

BERMUDA

**REGULATORY AUTHORITY (REGULATORY ACCOUNTING INSTRUCTIONS
FOR ELECTRICITY SECTOR) GENERAL DETERMINATION 2018**

BR 142 / 2018

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The Regulatory Authority, in the exercise of the power conferred by section 62 of the Regulatory Authority Act 2011, as read with sections 12 and 13 of that Act and sections 6, 14, 15 and 17 of the Electricity Act 2016, makes the following General Determination:

Citation

1 This General Determination may be cited as the Regulatory Authority (Regulatory Accounting Instructions for Electricity Sector) General Determination 2018.

Interpretation

2 In this General Determination, unless the context otherwise requires, terms shall have the meaning given in the Regulatory Authority Act 2011, the Electricity Act 2016, and the Schedule to this General Determination.

General purpose

3 This General Determination establishes the regulatory accounting instructions for the electricity sector.

Determination

4 (1) This General Determination is made pursuant to the Consultation Document entitled "Regulatory Accounting Instructions General Determination for Electricity Sector", which was first issued on 23 February 2018, and the Regulatory Authority's Decision on it.

(2) Taking into account the received responses to the Consultation Document and for the reasons given in the Decision, the Regulatory Authority determines that the

**REGULATORY AUTHORITY (REGULATORY ACCOUNTING INSTRUCTIONS
FOR ELECTRICITY SECTOR) GENERAL DETERMINATION 2018**

regulatory accounting instructions set forth in the Schedule are consistent with the purposes of the Electricity Act 2016, including to seek to—

- (a) ensure the adequacy, safety, sustainability and reliability of electricity supply in Bermuda;
- (b) encourage electricity conservation and the efficient use of electricity;
- (c) promote the use of cleaner energy solutions and technologies;
- (d) provide sectoral participants and end-users with non-discriminatory interconnection to transmission and distribution systems;
- (e) protect the interests of end-users with respect to prices and affordability, and the adequacy, reliability and quality of electricity service; and
- (f) promote economic efficiency and sustainability in the generation, transmission, distribution and sale of electricity.

Terms and conditions of General Determination

5 (1) The Schedule to this General Determination has effect.

(2) The Schedule is published on the Regulatory Authority's website (www.rab.bm), and is also available for inspection at the offices of the Authority (1st Floor, Craig Appin House, 8 Wesley Street, Hamilton HM 11) during ordinary business hours.

Effective date of General Determination

6 This General Determination shall become effective on the day it is published in the Gazette.

Signed this 3rd day of December 2018



Chairman, Regulatory Authority



REGULATORY
AUTHORITY

Bermuda

**Schedule to Regulatory Authority
(Regulatory Accounting Instructions)
General Determination for Electricity
Sector**

General Determination
Date: 5 December 2018

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1 DEFINITIONS

“Accounting Standards” are generally accepted accounting principles as promulgated by the International Accounting Standards Board (“IASB”), Financial Accounting Standards Board (“FASB”) and such other accounting bodies as accepted and approved by the Authority.

“Activity-based costing” is a costing methodology that identifies activities in an organization and assigns the cost of each activity with resources to business units according to the actual consumption by each.

“Asset life assumption” is an accounting estimate of the number of years it is likely to remain in service for the purpose of cost-effective revenue generation

The “Authority” means the Regulatory Authority of Bermuda established under the Regulatory Authority Act 2011.

“Bulk generation licence” means a licence granted under section 25 of the Electricity Act 2016.

“Bulk generation” means generation using a system with an installed capacity at or above the licence threshold (as defined in section 2(i) of the Electricity Act 2016).

“Cost of capital” means the return on investment required by investors providing funding for an entity’s activities.

“Cost of debt” means the return on investment required by an entity's debt holders.

“Cost of equity” means the return on investment required by an entity's equity holders.

“CWIP” means Construction Work in Progress, an asset account in which the value of assets under construction is recorded.

“Depreciation” means the gradual decrease in the value of an asset through time due to use, wear and tear or obsolescence; within regulatory tariff setting, depreciation also refers to a cost allowance (as a component of allowed revenue) that is determined to allow an entity to recover its capital expenditure.

