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International Accounting Standards Board

INFORMATION FOR OBSERVERS

Board Meeting: **23 May 2006, London**

Project: **Service Concession Arrangements [Education Session] (Agenda Paper 3)**

PURPOSE AND STRUCTURE OF THE SESSION

1 Agenda item 3 of the May Board meeting is an education session, which is designed to provide the Board with an update on the IFRIC's project on service concession arrangements. The session will include an overview of the economics of service concession arrangements and provide an update on the IFRIC's post exposure deliberations up to and including the tentative decisions reached during its May 2006 meeting.

2 This paper provides an overview of the economics of service concession arrangements and the two accounting models that IFRIC propose apply to the different rights received by the operator in return for the concession services provided—the financial and the intangible asset models. The paper also provides a summary of the IFRIC's deliberations on one aspect of the guidance that concerns some (including some members of the IFRIC), ie the points at which revenue is recognised under the intangible asset model.

3 The following two papers are provided as background reading for the session:

(a) Project Summary (agenda paper 3A);

(b) A draft of the revised text of IFRIC [X] *Service Concession Arrangements – Determining the Accounting Model* [formerly D12] in the light of the IFRIC's post exposure deliberations (agenda paper 3B). The IFRIC considered the draft text contained in this paper at its May 2006 meeting.

ECONOMIC ANALYSIS OF SERVICE CONCESSIONS

4 Concessions include all contractual arrangements through which a private firm obtains the right from government to provide a service under conditions of significant market power. A more restrictive definition of a concession is a private sector arrangement where asset ownership remains in public hands but where the private operator is responsible for new investments, as well as operating and maintaining existing assets.

5 Concessions are typically used for introducing private participation in infrastructure. Different contract types, such as performance-based management contracts, leases, build-operate-transfers and even divestitures under licence, have various degrees of underlying risk allocated to public and private parties.

6 Concessions have gained in popularity recently, but the theory dates back at least to the nineteenth century. The famous nineteenth century economist Alfred Marshall outlined the case for concessions as follows:

> A public authority may be able to own the franchise and, in some cases, part of the fixed capital of a semi-public undertaking, and to lease them for a limited number of years to a Corporation who shall be bound to perform services, or deliver goods, at a certain price and subject to certain other regulations … the special point of the proposal is that, where possible, the competition for the franchise shall turn on the price or the quality, or both, of the services or the goods, rather than on the annual sum paid for the lease. (quoted in Ekelund and Hebert 1981: 471).

7 The practice dates back even further: private water companies developed much of the early water infrastructure in France, Britain and the United States.

The rationale

8 Concessions are normally used in areas where they are most likely to aid development, ie usually when they are used to regulate natural monopolies—

i.e. services can be provided more efficiently by one entity rather than two or more. The bidding process between private entities allows some of the benefits of competition to enter the market for the service. The government's aim is that, to win the bid, firms will be forced to offer a price for, say, water or transportation not much higher than their cost of supplying it. The firm that wins is likely to be one of the most efficient.

Landscape

9 Concessions could be broadly referred to as arrangements including contractual arrangements where a private entity (operator) obtains the right from government to provide a service under conditions of significant market power. The private sector entity has an obligation to provide the services specified by the public sector during the concession period.

10 The main options for private participation in the provision of public services can be grouped as follows:

(a) *Service and maintenance contracts*—the objective of this type of arrangement is to secure private sector assistance for performing specific tasks—repairing pipes, provision of road markings, debt collection, call centres, canteen facilities or computer services. Service and maintenance contracts are widely used. Contracts typically provide for a performance-related payment, part of the operating risk of the business may be transferred from the government to the operator, since the operator profits may vary with the operating performance of the company. All responsibility for capital investment is with the government.

(b) *Leases*: a private entity leases the assets of a utility from the government. The lessor effectively buys the rights to the income stream from the utility, it therefore assumes much of the commercial risk of the operations, and hence its operating profits are dependent on the operating profits of the arrangement. Leases leave the responsibility for financing and planning investments with the government. So if major new investments are needed, the government must raise the finance and coordinate its investment program with the operator's operational and commercial program. Leases are most

appropriate where there is scope for big gains in operating efficiency but only limited need or scope for new investments.

