Statnett

Attention: Mr Hans Hoogevorst, Chairman
International Accounting Standards Board (IASB)
30 Cannon Street
London EC4M 6XH
United Kingdom

Our date: 27.08.2013

Dear Sirs

COMMENTS ON EXPOSURE DRAFT ED/2013/5

In response to your request for comments on the IASB's exposure draft on Regulatory Deferral Accounts, we attach our comment letter.

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

<u>About Statnett</u>
Statnett is responsible for all high voltage electricity transmission and distribution in Norway. Such distribution is mainly from the country's main hydro-electric power production plants countrywide. Statnett is also appointed the role as Norway's Transmission System Operator (TSO) with an overall responsibility of coordinating the operation of the country's electric power system, maintaining correct balance between supply and demand at all times. The Statnett Group has more than 1000 employees and corporate head office located in Oslo.

Yours faithfully
Statnett SF

Hanne Solheim
Head of Accounting

Kari-Anne Eivik
Vice President Finance

Question 1

The Exposure Draft proposes to restrict the scope to those first-time adopters of IFRS that recognised regulatory deferral account balances in their financial statements in accordance with their previous GAAP.
Is the scope restriction appropriate? Why or why not?

The Exposure Draft proposes different recognition of regulatory deferral account for first-time adopters and those who already have adopted IFRS. The Exposure Draft is an interim standard and the intention is to replace the standard by a final standard in the long run. The complex issues that are being addressed in the comprehensive Rate-regulated Activites project will take time, and we are concerned that this interim standard will become "permanent". Hence, we believe that the scope of the standard should not be restricted to first-time adopters of IFRS, but should include all entities that are currently preparing their financial statements under IFRS.

The Conceptual Framework is currently being reviewed and updated, which will influence the outcome of the Rate-regualted Acitivites project. We strongly believe that rate-regulation creates assets or liabilities in addition to those already recognised in accordance with IFRS for non-rate-regulated activities.

Question 2

The Exposure Draft proposes two criteria that must be met for regulatory deferral accounts to be within the scope of the proposed interim Standard. These criteria require that:
(a) an authorised body (the rate regulator) restricts the price that the entity can charge its customers for the goods or services that the entity provides, and that price binds the customers; and
(b) the price established by regulation (the rate) is designed to recover the entity's allowable costs of providing the regulated goods or services (see paragraphs 7–8 and BC33–BC34).
Are the scope criteria for regulatory deferral accounts appropriate? Why or why not?

We disagree with the proposed scope criteria. Our main concern is that we believe the scope definition is too narrow, establishing different accounting treatments for economic activities that are essentially alike.

It is not uncommon that it is the total revenue rather than rates that is regulated. For example, the regulator of the Norwegian electricity transmission and distribution activities defines the total allowable revenue and not the rates (per unit). As we read the exposure draft, such regulated activities will fall outside scope of the proposed standard due to the regulation of revenue and not rates, although the economic reality is identical. Excluding rate-regulated activities where total revenue and not rates are set (however based on the same principles as stated in paragraph 7b), while scoping in the same rate regulated activities, with the only difference being the rates and not revenue is set by the regulator, results in different accounting treatments for similar economic activities, reducing comparability between entities in different jurisdictions, but with otherwise similar economic characteristics.

Furthermore, a restriction of the standard to first-time adopters would result in different accounting treatments for economic activities that are essentially alike, dependent on when they adopted IFRS.

For the most part this view was also expressed by Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) in their comments to exposure draft on rate-regulated activities that the IASB published on 23 July 2009.

It is also our view that the scope definition as described above will represent assets and liabilities in accordance with the Conseptual Framework.

The asset represents the unanticipated revenue for goods and services provided to the aggregate customers in the current period, but not yet billed in full to the aggregate customers. The liability represents billings made for goods and services in the current period in excess of what is permitted by regulations. It is our understanding that the most difficult aspect has been whether the entity has 'control' over incremental future economic benefits that have been created as a result of current period costs. We believe that:

- Regulations created by the regulator and entered into by the entity are similar to a contract between the 'aggegate customer base' and the entity
- Regulations result in 'a restraint of trade agreement' which results in the entity having effective control over the future economic benefits associated with the aggregate customer base that is in the entity's jurisdiction
- The aggregate customer base is a 'captive customer' of the entitiy because of the nature of the goods and services provided, method of delivery and receipt of delivery. That is, the aggregate customers cannot easily move the location of receipt of the goods and services and are often precluded from purchasing goods and services from other providers due to regulations.

Question 10

Do you have any other comments on the proposals in the Exposure Draft?

In our financial statements for 2012 and some of the previous years a substantial part of our revenues should have been included as a liability. However, current IFRS rules do not permit this. To be able to provide users of our financial statements with relevant information, both we and the users have to prepare adjusted "true" financial figures.

As of 2012, the reported equity in the financial statements is 38% higher than "true" equity. The reported financial result is almost four times higher than "true" financial result. This reduces the relevance of our financial statements significantly.
Ideally, our stakeholders should find the information they need directly from the financial statements. This would increase the relevance of our IFRS Financial Statements.