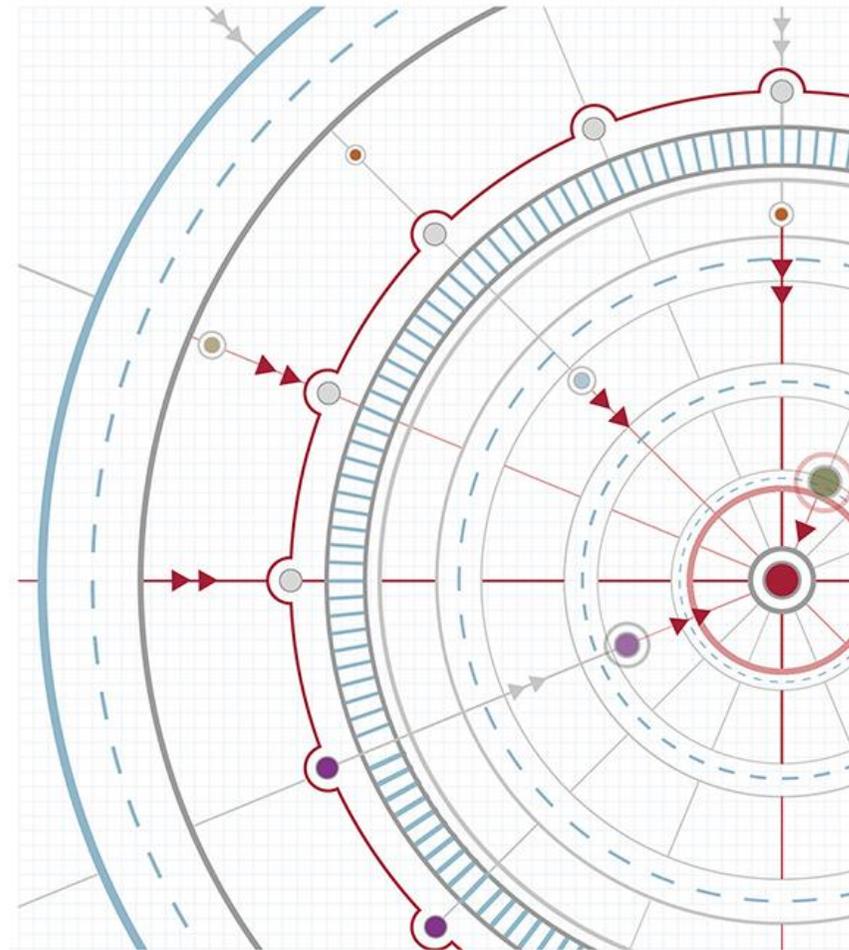


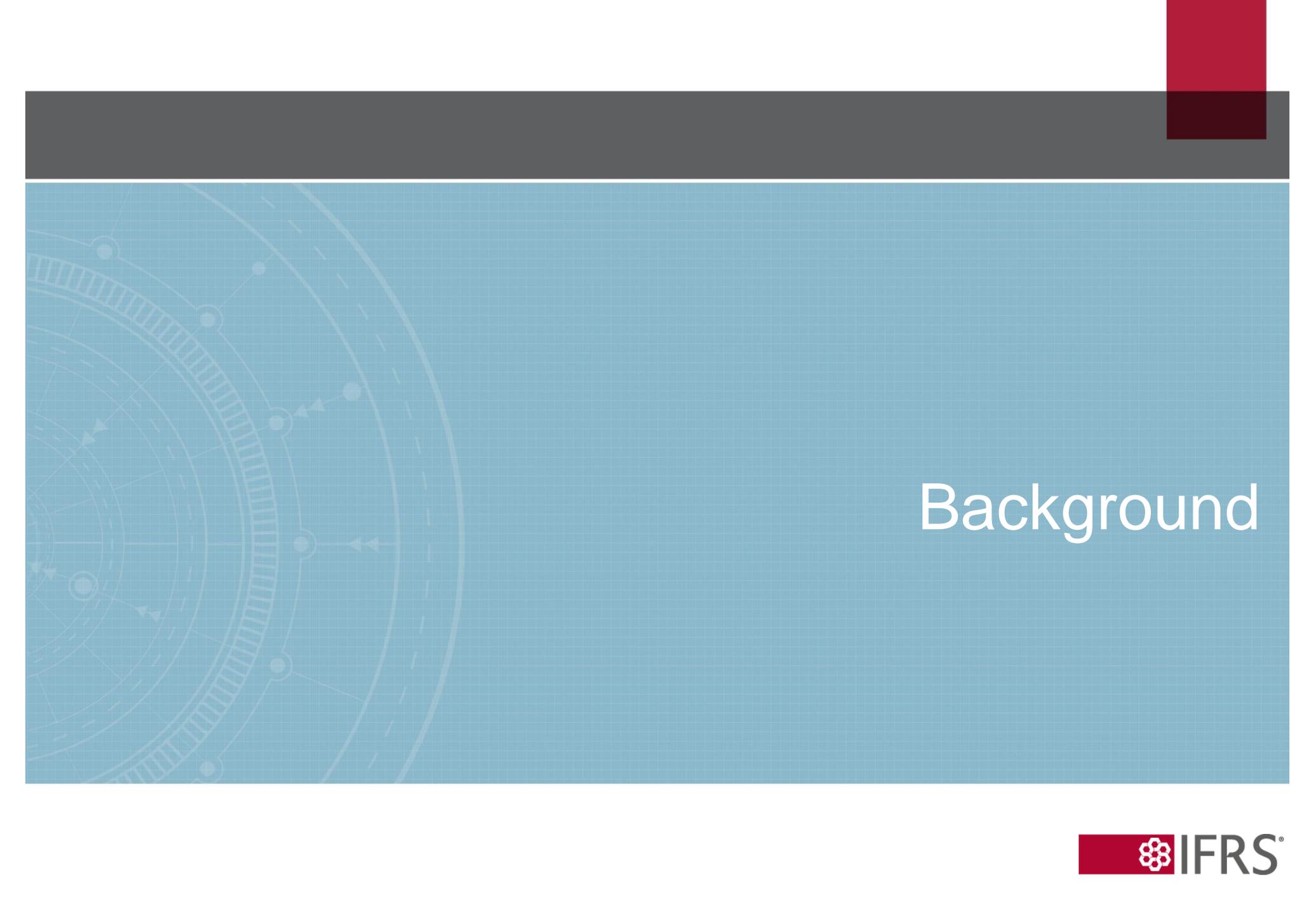
Rate-regulated Activities

Defined rate regulation

EEG meeting
March 2019



The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board or the IFRS Foundation.



