
Accounting Standards Advisory Forum meeting

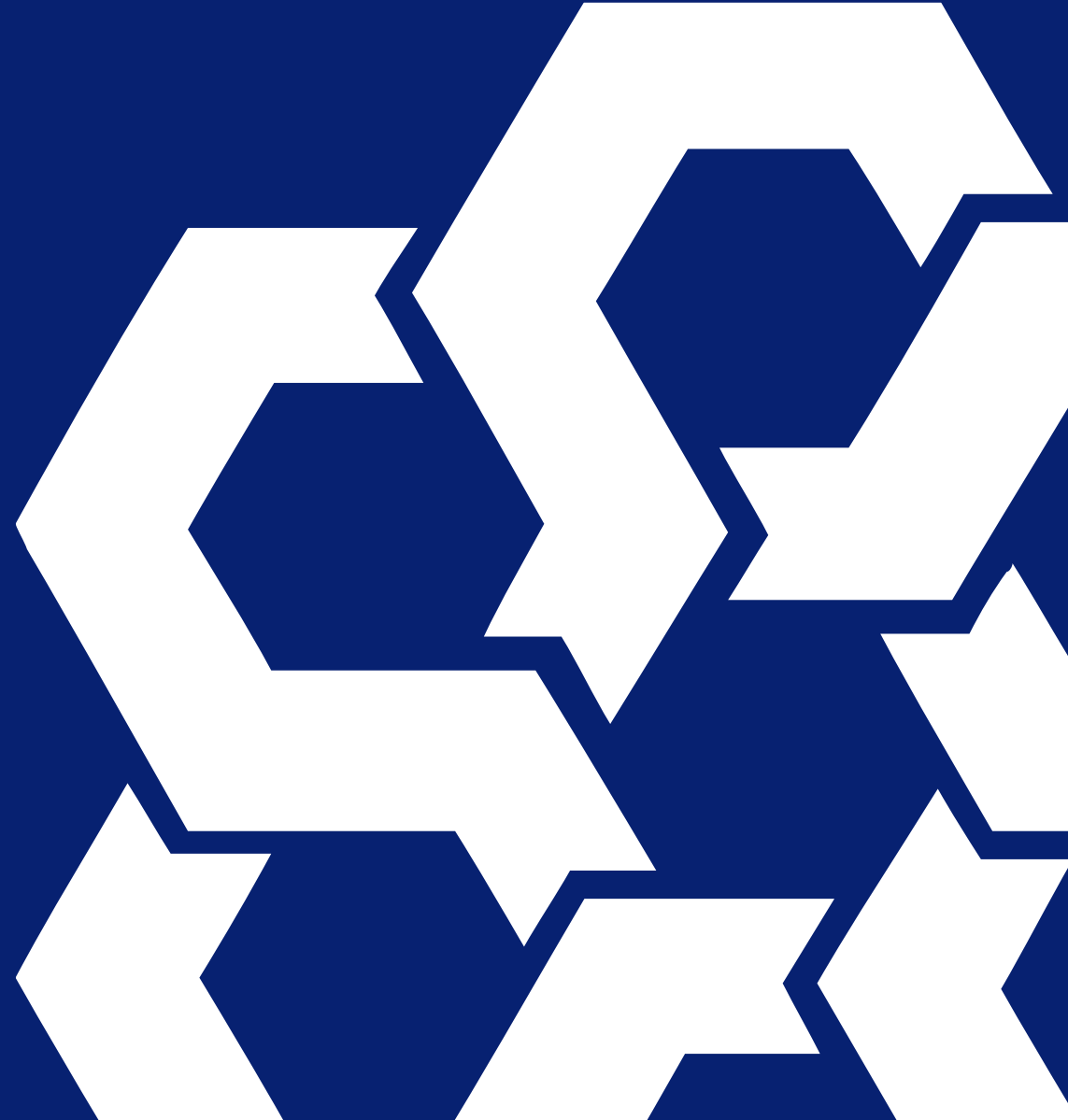
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| Date | September 2023 |
| Project | Power Purchase Agreements |
| Topic | Phase 1—Research |
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Purpose of this session



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Context:

In July 2023, the IASB added a project to its work plan to research whether feasible narrow-scope amendments to IFRS 9 *Financial Instruments* could be made for Power Purchase Agreements (PPAs).

Next milestone:

The IASB will decide about the project direction.

Purpose of this session:

Gathering information from ASAF members about PPAs in your jurisdictions. We will focus on the information that will be relevant to the IASB when deciding about the project direction.