(c) *Concessions - operation and maintenance-type:* rehabilitate operate transfer (ROTs), a private entity takes on responsibility for operation and maintenance of an already existing government asset for a given period during which it also assumes significant investment risk eg major rehabilitation or technological upgrade. The government may grant a concession to the private entity to charge consumers (users) directly. These types of agreements are similar in scope and approach to what is required and negotiated in a typical BOT-type arrangement (see below).

(d) *Concessions - BOT-type:* under this type of arrangement build operate transfers (BOTs), build-lease operate (BLO), the private sector undertakes investments and both operating and investment risks are substantially transferred to the private firm[1]. The arrangements comprise an initial construction, upgrading or major rehabilitation component. Massive investment and consequent mobilisation of private funding sources is therefore required from this entity and is to be repaid from the revenue collected. Asset ownership remains with the government and full rights to the assets revert to the government when the contract ends—typically after 25-30 years. The concession is governed by contract that sets out performance standards, arrangements for capital investments, mechanisms for adjusting tariffs, and arrangements for arbitrating disputes.

The contract might be on a take-or-pay basis obligating the government to pay for a specified output whether or not that quantity is consumed. Alternatively government payments may be contingent on usage levels. Or the government may grant a concession to the private participants to charge users for the services provided (eg. road tolls to help finance the improved operation and maintenance of the road). Or contracts may grant a concession to the private participants to charge users for the services provided and the government may guarantee the private sector's returns. In effect all these *concession* arrangements

confer long-term monopoly to the private entity. The government has two primary responsibilities: to ensure the assets (which the government continues to own) are used well and returned in good condition at the end of the concession and to protect consumers from monopolistic pricing. The quality of regulation is therefore important in determining the success of the operation.

(e) *Concessions - BOO-type:* under this type of arrangement build operate own (BOOs), the private sector undertakes investments and both operating and investment risks are substantially transferred to the private firm. The arrangements comprise an initial construction or acquisition, upgrading or major rehabilitation component. Massive investment and consequent mobilisation of private funding sources is therefore required from the private entity and is to be repaid from the revenue collected. Asset ownership remains with the private sector, full rights to all the assets remain with the operator when the contract ends—typically after 25-30 years.

(f) *Divestitures*: (also referred to as 'privatisations', 'corporations') can be structured as public, private or semi-private organisations. A complete divestiture through a sale of assets, or shares or through a management buyout gives full responsibility for operations, maintenance and investment to the private sector as well as transferring ownership of the assets to the private sector. The entity is free to collect revenue for its own development. A divestiture leaves the government only the task of regulation. Like concessions, a divestiture confers long-term monopoly to the private sector, the quality of regulation is therefore important in determining the success of the operation.

11 In practice, private sector arrangements for the provision of public services are often combinations of the above models. For example, service contracts may have revenue sharing agreements that make them a little like a lease and a BOT might be combined with a management contract for operating parts of the distribution system. To run concession arrangements it is common in some countries for governments to establish consortia with the private sector (see figure 2 at paragraph 50).

12 No two concession agreements are exactly the same: technical provisions vary by sector and the scope of the private operator's responsibilities can also vary with different types of contracts. Substantial differences also appear between contracts of the same type concluded in the same sector, as the parties tailor each agreement to their specific situation and needs. Finally, the form of the contractual agreement depends on the specific features of the overall legal framework of the particular country. Cross-sectoral concession laws, where they exist, may contain provisions that do not have to be repeated in individual contracts. In analysing a concession one must look beyond the arrangement's name and consider the details of its provisions relating to rights, obligations, and the allocation of risk.

Boundaries of the IFRIC's project

13 The difficulty with developing accounting guidance for concessions arises because the scope of the topic is so great. The arrangements take many forms. The main types of arrangements can be clearly distinguished by how they allocate responsibility for such functions as asset ownership and capital investment. Table 1 illustrates the key elements driving the complexity of many of the accounting issues involved with concession arrangements and the reasons the IFRIC focused its attention where it did.