Background

Background information— why defined rate regulation exists

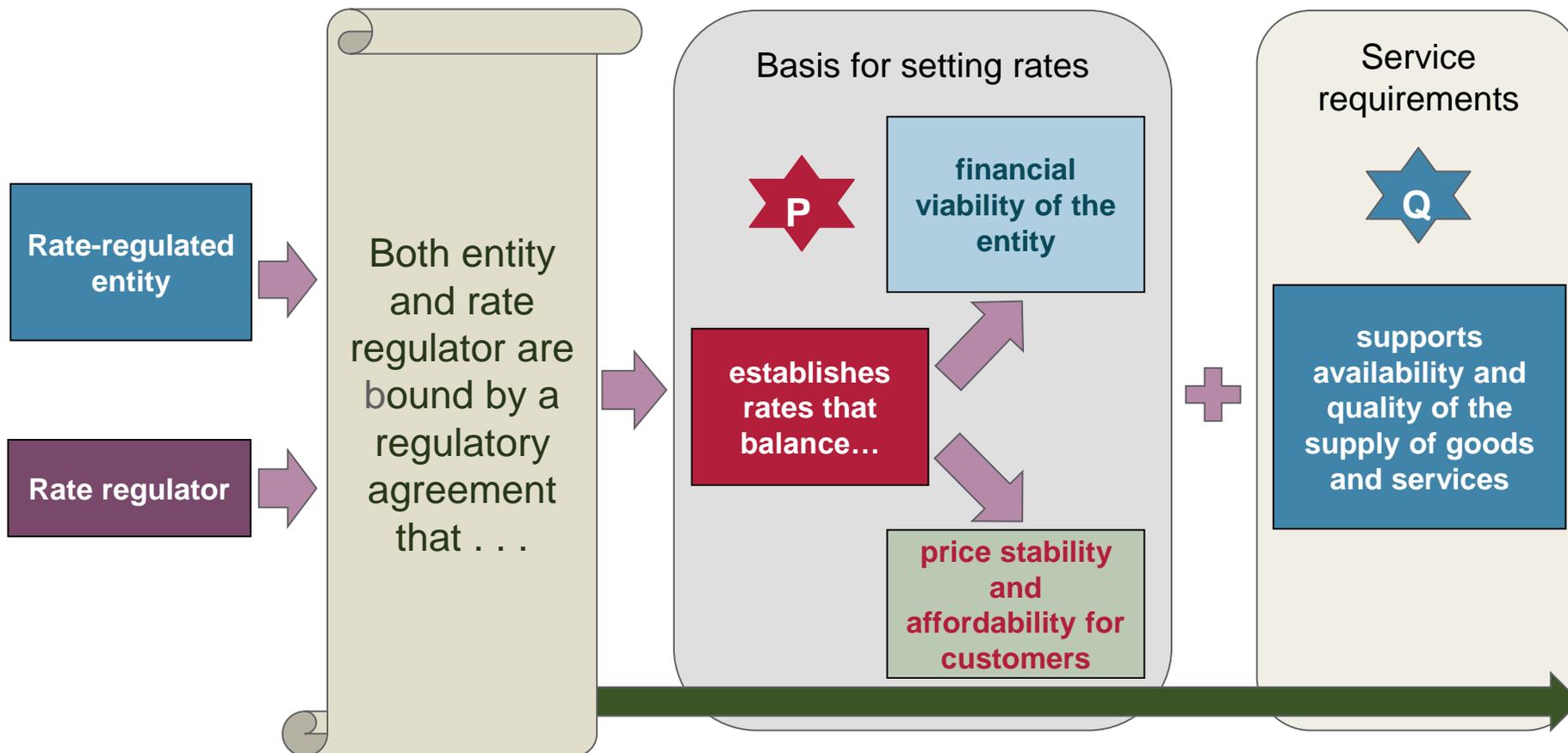
- The **nature of the goods and services** means that limitations in supply and / or poor quality of supply can cause hardship to customers.
- Constraints on constructing and placing infrastructure necessary to deliver goods / services can create barriers to entry into the industry:
 - physical constraints; and / or
 - financial constraints (high fixed costs or high levels of initial investment).
- Obstacles to new entrants can inhibit competition, innovation, efficiency or incentives to invest in necessary infrastructure, reducing incentives to maintain / improve quality and availability of supply.

