



STAFF PAPER

November 2021

IFRS® Interpretations Committee meeting

Project	Economic Benefits from Use of a Windfarm (IFRS 16)	
Paper topic	Comment letters	
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This paper has been prepared for discussion at a public meeting of the IFRS Interpretations Committee (Committee) and does not represent the views of the International Accounting Standards Board (Board), the Committee or any individual member of the Board or the Committee. Comments on the application of IFRS Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Decisions by the Board are made in public and reported in IASB® *Update*. Decisions by the Committee are made in public and reported in IFRIC® *Update*.

Introduction

1. This paper reproduces comment letters on the IFRS Interpretations Committee's tentative agenda decision 'Economic Benefits from Use of a Windfarm (IFRS 16)' published in June 2021.

July, 27th 2021

Dear members of the International Accounting Standards Board,

We appreciate the opportunity to comment on the *Tentative Agenda Decision and comment letters: Economic Benefits from Use of a Windfarm (IFRS 16)*. We are faculty members of the Department of Financial Economics and Accounting at Universidad Loyola Andalucía (Spain).

We have been studying the IFRS 16 *Leases* for a long time, and we would like to share the following specific comments on the tentative agenda decision:

We agree with the decision not to add a standard-setting project to the work plan. In our opinion, the agreement described does not contain a lease because it does not allow the customer to obtain substantially all of the economic benefits provided by the windfarm. The customer only acquires from the grid the electricity it needs for its consumption and not all the electricity produced by the windfarm. In our opinion, whether the electricity is acquired from the supplier or the grid is not relevant.

If the customer's demand for electricity is less than the produced by the windfarm, we believe there is no obligation to buy any more electricity than the volume needed by the customer. Although the compensation between the spot price and the fixed price established in the swap contract affects the entire production of the windfarm, it does not oblige the customer to purchase all the electricity. Therefore, it cannot be considered that the customer controls the right to use the windfarm because it is not entitled to the substantial economic benefits generated by windfarm.

Proponents of treating this contract as a lease agreement are implicitly recognizing the existence of a variable clause that is fixed in-substance because the customer has to buy the electricity at spot market prices. If this contract was considered to be a lease arrangement, the lease payments would be equal to the volume of electricity purchased by the customer multiplied by the fixed price established in the swap contract. Therefore, the volume of electricity to be purchased would be a variable component.

The question to be elucidated is whether this variable payment is, in substance, fixed. A variable payment clause is fixed in-substance when there is no real variability for providing a faithful representation of the information. In this setting, variability in payments exists and, therefore, the customer does not have control of the windfarm. Additionally, variable clauses measure the uncertainty in the use or performance of the asset rather than the variability in the volume of customer purchases (i.e., the supplier will sell all the electricity produced, but it is uncertain whether the customer will acquire all the electricity produced by the windfarm).

From the supplier's point of view, such an agreement transfers substantially all of the economic benefits of the windfarm. The existence of a liquid market and the swap agreement implies that the economic benefits of the asset have been transferred. In this case, the supplier would classify the contract as a finance lease. This asymmetrical supplier-customer originates in the existence

of a grid that provides liquidity to the supplier without any commitment to the buyer of the electricity.

Please do not hesitate to contact us for any clarification or further information.

Sincerely,

PhD Horacio Molina-Sánchez

PhD Marta de Vicente-Lama

Mar Ortiz-Gómez

Universidad Loyola Andalucía

29 July 2021

Sue Lloyd
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London
United Kingdom

Dear Ms Lloyd

Tentative agenda decision – Economic Benefits from Use of a Windfarm (IFRS 16)

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the June 2021 Update of the tentative decision not to take onto the Committee's agenda the request for clarification on whether, applying paragraph B9(a) of IFRS 16, an electricity retailer (customer) has the right to obtain substantially all the economic benefits from use of a windfarm throughout the term of an agreement with a windfarm electricity generator (supplier).

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda for the reasons set out in the tentative agenda decision.