Table 1 - Allocation of key responsibilities under the main options for private sector participation in the provision of public services

Category	**Main Options**	**Asset ownership**	**Operations and maintenance**	**Capital investment**	**Commercial risk**	**Typical Duration**	**Residual Value**	**Examples IFRSs that may apply**
Lessee	Lease (eg operator leases asset from	Public	Private and or public	Public	Shared	8-20 years	Public	*IAS 17*

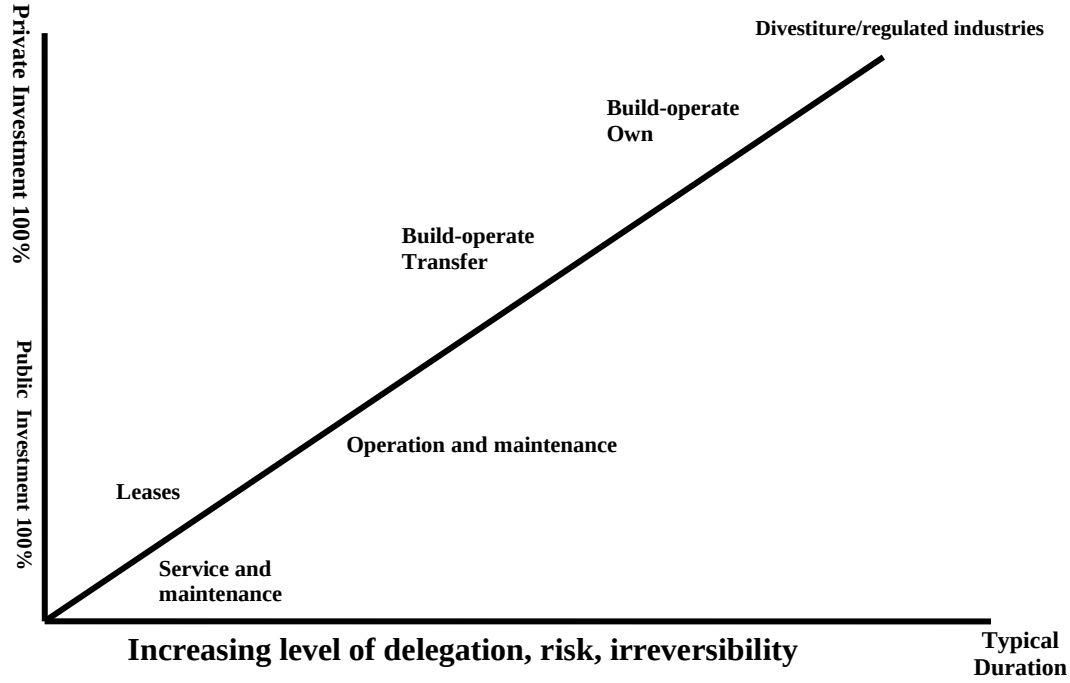
Category	Main Options	Asset ownership	Operations and maintenance	Capital investment	Commercial risk	Typical Duration	Residual Value	Examples IFRSs that may apply
	grantor)							
Service Provider	Service or maintenance contract (eg specific tasks Debt collection)	Public	Public and or private	Public	Public	1-5 years	Public	*IAS 18*
	Operation & maintenance contract – ROT)	Public	Private	Private	Private and Public	25-30 years	Public	*D12-14*
	Concession (eg Build-operate-transfer)	Public	Private	Private	Private and Public	25-30 years	Public	
Owner	Concession eg (Build-own-operate)	Private	Private	Private	Private	25-30 years	Private	*IASs* 16
	100% Divestiture/ Privatisation	Private	Private	Private	Private	Indefinite or (may be limited by licence	Private	

14 These options can be ranged along a spectrum (figure 1 below). At one end of the spectrum are service contracts where the government retains full responsibility for operations, maintenance, capital investment, financing, and commercial risk—at the other divestitures, where the private sector takes on this responsibility. The level of irreversibility and the allocation of key risks grow correspondingly. But even where the private sector takes on full responsibility for operations and financing, as in some concessions and asset sales, it does so within a framework created by the government. The most important parts of this framework are regulatory arrangements to protect consumers from monopolistic pricing and to enforce health and environmental standards, and subsidy regimes to ensure access to services for the disadvantaged.

15 The application of IFRS is clear at both ends of the spectrum, ie in situations where the operator is providing a single service, for example a service contract for operations or maintenance. IFRSs are also clear where the operator is the

owner or lessee of the infrastructure. The level of accounting complexity is at its greatest when the respective responsibilities of the grantor and the operator are intertwined. It is in this area that specific guidance from Interpretations is required and where D12-14 focused.