“EA” means the Electricity Act 2016.

“Equi-proportionate mark-up” is a cost allocation share plan based on the direct cost of a business unit.

“Fixed Assets” means tangible assets that are not readily convertible to cash (as opposed to liquid assets); this typically refers to plant, property and equipment, which is in service.

“Fixed Assets Register” is an accounting method used for major resources of a business. Fixed assets are those such as land, machines, office equipment, buildings, patents, trademarks, copyrights, etc. held for the purpose of production of goods or rendering of services and are not held for the purpose of sale in the ordinary course of business.

“International Financial Reporting Standards” is an international accounting standard that provides a common global language for business affairs so that company accounts are understandable and comparable across international boundaries.

“Licensee” means any entity granted a licence by the Authority.

“RAA” means the Regulatory Authority Act (2011).

“Regulatory Accounts” means accounts that have to be prepared in line with the Regulatory Accounting Instructions.

“Regulated Transactions” are any transactions that falls under the licensed business units and any associated related parties.

“TD&R” means transmission, distribution and retail.

“TD&R Licence” means a licence granted under section 25 of the Electricity Act 2016.

“Transfer pricing arrangement” refers to an arrangement pursuant to which the TD&R business unit of a vertically integrated utility procures power from the generation business unit of the same vertically integrated utility.

2 INTRODUCTION

- (1) The Regulatory Authority of Bermuda (the “Authority”) is issuing this General Determination to set the Regulatory Accounting Instructions (the “Instructions”) to govern the regulatory accounting standards for the vertically integrated electric utility holding licences for bulk generation and TD&R (the “Licensee”).¹ The same instructions apply to all other bulk generation or TD&R licence holders in the electricity sector of Bermuda that are required to submit Regulatory Accounts to the Authority.
- (2) The Licensee is required to provide separated Regulatory Accounts to enable the Authority to fulfil its functions in accordance with the EA.² In particular, accounting separation is required in order to:
 - (a) **protect the interests of end-users** with respect to affordability of the electricity service. Specifically, separated regulatory accounts are essential to inform the level of electricity tariffs to end-users;
 - (b) **promote economic efficiency and sustainability** in the generation, transmission, distribution and sale of electricity. Separated Regulatory Accounts inform the requirements for what constitutes an adequate tariff, such that the tariff incentivises efficiency and allows for the sustainable functioning of the Licensee;
 - (c) **promote competition** among electricity generators. Accounting separation, insofar as it increases the transparency of costs and profitability levels, enhances the ability of independent power producers to compete with vertically integrated utilities. It also allows the Authority to target regulatory controls at the natural monopoly elements of the sector, such as transmission and distribution networks, while reducing the regulatory burden on bulk generation, for which the EA suggests that competitive bidding in procurement of resources may be a possibility.³

¹ An electric utility is a company that engages in the generation, transmission, distribution, and sale (retailing) of electricity. An electric utility may perform any combination of these functions. See Government of Bermuda (2015), ‘The National Electricity Sector Policy of Bermuda’, 26 May.

²EA, p. 3 and section 6.

³ EA, section 40.

3 INTERPRETATION

- (1) For purposes of interpreting this General Determination:
 - (a) unless the context otherwise requires, words or expressions shall have the meaning assigned to them by the RAA and the EA;
 - (b) where there is any conflict between the provisions of this General Determination and the EA or RAA, the provisions of the EA or RAA, as the case may be (and subject to sections 3(2) and 3(3) of the EA), shall prevail;
 - (c) terms defined herein and in the EA and RAA have been capitalised;
 - (d) headings and titles used herein are for reference only and shall not affect the interpretation or construction of this General Determination;
 - (e) references to any law or statutory instrument include any modification, re-enactment or legislative provisions substituted for the same;
 - (f) a document referred to herein shall be incorporated into and form part of this General Determination and a reference to such document is to the document as modified from time to time;
 - (g) expressions cognate with those used herein shall be construed accordingly;
 - (h) use of the word "include" or "including" is to be construed as being without limitation; and
 - (i) words importing the singular shall include the plural and vice versa, and words importing the whole shall be treated as including a reference to any part unless explicitly limited.