Background information—objectives of defined rate regulation

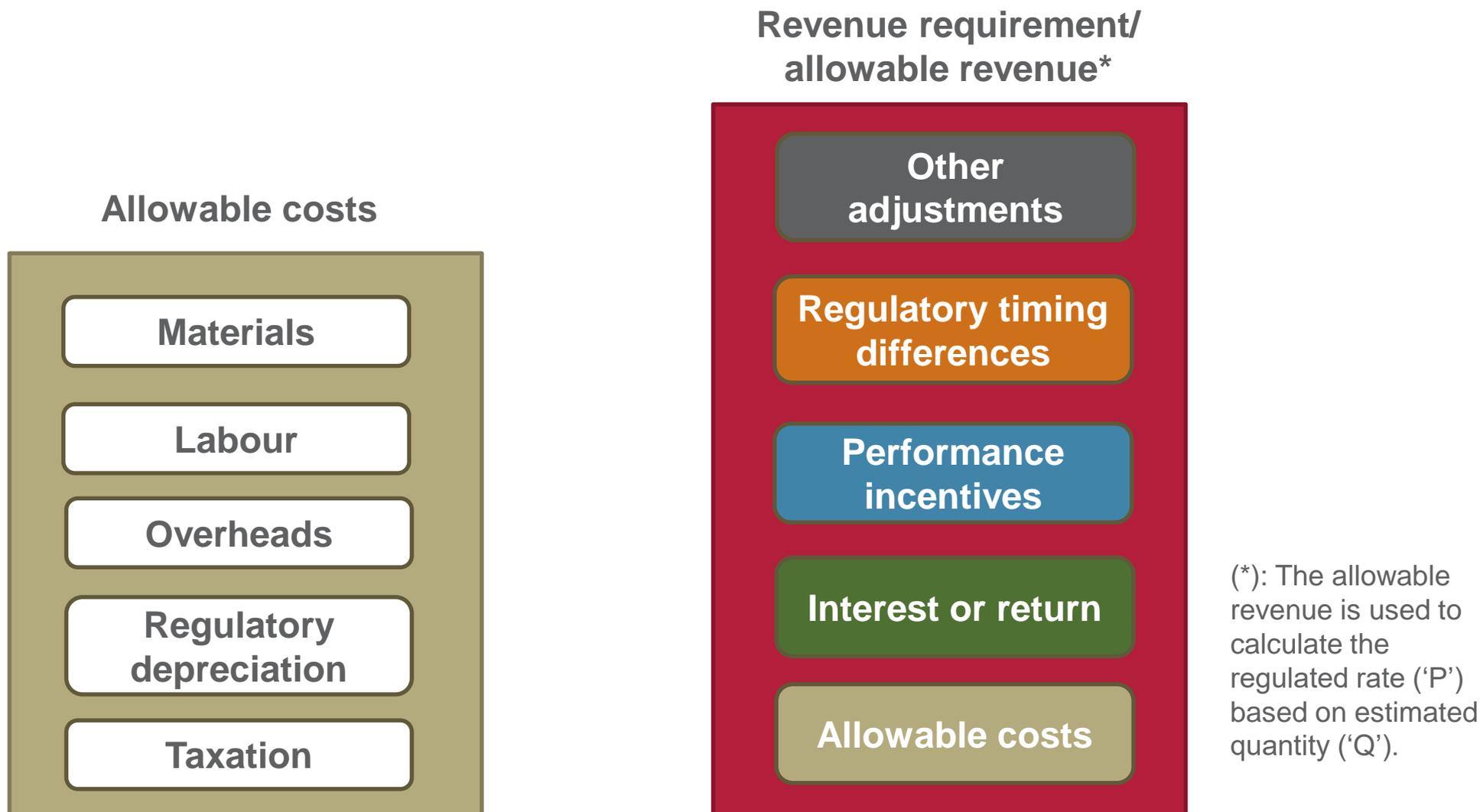
The **nature of the goods and services** is such that the rate regulator has objectives:

- to **protect customers** by ensuring:
 - **quality, quantity and availability of supply** (by establishing service requirements in the regulatory agreement); and
 - **stability and affordability of pricing** (by price controls, ie the basis for setting rates established by the regulatory agreement).
- to **protect the rate-regulated entity** by ensuring the rate established by the regulatory agreement supports the entity's **financial viability** by enabling it to charge customers rates that provide the entity with an adequate amount of compensation in exchange for fulfilling the service requirements established by the regulatory agreement.

