

## Appendix B—Additional comment letter received



Wayne Upton  
Chairman  
**IFRS Interpretations Committee**  
30 Cannon Street  
London  
United Kingdom  
EC4M 6XH

October 22, 2014

**Re: Tentative agenda decision - IAS 16 Property, Plant and Equipment: Accounting for proceeds and costs of testing on property, plant and equipment**

Dear Mr Upton,

The International Energy Accounting Forum (“IEAF”) comprises major European companies in the energy business (see the list of our members in appendix 1). The goal of the IEAF is to discuss and formulate best practices, to reduce areas of difference in accounting in the sector, to advocate the energy industry’s point of view, and to make specialist energy industry knowledge available to the International Accounting Standards Board and other standard-setters.

The IEAF welcomes the opportunity to respond to the IFRS Interpretations Committee’s publication in the July IFRIC Update of the tentative decision not to take onto the Committee’s agenda a request for clarification on the accounting for the net proceeds from selling any items produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management.

We agree with the IFRS Interpretations Committee’s decision not to add this item onto its agenda, but not with the reasons set out in the tentative agenda decision as we believe that IAS 16 does not appear so self-evident. A majority of the members of the IEAF have an accounting practice which includes in the carrying amount of the PP&E all the proceeds relating to the testing phase.

In the utility industry, the testing phase could correspond to a power plant which is for the first time connected the grid and tested for use. Proceeds are received from this testing through revenue



generated from the power production. The cost of testing would mainly comprise fuel costs and carbon emission rights costs (if any). In some cases, the cost of testing could be insignificant (note that wind farms and photovoltaic panels have no fuel costs). For a merchant gas-fired or coal-fired power plant, the margin can either be positive or negative depending on the spread<sup>1</sup>.

The testing phase is crucial and the capability to operate the plant (in the manner intended by management) depends on this phase (no testing would result in the entity not obtaining the necessary permit, hence not allowing it to operate the power plant). Furthermore, the testing phase is being performed irrespective of the margin generated, i.e. for a merchant power plant, the decision to perform the testing does not depend on the spread but is a necessary step to get the appropriate authorization to operate.

Even if IAS 16 is built on a cost approach (to us, the cost approach/model is in opposition to the revaluation approach/model, i.e. a cost does not always need to be a debit [cfr government grant]) the testing phase cannot be viewed as a separate component of the PP&E and the final carrying amount of the PP&E should include the testing phase as a whole. In other words, the PP&E as a whole is the unit of account to which the testing phase proceeds relate.

Lastly, considering the outcome of the conceptual framework project, we have difficulty understanding the profit or loss impact from a performance point of view as well as from a matching principle point of view: would it mean that depreciation commences, in order to match sales and costs of sales, while the asset is not yet available for use?

In case you would like to obtain further explanations, please do not hesitate to contact us.

Best regards

On behalf of the IEAF,

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A handwritten signature in blue ink, appearing to be 'JS', is written over the typed name and contact information.

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<sup>1</sup> The spread is often referred to as either clean spark spread (margin of a gas-fired power plant, resulting from the sale of power and the purchase of the gas and CO2 emission rights that are needed to produce the power) or clean dark spread (margin of a coal-fired power plant, resulting from the sale of power and the purchase of the coal and CO2 emission rights that are needed to produce the power)



### **Appendix 1: Members of the International Energy Accounting Forum**

Alpiq	<a href="http://www.Alpiq.de">www.Alpiq.de</a>
Axpo	<a href="http://www.axpo.ch">www.axpo.ch</a>
BG Group	<a href="http://www.bg-group.com">www.bg-group.com</a>
EDF	<a href="http://www.edf.com">www.edf.com</a>
EnBW	<a href="http://www.enbw.com">www.enbw.com</a>
EWE	<a href="http://www.ewe.de">www.ewe.de</a>
Fortum	<a href="http://www.fortum.com">www.fortum.com</a>
Gas Natural	<a href="http://www.gasnatural.com">www.gasnatural.com</a>
Gazprom Marketing & Trading	<a href="http://www.gazprom-mt.com">www.gazprom-mt.com</a>
GDF SUEZ	<a href="http://www.gdfsuez.com">www.gdfsuez.com</a>
Iberdrola	<a href="http://www.iberdrola.es">www.iberdrola.es</a>
OMV	<a href="http://www.omv.com">www.omv.com</a>
RWE	<a href="http://www.rwe.com">www.rwe.com</a>
Scottish Power	<a href="http://www.scottishpower.com">www.scottishpower.com</a>
Unesa	<a href="http://www.unesa.es">www.unesa.es</a>
Vattenfall	<a href="http://www.vattenfall.com">www.vattenfall.com</a>
Verbund	<a href="http://www.verbund.com">www.verbund.com</a>
Veolia	<a href="http://www.veolia.com">www.veolia.com</a>