4 LEGISLATIVE AND PROCEDURAL BACKGROUND

- (1) This General Determination has been undertaken in accordance with section 62 of the RAA and the exercise by the Authority of its powers under sections 6, 14, 15 and 17 of the EA.
- (2) The Authority initiated the consultation by publishing the Consultation: Regulatory Accounting Instructions General Determination for Electricity Sector (the “Consultation Document”) on 23 February 2018 that invited responses from members of the public, including electricity sectoral participants and sectoral providers, as well as other interested parties. The purpose of the Authority’s initial Consultation Document was to consult on the proposed Instructions.
- (3) The Consultation Document asked questions on the following topics:

Scope of regulatory accounts

1. Do you agree that the accounts of the bulk generation and TD&R licensed business units should be separated from each other, from the accounts of the unregulated business units of the licensee (if applicable), and from the accounts of related parties?
2. Do you agree that, for every licensed business unit, the elements that need to be reported include operating costs, revenues, current assets and current liabilities, and fixed assets?

Operating cost and revenue allocation

3. Do you agree with the three-tier approach to allocating all operating costs and revenues to the individual business unit?

Assets and liabilities allocation

4. Do you agree that assets should be allocated to the regulatory accounts of their main user, where the main user should make a transfer charge to any other business unit that also uses that asset?
5. Do you agree that current assets and current liabilities should be allocated to the business units in line with the principles of cost and revenue allocation?
6. Do you agree that long-term liabilities should be allocated to business units only if they are directly associated with a particular business unit, or are collateralised with assets that are associated with particular business units?

Capitalisation and asset valuation policy

7. Do you agree that the licensee should comply with the IFRS in relation to the capitalisation policy in everything but capitalisation of interest—i.e. that the licensee should not capitalise interest?
8. Do you agree that the cost model of asset valuation is an appropriate methodology to use in the preparation of regulatory accounts?
9. Do you agree that only pre-agreed economic asset life assumptions should be used?

Transfer charges and related party transactions

10. Do you agree that, as far as is practical and proportionate, transfer charges and transactions with related parties should be valued at arm’s length?
11. Do you agree that, for every licensed business unit, the licensee should provide a breakdown of operating costs and revenues by internal transactions, external transactions with related parties, and external transactions with independent parties?

Third-party transactions disclosure

12. Do you agree that third-party transactions need to be disclosed in the notes to the regulatory accounts?
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- (4) Responses to the Consultation Document were solicited from the public electronically through the Authority’s website at rab.bm.
- (5) The response period commenced on 23 February 2018 and concluded on 9 March 2018.

- (6) The Authority received two responses from the public.
- (7) The Authority issued a Preliminary Report, Preliminary Decision and Order (the "Preliminary Report") on 4 May 2018 and concluded on 21 June 2018 that invited responses from members of the public, including electricity sectoral participants and sectoral providers, as well as other interested parties.
- (8) The Authority received one response from the public on the Preliminary Report, Preliminary Decision and Order.

5 FINAL DETERMINATION

- (1) Pursuant to section 62 of the RAA and in accordance with sections 6, 14, 15 and 17 of the EA using the general powers granted to the Authority under section 13 of the RAA and in accordance with the procedures established for this purpose in section 62 of the RAA, the Authority hereby determines that:
- (2) The adoption and implementation of the Instructions as set forth in Annex 1 of this Schedule below is consistent with the purposes of the EA, including to seek to:
 - (a) ensure the adequacy, safety, sustainability and reliability of electricity supply in Bermuda;
 - (b) encourage electricity conservation and the efficient use of electricity;
 - (c) promote the use of cleaner energy solutions and technologies;
 - (d) provide sectoral participants and end-users with non-discriminatory interconnection to transmission and distribution systems;
 - (e) protect the interests of end-users with respect to prices and affordability, and the adequacy, reliability and quality of electricity service; and
 - (f) promote economic efficiency and sustainability in the generation, transmission, distribution and sale of electricity.