Questions for ASAF members



Questions to ASAF members

In its discussions in July 2023, IASB members raised two questions of concern. Using these questions of concern as a research framework, we ask the following questions to ASAF members:

| Question of concern | Questions to ASAF members |
|---|--|
| <p>A. Prevalence—is accounting for PPAs a widespread problem that/or expected to materially affect financial statements?</p> | <ol style="list-style-type: none"> 1. Are PPAs widespread/common in your jurisdiction and, if yes, what is their nature? 2. What are the expected effects of PPAs on financial statements? To answer this question, please consider: <ol style="list-style-type: none"> i. How do PPAs effect financial statements? ii. If the effects of PPAs are not yet apparent in financial statements, why is this and when are the effects expected to become more apparent? |

Questions to ASAF members (cont'd)

| Question of concern | Questions to ASAF members |
|---|---|
| <p>B. Scope—will it be possible to ringfence a potential solution that don't disrupt current practice for other contracts or transactions?</p> | <p>3. In your view, how should the scope of any potential narrow-scope amendments be determined? For example, the potential amendments could apply to:</p> <ul style="list-style-type: none">i. underlying items with specific characteristics;ii. PPAs; oriii. renewable energy contracts. <p>4. If the scope is determined based on the characteristics of the underlying items, which characteristics do you suggest we use and why?</p> |

