box below, provide descriptions of related party transactions beyond those disclosed on schedule 5b including identification and descriptions as to the nature of directly attributable costs disclosed under clause 2.3.6(1)(b).

### **Box 7: Related party transactions**

The routine field force services provided by Apex Field Services Limited to maintain the distribution network are valued at the price paid by Apex Distribution since these prices are substantially the same as the prices paid to unrelated parties who have on going contracts for 20% of the groups routine field service work. Non-routine electrical contracting work to maintain the distribution network is valued at the directly attributable costs incurred by Apex Field Services Limited with a mark-up of 14%.

The revenue earned from leasing access to poles and other plant to Local Fibre South Limited was certified by directors certification. It is considered to be an arm's length price as it was set based on advice from independent external experts which took into account prices on similar transactions.

The transaction value for the capital expenditure on new sub transmission lines in the Southern Views areas reflects \$500,000 of direct y attributable costs for project management, and \$3,000,000 paid for plant and installation which is 2% higher than the lowest confirming tender received.

## 7. ID Determination: Transitional arrangements

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- Assets - transaction to acquire assets from a related party in the disclosure year 2012 must be disclosed on schedule 5b and valued in accordance with IM determination
- Operating Expenses and Sales - must be reported in the transitional report on regulatory profit for 2012 (when applicable) and valued in accordance with GAAP
- Explanatory comment required in Schedule 14b for transitional financial information

## 8. Data retention considerations

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### Valuation Options

### Considerations

#### Price paid

- Record of related party sales to third parties (if accessible) and terms of sale including price
- Records of prices paid for similar services to an unrelated party, preceding 3 years
- Tender documents and tenders received
- Contract terms and conditions
- Evidence of market prices
- Price Indices

#### Directly Attributable Costs

- Rationale for 'fair and reasonable' and costs incurred by related parties (if accessible) for same type of services provided to third parties
- Directly attributable cost for consolidated group

#### Mark up

- Directly attributable cost incurred by the
- related party

## 8. Data retention considerations

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Possible data retention and access needs include:

<b>Valuation Options</b>	<b>Considerations</b>
Depreciated Historic Cost	<ul style="list-style-type: none"><li>• Related party's asset register prepared in accordance with GAAP on the day before the acquisition by regulated business</li></ul>
Inventory Value	<ul style="list-style-type: none"><li>• Related party's inventory value prepared in accordance with GAAP on the day before the acquisition by regulated business</li></ul>
Market Value	<ul style="list-style-type: none"><li>• Independent valuation report as at commissioning date</li></ul>

## 8. Data retention considerations

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Possible data retention and access needs include:

### Valuation Options

### Considerations

Price disclosed by related party

- Price paid or cost incurred by related party

Price received from related party

- Records of prices for similar services to third parties
- Details of terms and conditions for transactions
- Rationale for Directors' Certification

Cost incurred

- Cost incurred by regulated business in providing the service, good or asset

These slides formed the basis of the seminar presented to suppliers and auditors by Commission staff in March 2013. They are intended to be used as general guidance only, and do not replace or summarise the information disclosure determinations themselves. In order to comply fully with the requirements of the determinations, suppliers and auditors should read the EDB, GDB and GTB determinations published on 1 October 2012. These documents can be found at:

- <http://www.comcom.govt.nz/current-electricity-information-disclosure-requirements/> for EDBs; and
- <http://www.comcom.govt.nz/gas-information-disclosure/> for GPBs.

[www.comcom.govt.nz](http://www.comcom.govt.nz)

## CONTACT

To contact the Commission with information about false or misleading trading practices, or anti-competitive behavior by businesses:

CALL the Contact Centre on 0800 943 600

WRITE to Contact Centre, PO Box 2351, Wellington

EMAIL [contact@comcom.govt.nz](mailto:contact@comcom.govt.nz)