ANNEX 1 – REGULATORY ACCOUNTING INSTRUCTIONS

I. SUMMARY

2. The Licensee is required to submit audited statutory financial statements to the Authority. These may be prepared on a consolidated group basis, in accordance with widely accepted Accounting Standards. In addition, the Authority requires the Licensee to report, separately for its bulk generation and TD&R licensed business units, the elements of the balance sheet and income statement, with corresponding accounting disclosures and notes.⁴
3. The elements that need to be reported include operating costs, revenues, assets and liabilities. In particular, the following information is required for each licensed business unit:
 - (a) A breakdown of operating costs and revenues by type of activity, and of allocation rules by type of cost and revenue;
 - (b) A breakdown of fixed assets (the “Fixed Assets Register”), including the disclosure of asset life assumptions, depreciation methods, other relevant details on asset valuation policies, and whether an asset is used as collateral for a liability;
 - (c) A breakdown of current assets and liabilities and of allocation rules by type of current asset and liability;
 - (d) A breakdown of long-term liabilities, if they are directly associated with a particular business unit or are collateralised with assets that are associated with particular business units and disclosure of the details of long-term liabilities;
 - (e) The split of operating costs and revenues between: internal transactions; external transactions with related parties; external transactions with independent parties; and the pricing mechanisms used for internal and external transactions with related parties by type of activity; and
 - (f) Disclosure of third-party transactions that relate to activities that are not core activities for bulk generation or TD&R business units.
4. The Licensee should demonstrate how the separate business units’ Regulatory Accounts reconcile with the consolidated statutory financial statements.⁵
5. The methodologies that are envisaged to be used to prepare Regulatory Accounts must be submitted to, and approved by, the Authority. This includes the accounting separation principles, capitalisation and asset valuation policies, and pricing mechanisms behind transfer charges and related parties’ transactions. Where the Licensee changes a methodology, the Licensee is required to justify and disclose the change, and demonstrate its financial impact by showing how it reconciles with the previous methodology. The Authority reserves the right to request

⁴ The notes should include the methodology of accounting separation, capitalisation and asset valuation policies, pricing mechanisms behind transfer charges and related parties’ transactions, and disclosure of third-party transactions. However, replication or duplication of all the notes that accompany IFRS-compliant accounting and that are prepared for consolidated accounts is not required. Maintaining separated regulatory accounts for transmission and distribution relative to the retail business would be considered best practice, but is not required by these Instructions.

⁵ The reconciliation includes separate licensed business units’ regulatory accounts, unregulated business units’ regulatory accounts, and items reflecting methodological differences between regulatory and statutory accounts. Methodological differences may arise in the balance sheet, for example due to differences in asset life assumptions between regulatory and statutory accounts. Or, for example, methodological differences may arise in the income statement due to differences between actual and efficiently incurred costs.

more information about the disclosed change to the methodology, and to disagree with the change.

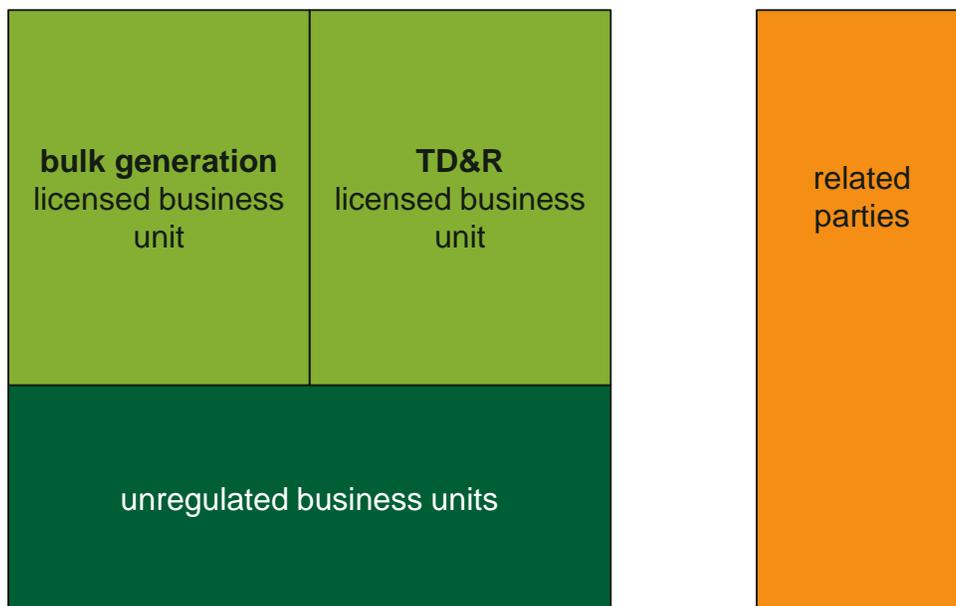
6. The accounts must be assured by an independent auditor, who, together with the provision of the audit report, must issue the following assurance statement:

“In our opinion, the financial statements of [the Licensee] are prepared, in all material respects, in accordance with the Regulatory Accounting Instructions for the electricity sector of Bermuda issued by the Regulatory Authority of Bermuda.”

7. In line with the EA and the functions of the Authority, these Instructions promote the following principles of Regulatory Accounts reporting:
- (a) **causality:** all the costs (and revenues) should be allocated to the activities that caused the costs (and revenues);
 - (b) **practicality:** all the methods used to prepare Regulatory Accounts should be practical to implement;
 - (c) **objectivity:** the Regulatory Accounts should be prepared on an objective basis;
 - (d) **transparency:** all the methods used to prepare Regulatory Accounts should be disclosed in the notes to the Regulatory Accounts; and
 - (e) **consistency:** where practical, the Accounts should be prepared on a consistent basis from year to year. If a change to the methodology is necessary, the Licensee is required to justify and disclose the change and demonstrate its financial impact by showing how it reconciles with the previous methodology.
8. As illustrated in Figure 1, the instructions require the Regulatory Accounts of the bulk generation and TD&R licensed business units to be separated from:
- (a) each other;
 - (b) the accounts of the unregulated business units of the Licensee (if applicable); and
 - (c) the accounts of related parties, as per the definition in the approved Accounting Standards.⁶

⁶ For example, related parties might be a parent company, other companies in the group, or associate companies. For further details, see IFRS (2001), ‘IAS 24 Related Party Disclosures’, para. 9.

Figure 1 Separated accounting segments



9. Where a Licensee combines more than one business unit, its costs and revenues are likely to arise from a variety of functions relating to TD&R, bulk generation, and other business units. Similarly, assets and liabilities can belong to more than one business unit. To be able to determine adequate tariffs and monitor the Licensee's profitability, the Authority requires operating costs, revenues, assets and (where relevant) liabilities of the Licensee to be allocated to one of its business units, in accordance with the principles of the Instructions. Allocation of the costs and revenues, and of the assets and liabilities, is discussed in sections II and III of these Instructions respectively.
10. In addition to the appropriate separation of accounts, the Licensee is required to follow consistent capitalisation and asset valuation policies. Section IV outlines the requirements for these policies.
11. Consistent with its duties to protect the interests of the end-users and promote competition, the Authority has a responsibility to put measures in place to prohibit cross-subsidy. This is important in order to sustain a level playing field for all competing entities, and to ensure that end-users are not disadvantaged. Therefore, the Authority requires the Licensee to demonstrate that any transfer charges and transactions with related parties are undertaken on market terms. This is discussed in section V of these instructions.
12. Finally, section VI outlines the requirements for the disclosure of third-party transactions.