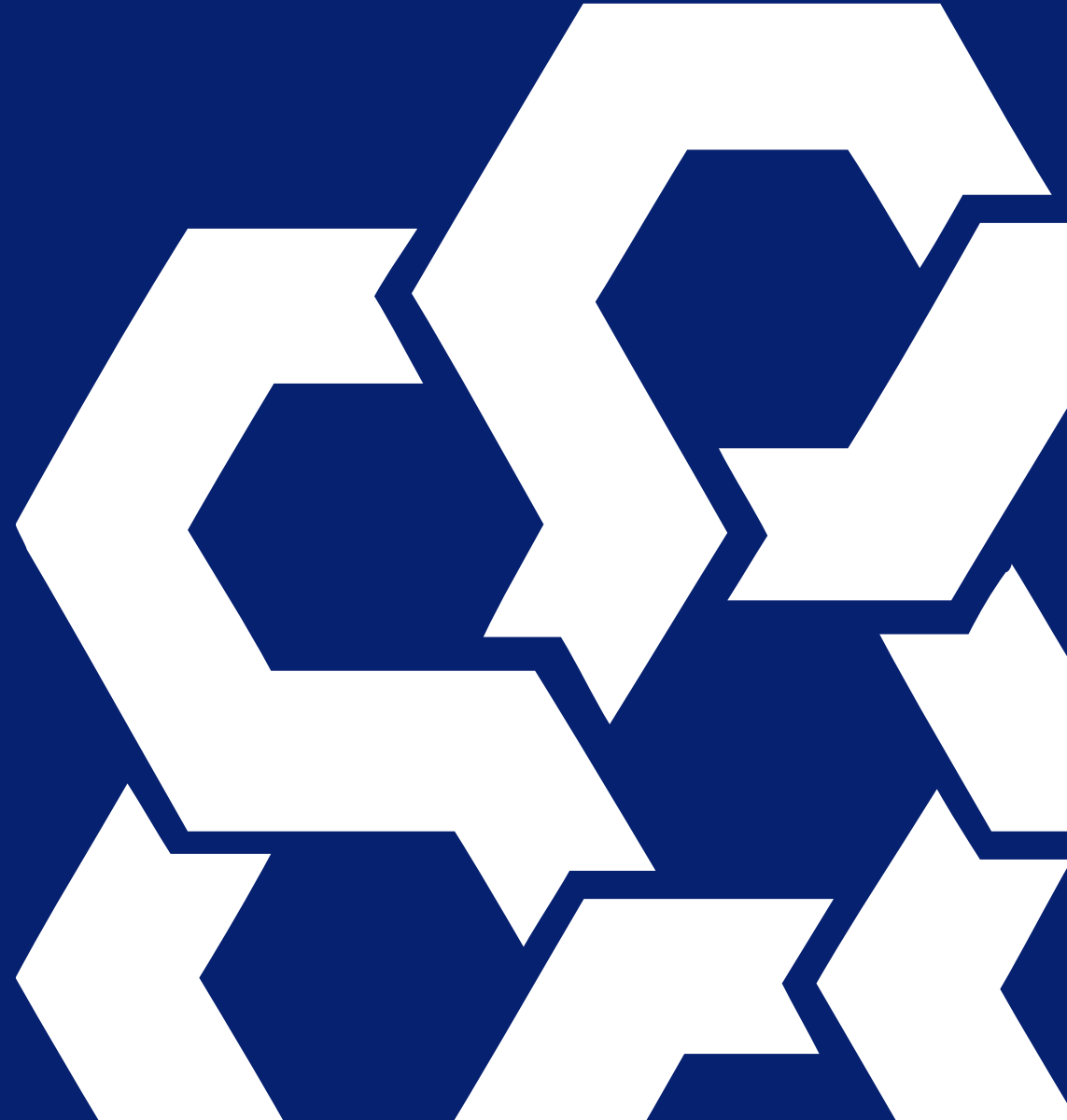
Project history



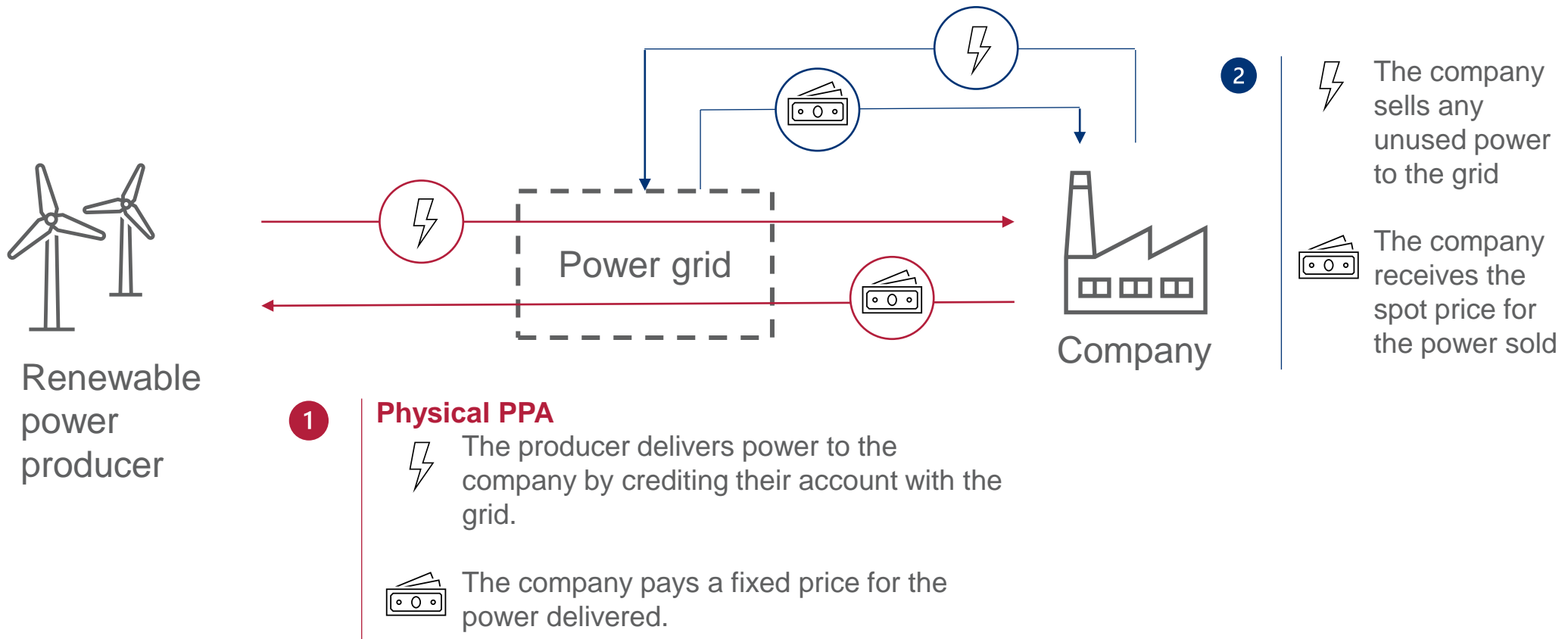
Project history

- **June 2023**—the IFRS Interpretations Committee (Committee) discussed a submission asking about applying paragraph 2.4 of IFRS 9 (the ‘own-use’ exception) to physical-delivery contracts to buy renewable energy (physical PPAs).
 - The Committee recommended the IASB consider undertaking a narrow-scope standard-setting project to clarify how entities apply the own-use exception to some physical PPAs.
- **July 2023**—the IASB tentatively decided to add a project to the work plan to research whether narrow-scope amendments could be made to IFRS 9. The IASB’s research will focus on:
 - applying the own-use exception to physical PPAs; and
 - applying the hedge accounting requirements in IFRS 9 using a virtual PPA as the hedging instrument.