Additionally, we note that this IFRIC agenda decision covers a similar fact pattern to the one discussed at the August 2005 IFRIC meeting on the meaning of delivery in the context of the scope exemption in IAS 39. At that meeting the IFRIC concluded that a non-deliverable contract (i.e. a contract-for-difference) entered into with a customer to fix the purchase or sales price of electricity could not be synthetically linked with transactions to buy or sell electricity through an intermediary in order to satisfy the IAS 39:5 (now IFRS 9:2.4) scope exemption. In other words, such non-deliverable contracts would be regarded as derivative financial instruments. Similar to the August 2005 IFRIC decision, we do not think that the purchases of electricity through an intermediary can be synthetically linked with the longer term non-deliverable contract (i.e. the contract-for-difference under the power purchase agreement) in order to satisfy the requirements in paragraph B9(a) of IFRS 16.

As the fact pattern discussed in August 2005 is so similar to the facts surrounding this tentative agenda decision, we would suggest that when the IFRIC finalises the tentative agenda decision that a reference be added to the August 2005 agenda decision. It will be useful guidance for preparers to consider both the IFRS 16 and the IFRS 9 requirements when dealing with such transactions.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely

A handwritten signature in black ink, appearing to read 'V. Poole', with a stylized flourish at the end.

Veronica Poole
Global IFRS Leader

International Financial Reporting Standards Interpretations
Committee
IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4HD

4 August 2021

Dear IFRS Interpretations Committee members,

Invitation to comment - Tentative Agenda Decision (TAD): Economic Benefits from Use of a Windfarm (IFRS 16 Leases)

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on the above tentative agenda decision of the IFRS Interpretations Committee (the Committee) published in the June 2021 *IFRIC Update*.

The Committee discussed the question of whether, in applying paragraph B9(a) of IFRS 16, an electricity retailer has the right to obtain substantially all of the economic benefits from the use of a windfarm throughout the term of an agreement with a windfarm generator.

We suggest that, in addition to stating that the contract in the fact pattern does not contain a lease, the Committee clarifies the accounting for the arrangement in order to support consistent application. For example, the final agenda decision could clarify that the arrangement in the Agenda Request is or is in-substance a contract for differences in fixed and spot prices.

We do not have any further comments.

Should you wish to discuss the content of this letter with us, please contact Leo van der Tas at the above address or on +44 (0)20 7951 3152.

Yours faithfully

Ernst + Young Global Limited



12 August 2021

Ms Sue Lloyd
International Accounting Standards Board
Columbus Building
7 Westferry Circus
London
E14 4HD

Dear Ms Lloyd

Tentative Agenda Decision: Economic Benefits from Use of a Windfarm (IFRS 16 Leases)

Origin is a leading energy company that operates within Australia and an active participant as both a retailer and generator within the National Electricity Market (NEM) in Australia.

Origin welcomes the opportunity to comment on the IFRS Interpretations Committee (Committee) tentative agenda decision Economic Benefits from Use of a Windfarm (IFRS 16 Leases). While we appreciate the Committee's views and discussion as part of the tentative agenda decision, we respectfully disagree and keen to provide a perspective from a market participant.

The NEM itself is a gross pool electricity market and operated by the Australian Energy Market Operator (AEMO). AEMO plays a significant operational role which includes balancing market supply and demand, governance frameworks and planning for future developments. Their most relevant function for this topic is they are the responsible agent for market settlement and manage credit risk between the various participants.

While we appreciate the Committee's comments on clarifying the wording of the tentative agenda decision to not specifically reference the market as a 'gross pool electricity market', we believe this is still relevant in the context of discussion as the Committee's decision was largely on the contract not being physically delivered and settled net cash. In our opinion, this is much more a function from the design of the market and the subsequent form of the contract in the fact pattern, as opposed to having any bearing on whether the customer has obtained substantially all of the economic benefits. The rights and obligations for the buyer

under a PPA in a gross pool electricity market and net pool electricity market are economically the same other than as affected by market construct. If PPAs entered into in a gross pool electricity market do not transfer substantially all the economic benefits due to the market design of the market operator acting as an agent, the same conclusion should apply in a net pool electricity market given the transaction is economically the same, fundamentally affecting the accounting conclusions of companies in those jurisdictions.

