



**Cross-Submission to the Commerce  
Commission on Input methodologies review:  
Related party transactions – draft decision and  
determinations guidance**

**29 September 2017**

## 1. SUMMARY

1. Horizon Networks welcomes the opportunity to provide this cross-submission to the Commerce Commission (“Commission”) on the 30 August 2017 *Input methodologies review draft decision on Related party transactions – draft decision and determinations guidance* (“RPT draft decision”) and the *Draft Electricity Distribution Information Disclosure Amendments Determination (No.2) 2017* (“draft amendments (2) ID”) and the *Draft Electricity Distribution Services Input Methodologies Amendments Determination 2017* (“draft amendments IM”).
2. Horizon Networks supports the submission made by the Electricity Networks Association (ENA), particularly. “The ENA recommends that the Commission should provide that EDBs may use cost-based rules, including consolidation of the related party, as alternatives to the general valuation rule.”<sup>1</sup>
3. Horizon Networks makes a cross-submission on the PwC submission as auditors of 8 Electricity Distribution Businesses (EDBs) related to proposed ID amendments, clauses 2.8.5 (2). Horizon Networks raises a concern over the threshold of over 5% increase in the EDB’s related party transactions from the disclosure year for which the most recent additional independent report has been disclosed in accordance with clause 2.8.3.

## 2. ADDITIONAL INDEPENDENT APPRAISER REPORT

4. The draft amendments (2) ID document includes in clauses 2.8.2 to 2.8.5 the situations where an additional independent report is required.
5. Horizon Networks raises concerns that clause 2.8.5 (2) sets a the threshold of over 5% increase in the EDB’s related party transactions from the disclosure year for which the most recent additional independent report has been disclosed in accordance with clause 2.8.3.
6. For smaller EDB’s the change in yearly expenditure patterns driven by large capital projects could easily trigger this 5% level and despite having disclosed an additional independent report in at least one of the two previous years in accordance with clause 2.8.3 would be required to obtain a further additional independent report to comply with clause 2.8.5 (2).
7. Horizon Networks recommends the Commission remove this threshold. If an EDB had initially been required to produce an additional independent report it was only due to their related party transactions being beyond the 65% threshold, and any increase on this would continue to be subject to an additional independent report at least one of the two previous years. The continuous need to provide for an additional independent appraiser’s report upon likely increases in related party transaction due to lumpy expenditure profiles will significantly increase compliance costs for the smaller EDBs that will most likely be the target of any threshold.
8. Thank you for considering this cross-submission. For further discussion on any of the issues within this cross-submission, please contact:

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<sup>1</sup> ENA submission to the Commerce Commission 27 September 2017, 4.1, paragraph 15, pages 5-6