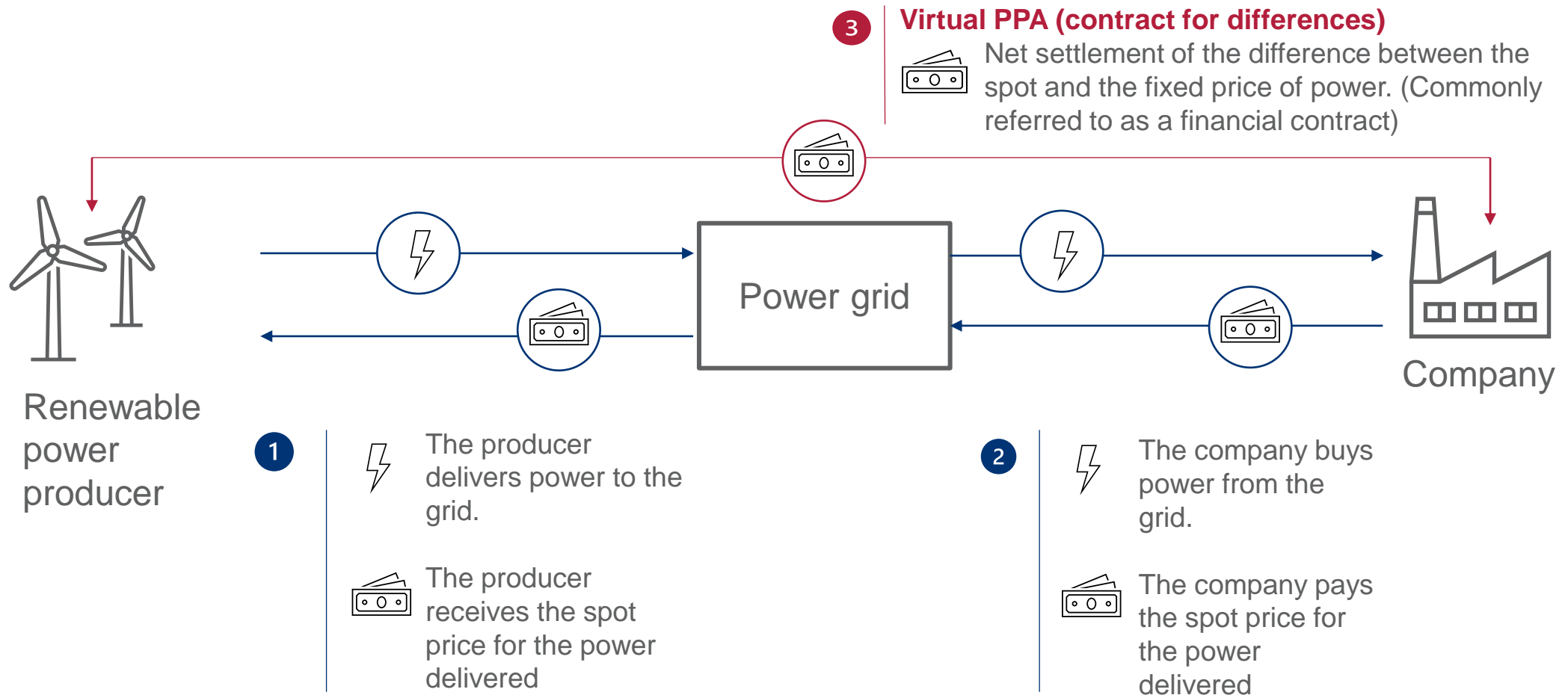
Power purchase agreements: overview



Physical power purchase agreements



Virtual power purchase agreements



3

Virtual PPA (contract for differences)

Net settlement of the difference between the spot and the fixed price of power. (Commonly referred to as a financial contract)

1

The producer delivers power to the grid.

The producer receives the spot price for the power delivered

2

The company buys power from the grid.