The Committee noted ‘That agreement, however, gives rise to neither the right nor the obligation for the customer to obtain any of the electricity the windfarm produces and supplies to the grid.’ We believe this is because the transaction is being considered based on the market design as opposed to the substance of the agreement. As the agreement does create an obligation for the customer to pay a fixed rate for all electricity produced by the windfarm and the right to the market cash flows from the electricity generated. We believe this meets the definition under IFRS 16:B21, while the customer does not receive physical delivery of the electricity, it does indirectly benefit from all of the market cash flows of the electricity. By paying a fixed rate per megawatt to the supplier, the customer has exclusive rights to benefit from all outputs from the asset, through the cash flows generated from electricity delivered to the pool and the by-product of renewable energy credits physically delivered from the windfarm (as described in this fact pattern).

Additionally, it is noted that the reference to the non-deliverable contract discussions in 2005 was in relation to whether contracts were in the scope of IAS 39 to be accounted for as derivatives, or if they could meet the own use exemption if delivery was via an intermediary. This discussion is not relevant in the analysis of IFRS 16 relating to whether a buyer takes substantially all the economic benefits, which does not require physical delivery. The reference to ‘economic benefits’ is not specific that this requires ‘physical delivery’, and as the customer in a PPA as described in the fact pattern receive all the economic benefits of the windfarm, this is considered to meet the requirements of IFRS 16.B21, which confirms that a customer can receive economic benefits indirectly.

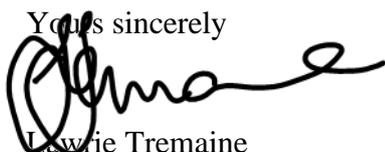
While not specifically mentioned in the Committee’s decision, we think it’s important to address that the submission likened the PPA to a fixed price electricity swap based on the retailer’s need to purchase electricity from a market operator in a gross pool environment. Stating that economically the retailer would be in the same economic position if it had entered into a fixed price swap. This is not true in an electricity market that sets prices in 30-minute intervals, as the revenue received from the windfarm would only be for the time during the day the windfarm is generating and while windfarms are designed to maximise production, there is still significant variability in volumes throughout each day. While an electricity swap is typically based on an average of the day’s price intervals based on a predetermined electricity volume. Due to the level of non-firm generation across most electricity markets there is a significant difference between prices settled under these arrangements. Not only does this highlight that the PPA contract should be considered in isolation and separated from any theoretical purchase position, but the contract also transfers the price exposure to the customer. This is important as the economic price exposure that is transferred to the customer is significant, as pool prices within the Australian NEM have the ability to and do regularly fluctuate between \$15,000/MWh to -\$1,000/MWh depending on the timing of supply and demand.

While the submission seeks to clarify treatment in a gross pool electricity market, it does not consider the different ways PPAs can be structured. In the fact pattern described the agreement is net settled between the supplier and customer, as the market operator would pay

the supplier the gross revenue earned from the electricity generated and the supplier and retailer would settle the difference between the fixed cost and pool price at the time of generation. Another way this can be undertaken within a gross pool market, is that the retailer can be designated as the market clearing participant and receive the gross revenue from the market operator and then pay a fixed charge separately to the supplier. While the design of the market does not typically allow for physical delivery, it would mean the fact pattern is no longer on a net cash settlement basis and may continue to lead to diverse views and treatments, within the same market design and the same PPA.

We appreciate the Committee considering our perspective on this matter and please contact myself if you wish to discuss any of the contents of this letter with us.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Lawrie Tremaine', written over the typed name.