II. OPERATING COST AND REVENUE ALLOCATION

II.I OPERATING COSTS

13. Operating costs can be classified in one of three categories: direct costs, indirect attributable costs, and indirect non-attributable costs.
- (a) **Direct costs:** costs that are exclusively associated with generation, TD&R or a function of an unregulated business unit belong in this category. These costs should be allocated to the accounts of the corresponding business units.
 - (b) **Indirect attributable costs:** costs that are not exclusively associated with a single business unit and are likely to be considered joint or common costs, belong in an indirect costs category. If the costs are indirect, but it is possible to identify factors that drive them to increase, and those factors are exclusively associated with individual business units, the Instructions refer to these costs as indirect attributable costs.
 - (c) **Indirect non-attributable costs:** where it is not practical to identify the cost drivers and, therefore, not possible to estimate their proportions caused by the functions of one or another business unit, the Instructions refer to these costs as indirect non-attributable costs.
14. The Authority expects the Licensee to follow a three-tiered approach to allocating all operating costs to the individual business units.
- (a) Where reasonable, an entity should allocate direct costs to the corresponding individual business unit. For example, fuel costs that are directly associated with bulk generation, and network maintenance costs that are directly associated with TD&R functions, should be attributed to these business units respectively.
 - (b) Where such reasonable direct allocation is not possible, the Licensee should allocate indirect attributable costs to more than one individual business unit based on the underlying drivers of these costs within each unit. This approach to indirect cost allocation is referred to as activity-based costing. The cost drivers should reasonably reflect the factors that drive costs to increase. For example, for a given set of costs, the Authority recommends using cost drivers such as those specified in Table 1.

Table 1 Cost drivers for indirect attributable costs—examples

Cost type	Cost driver to be used¹
Finance, HR, general management	Time spent by staff on the individual business units based on timesheets
Motor vehicle costs	Number of vehicles
Facilities, building/grounds maintenance/rent	Floor space (m ³)
Employee/employer liability insurance	Number of full-time equivalent employees

Note: ¹ Only where costs cannot be directly attributed.

- (c) Where identification of cost drivers is not practical, the Licensee should allocate indirect non-attributable costs to more than one business unit in line with the proportion of direct costs associated with each of the business units. This approach to indirect cost allocation is referred to as Equi-proportionate mark-up. For example, the Authority considers it

appropriate to categorise indirect management costs as non-attributable if management is unable to estimate the proportion of the time its members spend on the functions of one business unit or another. In this case, the Licensee can allocate management costs to multiple business units in line with the proportion of the corresponding direct costs. Fuel costs are not included in the estimate of direct costs associated with the bulk generation business unit (full pass through item), for the purpose of allocating indirect non-attributable costs.

15. For the avoidance of doubt, no costs should be allocated on the basis of revenue shares.

II.II REVENUES

16. The Authority expects most of the Licensee's revenues to be directly attributable to its business units. However, where revenues are common to multiple business units, the principles for allocating revenues should be consistent with those for costs, as specified in this section of the instructions. In particular, revenues need to be allocated to business units that drive them to increase.
17. The Licensee is required to disclose, in the notes to the Regulatory Accounts, the allocation method applied to every type of cost. Where a cost is classified as non-attributable, the Licensee is required to justify why identification of that cost driver is not practical. Where the Licensee changes the allocation methodology for any cost, it is required to justify, disclose, and demonstrate the financial impact of the change, by reconciling with the prior methodology.

III. ASSETS AND LIABILITIES ALLOCATION

III.I FIXED ASSETS

18. The Authority considers that it is likely that most fixed assets are used within the individual business units, and therefore, most fixed assets and the corresponding depreciation are expected to be directly allocated to individual business units.
19. Where more than one business unit uses the same asset, the asset should be allocated to the Regulatory Accounts of its main user. This main user should make a transfer charge to any other business unit that also uses that asset. The main user would report the income as a negative operating cost under 'recharges to other units'. The other business units would report a corresponding positive operating cost in their Regulatory Accounts.
20. The amount of the recharge should be proportionate to the use of the assets and be determined in line with the principles outlined in section V of these Instructions. If an asset is transferred from one business unit to another, the principles outlined in section V of the Instructions apply to the transfer price.

III.II CURRENT ASSETS AND CURRENT LIABILITIES

21. Current assets and liabilities should be allocated to business units in line with the principles of cost and revenue allocation. For example, where current assets and liabilities relate to accruals or pre-payments, these should be allocated on the same basis as the costs or revenues to which they relate.