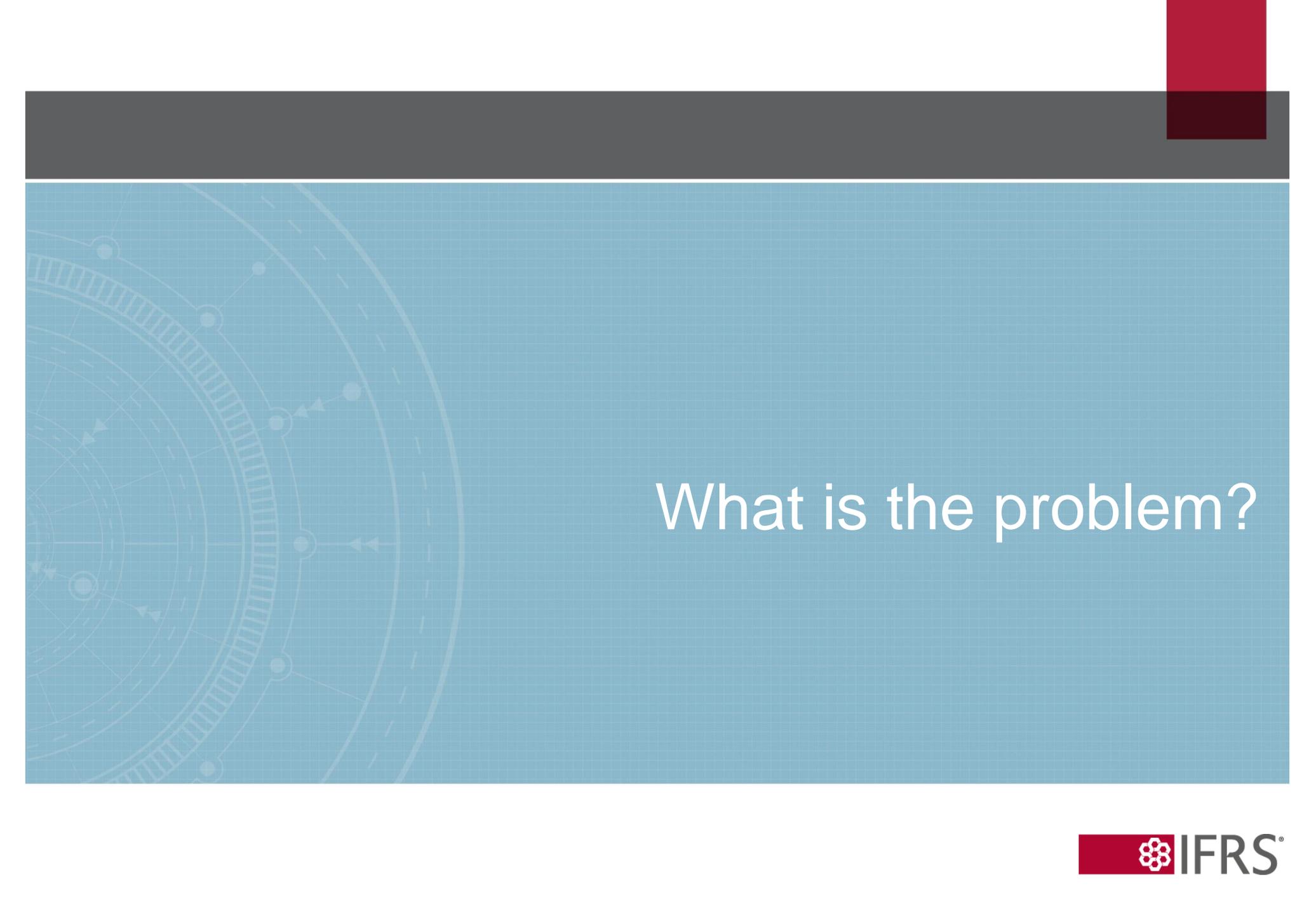
Background information—defined rate regulation



Background information—common features of the regulatory approach for setting the regulated rate



(*): The allowable revenue is used to calculate the regulated rate ('P') based on estimated quantity ('Q').



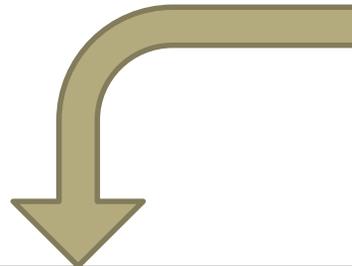
What is the problem?

What is the problem?

A binding regulatory agreement establishes:

The amount an entity charges customers in exchange for carrying out specified rate-regulated activities

WHEN those amounts are charged to customers through the rate



Recognition in statement(s) of financial performance

Timing—expenses (or other income) **recognised** when specified activities are carried out