Lawrie Tremaine
Chief Financial Officer

Buenos Aires, Argentina, August 10, 2021

**IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD - United Kingdom**

REF: IFRS IC Tentative Agenda Decisions reached in the June 8 and 9, 2021 meeting

Dear Board Members,

The “Group of Latin American Accounting Standards Setters”¹ (GLASS) appreciates the opportunity to comment on the Tentative Agenda Decisions (TAD) reached by the IFRS IC during its meeting on June 8 and 9, 2021, which included the following topic:

- **Economic Benefits from Use of a Windfarm (IFRS 16)**

This response summarizes the points of view of the members of the different countries that comprise GLASS, pursuant to the following due process.

Due process

The discussions regarding the Tentative Agenda Decisions of IFRS IC were held within a specified Permanent Technical Commission (PTC) created in December 2020. All GLASS country-members had the opportunity to appoint at least one member to participate in this PTC. Each standard setter represented in GLASS has undertaken different tasks in their respective countries (e.g., surveys, internal working groups). All results were summarized, and this summary was the platform for GLASS discussion process.

GLASS discussed the different points of view included in the summary through emails exchange between its members. In those emails GLASS developed a final document on the basis of the consensual responses and the technical points of view of its members. Finally, the GLASS document was submitted to and approved by the GLASS Board.

Comments:

Economic Benefits from Use of a Windfarm (IFRS 16)

GLASS agrees that in the situation described, the client does not have the right to obtain substantially all the economic benefits from the use of the wind farm and consequently the contract does not contain a lease.

It also agrees that it is not necessary for the topic to be included as an agenda item for the IASB and that it is appropriate for a response to be made explicit through the Agenda Decision procedure about the reasoning to be used and therefore the application of an adequate accounting treatment for the subject.

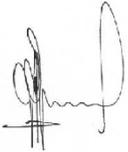
It is also agreed that IFRS provide the appropriate bases to interpret whether the customer that enters into a contract such as the one described in the requirement participates in a lease.

¹ The overall objective of the Group of Latin American Accounting Standard Setters (GLASS) is to present technical contributions with respect to all Exposure Drafts issued by the IASB. Therefore, GLASS aims to have a single regional voice before the IASB. GLASS is constituted by: Argentina (Chairman), Bolivia, Brazil (Board), Chile (Board), Colombia (Board), Costa Rica (Board), Ecuador, Guatemala, Honduras, Mexico (Vice Chairman), Panama, Paraguay, Peru (Board), Dominican Republic, Uruguay (Board) and Venezuela (Board).

Contact

If you have any questions about our comments, please contact glenif@glenif.org.

Sincerely yours,



Jorge José Gil

Chairman

Group of Latin American Accounting Standard Setters (GLASS)



August 13, 2021

International Accounting Standards Board
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Committee Members:

Consejo Mexicano de Normas de Información Financiera (CINIF), the accounting standard setting body in Mexico, welcomes the opportunity to submit its comments on the Tentative Agenda Decision of the IFRS Interpretations Committee (the Committee) on *Economic Benefits from Use of a Windfarm* (the TAD), published at its meeting in June 2021. Set forth below you will find our comments on the conclusions reached in the TAD.

Overall comments

We agree with the conclusions reached by the Committee in the TAD, both with respect to the technical conclusions and the decision not to add a standard-setting project to the work plan of the IASB.

Specific comments

We inquired within our local Transition Group for the new lease accounting standard, and the responses received unanimously support the TAD.

In the fact pattern described in the request, the customer does not have the right to obtain substantially all the economic benefits from use of the windfarm. Consequently, the contract does not contain a lease. We agree that existing standards are sufficient to sustain the Agenda Decision.

Should you require additional information on our comments listed above, please contact William A. Biese at (52) 55-5433-3070 or me at (52) 55-5403-8309 or by e-mail at wbiese@cinif.org.mx or egarcia@cinif.org.mx, respectively.