III.III LONG-TERM LIABILITIES

22. The Licensee is required to provide a breakdown of the long-term liabilities in two instances:
 - (a) where they are directly associated with a particular business unit; and
 - (b) where they are collateralised with assets associated with a particular business unit.
23. If a liability is not directly associated with a particular business unit, and is not collateralised with assets that belong to a particular business unit, the liability does not have to be allocated to individual business units.
24. In addition, the Licensee is required to disclose the terms of long-term liabilities, including the principal amount, issuance date, repayment date, interest rate, and intended use of proceeds.

IV. CAPITALISATION AND ASSET VALUATION POLICY

IV.I CAPITALISATION POLICY

25. A capitalisation policy refers to the set of principles used by an entity to decide whether to: expense a cost—i.e. to record it as a cost in the income statement in the period in which it is incurred; or to capitalise the cost—i.e. to record it in the balance sheet as an increase in the value of the assets, and record a corresponding cost as a depreciation and amortisation expense in the income statement over the asset life.
26. The Licensee is required to comply with the Accounting Standards in relation to the capitalisation policy in everything but capitalisation of interest—the Licensee should not capitalise interest. Instead, the Licensee should capitalise the return on the construction work in progress (“CWIP”), where the rate of return on capital is set forth in the Regulatory Authority (Retail Tariff Methodology) General Determination 2018 (the “Retail Tariff Methodology”). In addition, the Licensee is required to disclose the details of its capitalisation policy for individual cost and asset types.

IV.II ASSET VALUATION

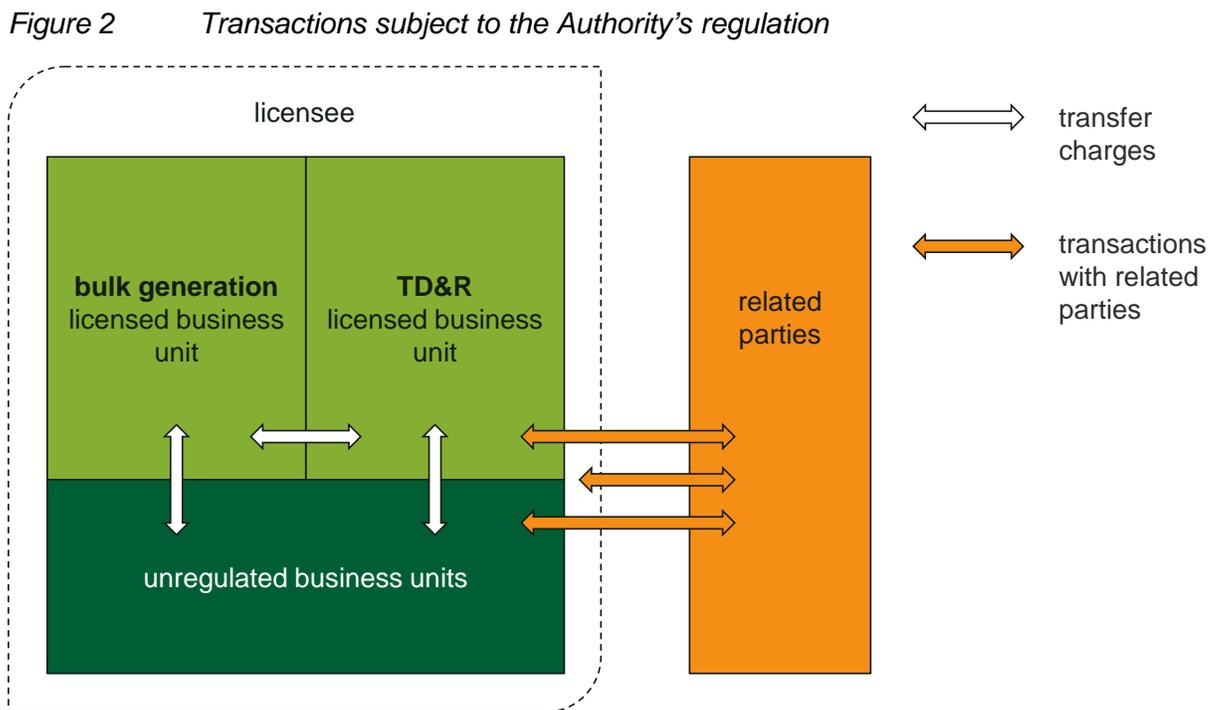
27. The Authority requires the Licensee to comply with the Accounting Standards in relation to the valuation of fixed assets unless stated otherwise in these Instructions.⁷ Only a cost model is allowed. The Licensee is required to disclose in the Regulatory Accounts the following elements of the asset valuation policy:
- (a) asset life assumptions; and
 - (b) methods of depreciation.
28. The Licensee is required to use pre-agreed economic asset life assumptions.⁸
29. Where the Accounting Standards provides multiple options for any of these disclosures, the Authority requires the Licensee to explain, in notes to the Regulatory Accounts, the rationale for its choice.