The company pays the spot price for the power delivered

Renewable power producer

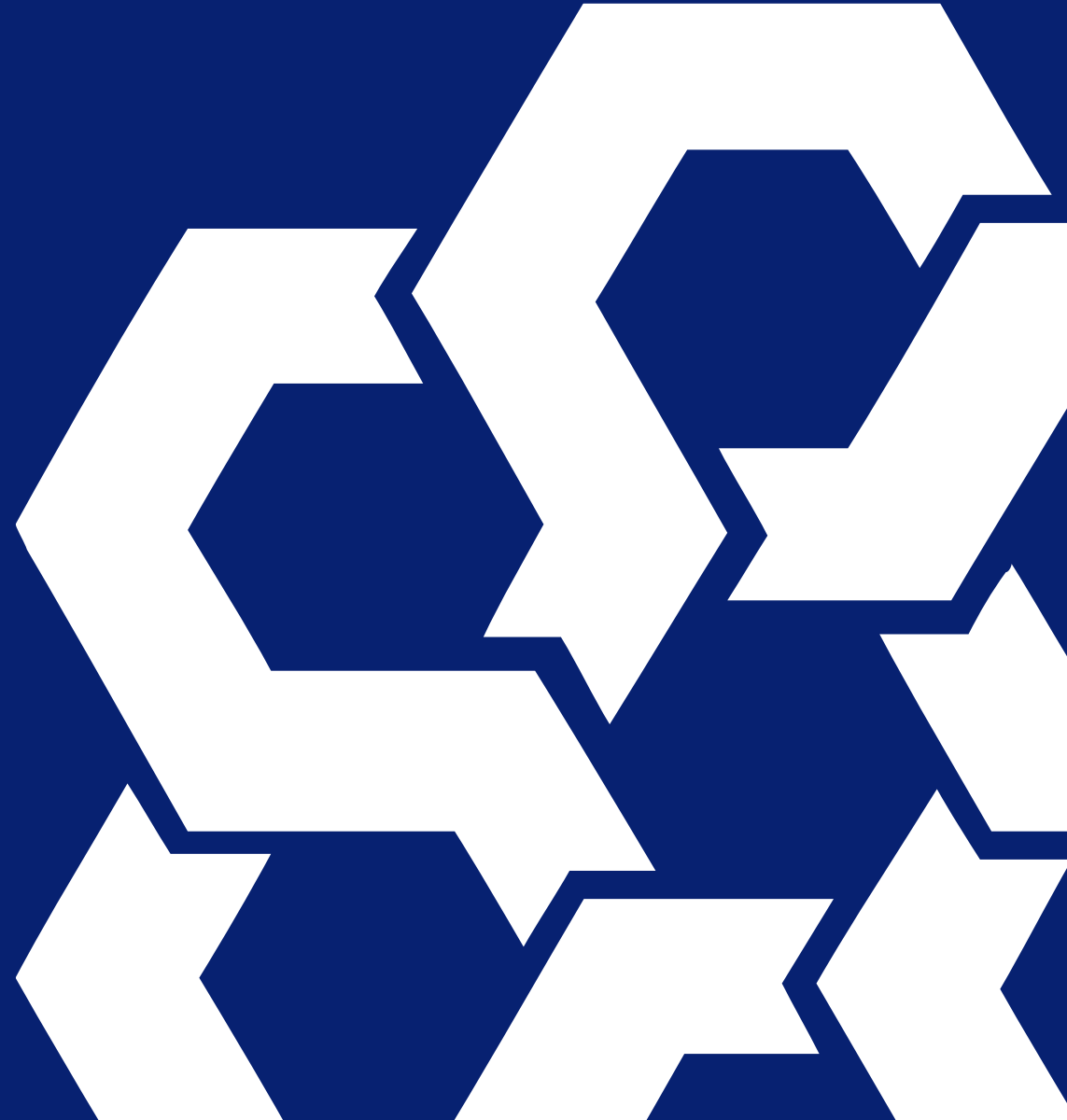
Power grid

Company

Some variations on physical or virtual PPAs

- Short-Term PPAs** These PPAs have a shorter duration compared to long-term agreements. They are often used to provide flexibility and manage energy supply or demand fluctuations in the short term.
- Sleeved PPAs** A sleeved PPA involves an intermediary. The intermediary facilitates the transaction and ensures the delivery of electricity from the renewable energy generator to the company. Sleeved PPAs can be useful when the company has specific requirements or limitations that prevent a direct agreement with the renewable energy generator.
- Offsite PPAs** Agreements in which the renewable energy generator and the company are located in different geographical locations. The electricity generated by the renewable energy generator is fed into the grid, and the company receives financial benefits or RECs (or GOs) based on the agreed-upon terms.

Summary of research findings to date



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- Physical PPAs are common in some jurisdictions, and then particularly prevalent in fuel and power consuming industries.
- Publicly available information regarding PPAs, particularly for renewable energy, indicates a high number of commitment activity or recently contracted long term PPAs as part of a general shift towards greener energy. This demand is expected to increase further over the coming years in line with a number of companies' commitment to be carbon free within a reasonable timeframe.
(See links in the footnote)
- In jurisdictions where physical PPAs are, or are becoming common, accounting for physical PPAs is expected to have a material effect on the financial statements because PPAs are typically long-term contracts (in some cases up to 25 years) which, when combined with price volatility in the renewable energy markets, can result in significant volatility from one period to the next if required to account for such PPAs as a derivative.