Sincerely,

C.P.C. Elsa Beatriz García Bojorges
President of the Mexican Financial Reporting Standards Board
Consejo Mexicano de Normas de Información Financiera (CINIF)

Cc: Mr. Tadeu Cendon

August 15, 2021

IFRS Foundation
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

SOCPA Comments on Tentative Agenda Decision: Economic Benefits from Use of a Windfarm (IFRS 16)

Dear Colleagues,

The Saudi Organization for Certified Public Accountants (SOCPA) appreciates the efforts of the IFRS Interpretations Committee (Committee) and welcomes the opportunity to comment on the *Tentative Agenda Decision: Economic Benefits from Use of a Windfarm (IFRS 16)*.

We concur with the Committee's conclusion that the principles and requirements in IFRS Standards provide an adequate basis for a customer that enters into an agreement as described in the request to determine whether it has the right to obtain substantially all the economic benefits from use of an identified asset. The fact pattern described in the tentative agenda decision clearly indicates that the contract gives rise to a derivative financial instrument. The contract has nothing to do with the controlling of a physical asset and it does not contain a lease.

Please feel free to contact Dr. Abdulrahman Alrazeen at (razeena@socpa.org.sa) for any clarification or further information.

Sincerely,



Dr. Ahmad Almeghames

Chief Executive Officer

16 August 2021

Ms. Sue Lloyd
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Ms. Lloyd,

IFRS Interpretations Committee Tentative Agenda Decisions

The Malaysian Accounting Standards Board (MASB) welcomes the opportunity to provide comments on the following Tentative Agenda Decisions:

- (a) TLTRO III Transactions (IFRS 9 *Financial Instruments* and IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*)
- (b) Economic Benefits from Use of a Windfarm (IFRS 16 *Leases*)

We agree with the Interpretations Committee's reasons set out in the respective Tentative Agenda Decisions for not adding these items onto to the work plan.

If you need further clarification, please contact the undersigned by email at beeleng@masb.org.my or at +603 2273 3100.

Thank you.

Yours sincerely,



TAN BEE LENG
Executive Director



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organizaç o Internacional das Comiss es de Valores
Organizaci n Internacional de Comisiones de Valores
المنظمة الدولية لهيئات الأوراق المالية

16 August 2021

Ms. Sue Lloyd
Chair of the IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Our REF: 2021/O/C1/IFRIC/MS/55

RE: Tentative Agenda Decision – Economic Benefits from Use of a Windfarm (IFRS 16)

Dear Ms. Lloyd,

The International Organization of Securities Commissions (IOSCO) Committee on Issuer Accounting, Auditing and Disclosure (Committee 1) thanks you for the opportunity to provide our comments on the IFRS Interpretations Committee (IFRS IC) tentative agenda decision, *Economic Benefits from Use of a Windfarm* (TAD).

IOSCO is committed to promoting the integrity of the international markets through promotion of high quality accounting standards, including rigorous application and enforcement. Members of Committee 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect the general consensus among the members of Committee 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

We appreciate the IFRS IC addressing this topic to support preparers in their application of International Financial Reporting Standard (IFRS) 16, *Leases* (IFRS 16) to the fact pattern submitted. However, we worry that any final agenda decision that is limited to just the specific question raised in the submission could give readers a misimpression of the steps needed in a more complete accounting analysis. Absent such an analysis, we worry that the narrowness of the agenda decision could lead to more diversity in practice in light of the remaining unanswered questions surrounding this fact pattern. Therefore, we believe a final agenda decision should highlight to readers additional questions that the electricity retailer would have to consider both before and after answering this specific question that will be important when accounting for the transaction.



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Organización Internacional de Comisiones de Valores
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First, we note that the electricity retailer would be required to perform an analysis of whether it is required to consolidate the windfarm in accordance with IFRS 10, *Consolidated Financial Statements*. In particular we note that the fact pattern states that the retailer was involved in the determination of the purpose and design of the windfarm and the windfarm's activities are largely, if not completely, predetermined. Additionally, we note that the contract between the retailer and the windfarm gives the retailer exposure to variability in returns. We note this analysis is relevant when the retailer prepares consolidated financial statements, because if the retailer is required to consolidate the windfarm that would obviate the question of whether a lease exists with respect to the retailer's consolidated financial statements.