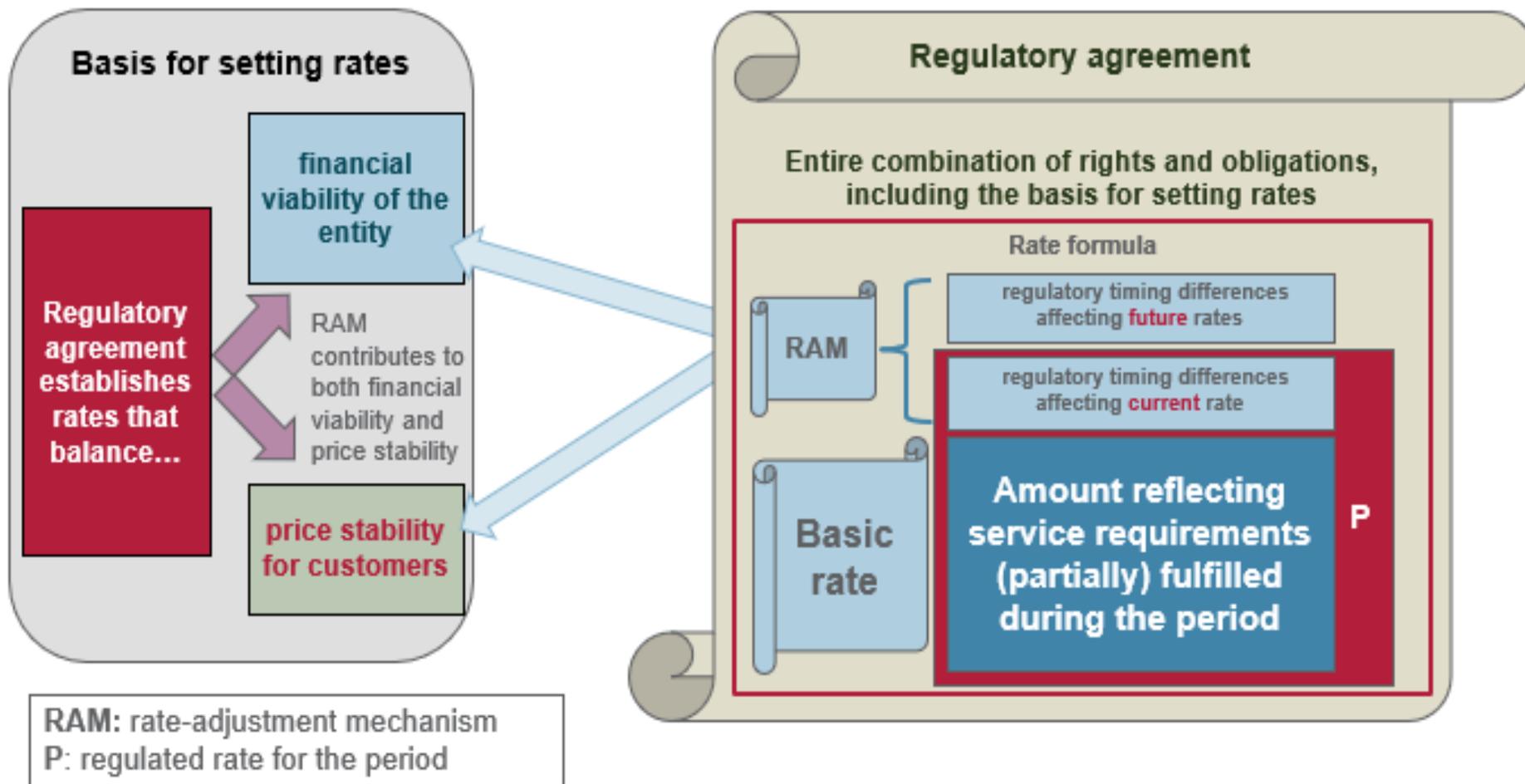
may be



(ie before or after)

Timing—revenue recognised when amounts for those activities are billed

Where does the problem start?— basis for setting the regulated rate (1/2)



Where does the problem start?— basis for setting the regulated rate (2/2)

Regulatory agreement

Entire combination of rights and obligations,
including the basis for setting rates