Figure 1 – The range of options



ACCOUNTING ISSUES FOR THE OPERATOR

16 An example of a typical arrangement that falls within the scope of the draft Interpretations would be a build-operate-transfer or a rehabilitate-operate-transfer arrangement. As noted above the concession is governed by a contract that sets out performance standards, arrangements for capital investments, mechanisms for adjusting tariffs, and arrangements for arbitrating disputes. It is common in these types of arrangements that a consortium will be set up to run the concession, the shares of which cannot be freely transferred or pledged. See figure 2 at paragraph 50 for an example of a typical structure.

In these types of arrangements the continued involvement of both grantor and operator over the length of the concession period, accompanied by heavy upfront capital investment raises questions over what assets and liabilities should be recognised by which party. Notwithstanding the wide range of concessions available, operators must deal with these major accounting issues: the determination of the point or points at which revenue and costs should be

recognised, when assets and liabilities should be recognised and how recognised assets and liabilities should be measured.

17 Draft Interpretations D12-14 apply to service concession arrangements where the operator does not recognise the service concession infrastructure as its own property plant and equipment. Instead the operator is acting as a service provider of the infrastructure and should recognise the rights received in exchange for the concession services provided.

18 D12 is based on a conclusion that service concession infrastructure should be recognised as property, plant and equipment of the party that controls its use. The reference to control stems from the *Framework*: an asset is defined by the *Framework* as 'a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.'

19 IAS 16 Property, Plant and Equipment defines property, plant and equipment as tangible items that 'are held for use in the production or supply of goods or services, for rental to others or for administrative purposes…'. It requires items within this definition to be recognised as property, plant and equipment unless another Standard requires or permits a different approach. As an example of a different approach, it highlights the requirement in IAS 17 *Leases* for recognition of leased property, plant and equipment to be evaluated on the basis of the transfer of risks and rewards. That standard defines a lease as 'an agreement whereby the lessor conveys to the lessee in return for a series of payments the right to use an asset'. IFRIC 4 *Determining Whether an Arrangement Contains a Lease* interprets the meaning of right to use as 'if the arrangement conveys the right to control the use of the underlying asset'.

20 In a service concession, rights are usually divided over time, which is similar to a lease. However, for arrangements within the scope of the Interpretation, the operator's right is different from that of a lessee: because as set out in paragraph 5 of the guidance, the grantor retains control over the use to which the infrastructure is put, by (a) controlling or regulating what services the operator must provide, to whom it must provide them, and at what price, and (b) controlling any significant residual interest in the infrastructure at the end of the term of the concession. Unlike a lessee, the operator does not have a

right of use: it has only access to the infrastructure to provide the specified services on the specified terms.

21 During redeliberation the IFRIC identified a necessary consequential amendment to IFRIC 4, *Determining Whether an Arrangement contains a Lease.* In considering whether the scope of the Interpretation might overlap with IFRIC 4, the IFRIC noted the views expressed by some respondents that the contractual terms of certain service concession arrangements would be regarded as leases under IFRIC 4 and would also be regarded as meeting the scope criterion set out in paragraph 5 of this Interpretation. The IFRIC did not regard the choice between accounting treatments as appropriate because it can lead to different accounting treatments for contracts that have similar economic effects. In the light of comments received, the IFRIC agreed a consequential amendment to the scope of IFRIC 4 to specify that if a service concession arrangement met the scope requirements of D12 it would not be within the scope of IFRIC 4.

The accounting model that applies to the rights received by the operator in return for services rendered

22 As noted above, draft Interpretations D12-14 apply to service concession arrangements where the operator does not recognise the service concession infrastructure as its own property plant and equipment. Instead the operator is acting as a service provider of the infrastructure and should recognise the rights received in exchange for the concession services provided.

23 IAS 11 *Construction Contracts* and IAS 18 *Revenue* apply to the rendering of services and require revenue to be recognised on the basis of the stage of completion. The resulting asset recognised under IAS 11/18 represents a right to be paid for services rendered, for which revenue has been recognised by the service provider. However, those standards do not specify the nature of the resulting asset. While it is clear that the government has an obligation to pay the operator for the concession services provided, the payment need not be in the form of cash.