⁷ To the extent that the Authority considers that revision to the asset valuation policy may be required for regulatory tariff setting (e.g. to smooth the profile of allowed revenues via the use of accelerated depreciation), then, any such potential changes to asset valuation policy would be appropriately signalled, consulted, and agreed with the Licensee.

⁸ The Authority allows the Licensee to use asset life assumptions that are consistent with the IFRS as long as the assumptions are pre-agreed with the Authority and are considered economically and technically reasonable.

V. TRANSFER CHARGES AND RELATED PARTY TRANSACTIONS

30. It is the Licensee's duty to ensure that all transfer charges and transactions with related parties ("Regulated Transactions") are valued at arm's length — i.e. on the same terms as would apply between independent parties. As far as is practical and proportionate, the pricing principles should be consistent across Regulated Transactions.
31. A transfer charge is the charge or price that is applied, or deemed to be applied, by one business unit within the Licensee to another for the use of assets, provision of services or transfer of goods.⁹ In the context of these Instructions, the related party is defined in accordance with IAS 24.¹⁰
32. Figure 2 illustrates the Regulated Transactions.



Note: The instructions apply to all transactions specified in the figure.

33. The Authority considers the following approaches to be appropriate for demonstrating that a Regulated Transaction has been undertaken at arm's length:
- (a) competitive tendering;
 - (b) comparison against published list prices;
 - (c) third-party evaluation;

⁹ Transfer charges include recharges that arise through multiple business units sharing the same assets. As specified in section V of the instructions, a shared asset should be allocated to the accounts of its main user, which would require a recharge to the other business units sharing the asset.

¹⁰ For example, related parties might be a parent company, other companies in the group, or associate companies. For further details, see IFRS (2001), 'IAS 24 Related Party Disclosures', para. 9.

(d) benchmarking; or

(e) a cost-based approach.¹¹

34. The Authority considers the first of these — competitive tendering — to be the most robust approach for demonstrating that a Regulated Transaction has been undertaken at arm's length. If the Licensee uses this approach, it should invite independent contractors to tender a price for a given good or service. Where such competitive tendering is not possible, or is impractical or disproportionate, other approaches can be applied. Upon request, the Licensee needs to be able to provide evidence showing why competitive tendering was not considered suitable.
35. The transfer price for electricity that the TD&R business unit purchases from the bulk generation business unit should be set in line with the Retail Tariff Methodology.
36. For every licensed business unit, the Licensee is required to provide a breakdown of operating costs and revenues by internal transactions, external transactions with related parties, and external transactions with independent parties.

¹¹ Under a cost-based approach, the price is driven by cost, including the cost of capital. In practice, this means that a mark-up at the market level may be added to the cost base.

VI. THIRD-PARTY TRANSACTIONS DISCLOSURE

37. If a third-party transaction refers to an activity that is not a core activity of the bulk generation or TD&R business units, but is attributable to such units, a transaction needs to be disclosed in the notes to the Regulatory Accounts.