Rate formula

regulatory timing differences
affecting **future** rates

+/-

regulatory timing differences
affecting **current** rate

+/-

Amount reflecting service
requirements (partially)
fulfilled during the period

P

RAM

Basic
rate

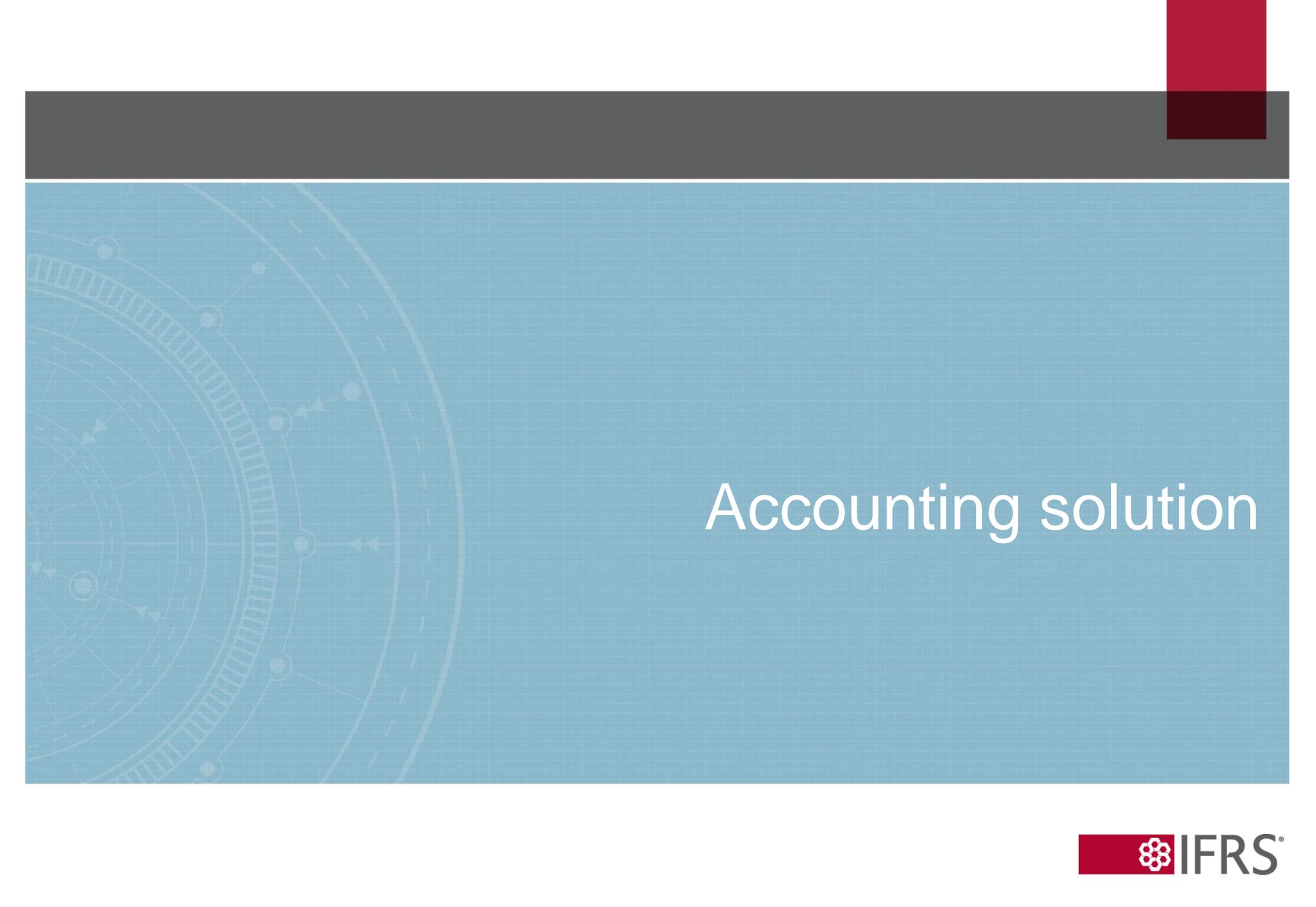
- **Positive adjustments to future rate(s) due to:**
Origination of regulatory assets in the current and/or earlier period(s)
- **Negative adjustments to future rate(s) due to:**
Origination of regulatory liabilities in the current and/or earlier period(s)

- **Positive adjustments to current rate due to:**
Origination of regulatory liabilities in the current period and/or consumption of regulatory assets originated in earlier period(s)
- **Negative adjustments to current rate due to:**
Fulfilment of regulatory liabilities originated in earlier period(s)

How is the problem reflected?—timing mismatch reflected in the financial statements

Timing mismatch between revenue and expenses/other income

Reported financial performance	Reported financial position
<p>Revenue in the current period may include amounts relating to:</p> <ul style="list-style-type: none"> • activities carried out in earlier period(s) • activities to be carried out in future period(s) <p>Revenue in the current period may exclude amounts relating to:</p> <ul style="list-style-type: none"> • activities carried out in the current period 	<p>The statement of financial position does not reflect:</p> <ul style="list-style-type: none"> • consumption of a right to increase future rate(s) originated in previous period(s); • obligation to decrease future rate(s) originated in the current period; • right to increase future rate(s) originated in the current period; and • fulfilment of an obligation to decrease future rate(s) originated in previous period(s)
<p>Expenses or other income are recognised in the period when the activities are carried out</p>	



Accounting solution

Accounting for regulatory timing differences (RTDs)

Activities		Accounting	
Delivery period	Billing period	Statement of financial position	Statement of financial performance
Current period	Future period(s)	Origination of regulatory asset	Regulatory income
	Previous period(s)	Fulfilment of regulatory liability	
Previous period(s)	Current period	Consumption of regulatory asset	Regulatory expense
Future period(s)		Origination of regulatory liability	

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