24 At its May 2006 meeting, the IFRIC tentatively concluded that if the operator provides infrastructure or other consideration in exchange for the right to

operate the concession service, the following accounting models apply to the rights received by the operator:

(a) the financial asset model—the operator recognises a financial asset; or

(b) the intangible asset model—the operator recognises an intangible asset.

25 The financial asset model, applies to the extent that the operator has a contractual right to receive cash for the concession services; and the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law.

26 The operator has a contractual right to receive cash for the concession services if the grantor contractually guarantees the operator's return on investment, and that return may be contingent on performance requirements (eg incentives for delivery on time or to budget or efficiency targets). This right is provided by the grantor agreeing to pay the operator (1) specified amounts or (2) for the shortfall, if any, between amounts received from users of the concession service and specified amounts. During redeliberation the IFRIC noted that:

(a) These types of arrangements do not meet the definition of a financial guarantee in paragraph 9 of IAS 39. Furthermore, the amendments made to IAS 39, based on exposure draft *Financial Guarantee Contracts and Credit Insurance* published in July 2004 do not address the treatment of financial guarantee contracts by the holder. The objective of the amendments is to ensure that issuers of financial guarantee contracts recognise a liability for the obligations the guarantor has undertaken in issuing that guarantee.

(b) The contractual amount receivable may be paid directly by users. The method of payment is a matter of form only. The operator has, in substance, a present unconditional contractual right to receive the specified cash flow from the grantor. The nature of the operator's asset is not altered solely because the contractual amount receivable may be paid by users. The IFRIC observed that accounting for these contractual cash flows as financial assets acknowledges their nature. Furthermore, doing so faithfully reflects the economic substance of the arrangements, which is to provide finance to the grantor.

27 A right other than a contractual right to receive cash does not meet the definition of a financial asset and is within the scope of IAS 38 *Intangible Assets*. The intangible asset model would apply when there is no contractual right to receive cash at the balance sheet date from another entity. Rather, the government has granted the operator a right to charge users of the public service. The operator has an opportunity to generate economic benefits (cash flows) when users use the service. These types of arrangements are licence arrangements under IAS 38. In these situations the operator's return is contingent on usage; the other entity (ie the user) would have the ability to avoid any obligation.

28 Arrangements exist where the operator's return is very low risk, for example the maturity date of the concession contract is not fixed. Instead under the terms of the contract the operator is permitted to collect usage based revenues from users or the government (shadow toll) until it achieves a fixed or determinable return on its investment, at which point the concession comes to an end and the infrastructure is transferred to the government. The risk that the service will not be used is remote. The revenue stream to the operator is secured under a variable term concession contract.

29 In these types of arrangements a contractual right to receive cash does not exist because the government has no obligation to purchase the service until the user (who is not party to the agreement) uses the public service. This arrangement is akin to a variable term licence; the operator would recognise an intangible asset for the fair value of the construction services.

30 The IFRIC included a requirement to bifurcate arrangements in response to a concern raised on the ED. This concern was that, in certain arrangements both parties to the contract share the risk (demand risk) that the cash flows generated by the project will not be sufficient to recover the operator's capital investment. In order to achieve the desired sharing of risk, the parties often agree to arrangements under which the grantor pays the operator for concession services partly in cash and partly by granting a right to charge users for the service.

31 The contractual right to receive cash from the grantor for the concession services and a right to charge users for the concession service would normally

be regarded as two separate assets under IFRSs. Paragraph 3(a) of IAS 38 states that the requirements of that Standard do not apply to financial instruments as defined in IAS 32. Hence, concession assets that are regarded as financial assets, ie those arising when the operator has a contractual right to receive cash for the concession services, must be accounted for using the financial asset model rather than the intangible asset model. In these circumstances it would be necessary to bifurcate the operator's asset of the infrastructure into a financial asset component for any guaranteed amount of cash and an intangible asset for the remainder.

32 In these types of arrangements the government is pushing some of the commercial risk (market or customer risk and operational risk) to the private sector. Market risk is the demand (ability and willingness to pay) risk and credit or payment risk experienced in a particular public sector (eg transportation, water and prisons). In order to achieve the desired sharing of risk, the parties agree to arrangements under which the operator obtains only a limited commitment from the grantor and is obliged to rely on the third party users of the infrastructure in order to secure a commercial return on its investment.

33 Some believe that bifurcation may complicate matters in practice and, furthermore, that the amounts will not be reliably measurable—a requirement for recognition under IFRS.

34 However, staff does not believe that bifurcation will necessarily lead to complication. The identification of the operator's contractual right to receive cash in return for the construction services provided to the grantor can be determined from the contractual terms of the contract signed by the grantor and the operator, ie the terms included in the implementation and purchase agreements. The purchase agreement secures the project's revenue streams and is probably the most important commercial agreement. Generally, the purchase agreement is for the length of the concession (eg 30 years), it defines the interface between the government (often a public body set up for the purpose) and the operator.

35 Because a financial asset is defined as "a contractual right", factors outside the terms of the contact should not normally be considered.

36 Consider a basic example. A build-operate-transfer arrangement in which an entity provides construction services for CU 100

- the entity is to be repaid from the revenue collected over the term of the arrangement, which is 30-years

- any significant residual is transferred to the grantor for no consideration at the end of term.

37 Where the government guarantees the operator's revenue by agreeing to purchase a minimum amount of the service over the life of the contract (take-or-pay contract), these contracts oblige payment by the government whether or not the service is used. Where the guaranteed amount corresponds to the fair value of the construction service, the operator would recognise a financial asset for the full amount, ie CU 100 in this example. This arrangement is consistent with the definition of a financial asset under IAS 32.

38 On the other hand, the operator's revenue may be based on usage, ie government purchases are based on usage (eg shadow tolls) and the government provides no further purchase commitments or guarantees. In these types of arrangements the government does not have the ability (power/regulation lever) to create future economic benefits (cash) that will flow to the entity. Instead the users (who are not party to the contract) create the cash flows that will flow to the entity. The government has no obligation to purchase until the user uses the service, ie turns on the water tap (faucet) or drives over the bridge, albeit that no alternative viable option exists. Arrangements of this type do not meet the definition of a financial asset under IAS 32.

39 Rather, the government has granted the operator a right to charge users for the public service. The operator has an opportunity to generate economic benefits (cash flows) when users use the service. This is a licence arrangement under IAS 38. In the example above the operator would recognise an intangible asset of CU 100. All demand risk is with the operator

40 Arrangements exist where the government guarantees the operator a minimum amount (per annum or over the term of the concession) or a minimum number of users. Such arrangements are designed to limit the operator's downside risk.

Where the contractual right to receive cash from the government is below the fair value of the construction services rendered, say CU 70 in the example above, the operator would recognise a financial asset for CU 70 and the balance of CU 30 as an intangible asset.

41 Where the operator's return is capped at a certain level, say CU 150 in the example immediately above, this would not change the value of the recognition of the financial and/or the intangible. The operator would have an obligation under IAS 37 to repay the government amounts collected above CU 150. The operator would still have a financial asset of CU 70 and an intangible asset of CU 30, representing the future economic benefits that have arisen from the capital expenditure.

The financial asset model (D13)

42 The operator's receivable under the financial asset model represents the present value of the consideration due from the grantor for construction of the infrastructure. It is settled, together with interest accrued, over the course of the concession by payments by the grantor. The resulting income stream from this model is front ended, broadly matching the interest expense on loan finance for the infrastructure.

The intangible asset model (D14)

43 An intangible asset does not give rise to interest income but to gross revenues from users of the infrastructure, from which is deducted amortisation of the intangible. The resulting income stream, pre-interest, is either flat or back ended, since revenues often build up gradually and amortisation is straight-line, unless a case can be made for charging it on the basis of usage. After deduction of front ended interest expense, the initial years tend to show losses, compensated by larger profits at the end.

Revenue recognition

44 One aspect of the proposals that concerned respondents was the effect of the draft requirement in D14 that, over the course of the contract, the revenue recognised by the operator should exceed, by a large margin, the total cash flows from the contract. This is because revenue for the construction activity is recognised over the course of construction and revenue is also recognised as

receipts are collected from users. IFRIC members were themselves disturbed by this effect and explained in some detail in the Basis for Conclusions why they felt compelled by the Standards to reach this conclusion.

Existing requirement and justification

45 Paragraphs 7-8 of D14 stated:

> 7 When the operator provides construction or other services in exchange for the intangible asset, revenue and profit or loss shall be recognised on the exchange.
>
> 8 The revenue and costs relating to the construction or other services shall be recognised and measured in accordance with IASs 11 and 18. In particular, revenue shall be measured at the fair value of the intangible asset received, adjusted by the amount of any cash or cash equivalents transferred. If the fair value of the intangible asset received cannot be measured reliably, revenue shall be measured at the fair value of the services provided by the operator, adjusted by the amount of any cash or cash equivalents transferred.

46 The Basis for Conclusions spelled out the implications of this requirement, in particular that total revenue would not equal total cash flows. The construction activity is seen as generating revenue, the debtor for which is settled by the grantor, not in cash but by transferring to the operator the intangible asset.

47 Paragraphs BC8-BC9 set out an alternative way of viewing the construction activity. The construction costs would be viewed as payments to acquire an intangible asset, costs would be accumulated on the balance sheet in accordance with IAS 38: the construction would not be viewed as a revenue-earning activity. Revenue would be recognised only in respect of the cash received from users for the availability and operation of the infrastructure.

48 In D14, 'the majority of IFRIC members' did not accept the alternative, citing as their reason paragraph 12 of IAS 18 Revenue, which says:

> When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction that generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

49 The effect that revenue is recognised twice in respect of the construction was defended by the IFRIC majority during redeliberation on the grounds that

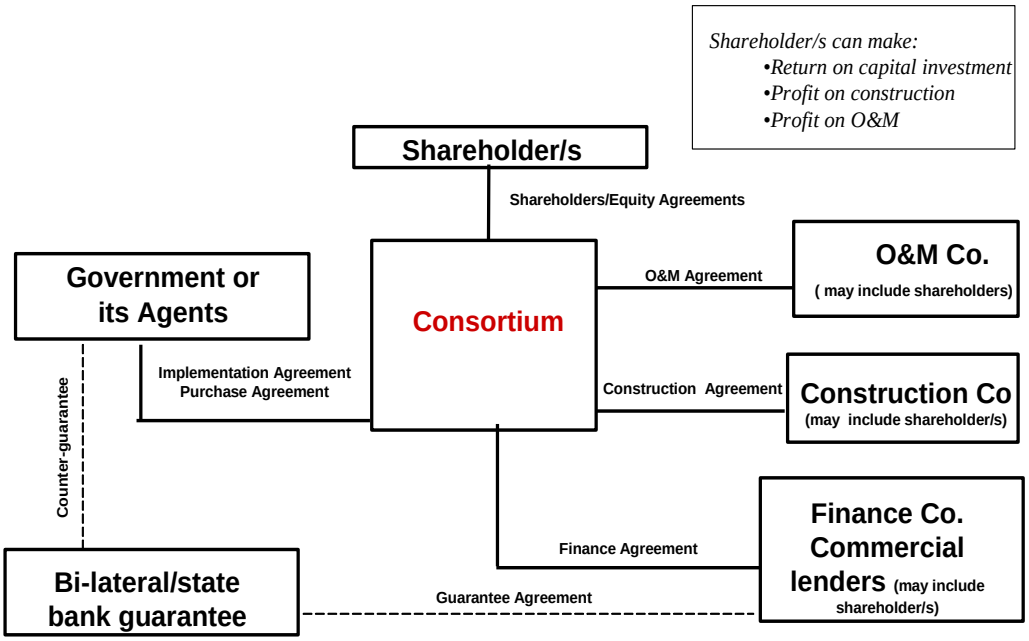
there were two pairs of inflows and outflows not one, ie first, the exchange of construction services for an intangible asset (a barter transaction) and second, the using up of the intangible asset to generate receipts of cash flows from users of the infrastructure. It was argued that a similar effect occurred whenever revenue was recognised from a barter transaction and the asset acquired was used to generate cash revenues.

Next steps

50 The remaining issues from D13 and 14 will be discussed by IFRIC at its July and September meetings, with a view to bringing to the Board for approval a single Interpretation combining the material covered in all three Drafts. It is hoped that this can be issued in the fourth quarter.

Figure 2 - Typical funding and security structure

Service Concession Arrangement Typical Funding and Security Structure



The structure of the arrangement is such that the rights and obligations are allocated between the parties involved and are legally enforceable. In addition the cash flow of the project is ring-fenced for purposes of construction, operation, debt service and return on shareholder/s investment.