Next (assuming the retailer does not consolidate the windfarm or for purposes of preparing separate financial statements), we believe a final agenda decision should address both criteria in paragraph B9 of IFRS 16. Most members agree with the analysis and conclusion reached in the TAD that criterion B9(a) would not be met, while one member believes that criterion would be met based on an evaluation of the substance of the whole arrangement, which is only necessary because the retailer and windfarm must buy and sell electricity from and to an intermediary. Further, we believe an opportunity exists to assist readers in making the determination required by subparagraph B9(b). Specifically, we believe reference could be made to the January 2020 final agenda decision, *Definition of a Lease—Decision-making Rights*, which discussed an analysis of that criterion when many, but not all, decisions about how and for what purpose an asset is used are predetermined.

Finally, we note that upon concluding that the retailer is not required to consolidate the windfarm (or is preparing separate financial statements) nor that the contract contains a lease (including an explanation as to the application of both criteria in paragraph B9 of IFRS 16), any final agenda decision should provide considerations for the potential accounting for the contract. Specifically, the electricity retailer would need to consider whether it would be required to account for the contract as a derivative (including application of exemptions to derivative accounting) and potentially as a cash flow hedge in accordance with IFRS 9, *Financial Instruments*, and if not what accounting guidance would apply. Further, the retailer would need to consider how to account for the renewable energy credits received. Absent a more holistic analysis by the IFRS IC, we worry that there will be diversity in practice since an answer to whether IFRS 16.9B(a) applies is only one of the many accounting conclusions that are needed to determine the appropriate accounting for the arrangement.



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We appreciate your thoughtful consideration of the views provided in this letter.

If you have any questions or need additional information, please do not hesitate to contact Cameron McInnis, Chair of the Accounting Subcommittee of Committee 1 at +1 416-593-3675 or myself. In case of any written communication, please mark a copy to me.

Yours sincerely,

Makoto Sonoda
Chair
Committee on Issuer, Accounting, Audit and Disclosure
International Organization of Securities Commissions

Date: August 16, 2021

Ms Sue Lloyd,
Chair, IFRS Interpretations Committee,
IFRS Foundation
Columbus Building,
7 Westferry Circus,
Canary Wharf, London E14 4HD,
United Kingdom

Dear Ms Sue,

Subject: Comments of the Institute of Chartered Accountants of India (the ICAI) on Tentative Agenda Decision (TAD) issued by IFRS Interpretations Committee (IFRS IC) on Economic Benefits from Use of a Windfarm (IFRS 16)

The Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (the ICAI) welcomes the opportunity to comment on above referred Tentative Agenda Decision of IFRS Interpretations Committee.

We agree with the conclusions in TAD that applying paragraph B9(a) of IFRS 16, in the fact pattern, the contract does not contain a lease since electricity retailer (customer) does not have the right to obtain substantially all the economic benefits from use of a windfarm throughout the term of an agreement with a windfarm electricity generator (supplier).

With kind regards,

CA. Parminder Kaur
Secretary
Accounting Standards Board
Institute of Chartered Accountants of India

PO Box 1411
Beenleigh QLD 4207
16 August 2021

Ms Sue Lloyd
Chair IFRS Interpretations Committee
International Accounting Standards Board
Columbus Building, 7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Online submission: <https://www.ifrs.org/projects/work-plan/economic-benefits-from-use-of-a-windfarm-ifrs-16/>

Dear Sue

Tentative agenda decision - Economic Benefits from Use of a Windfarm (IFRS 16)

I am pleased to make this submission on the above Tentative Agenda Decision (TAD) relating to Economic Benefits from Use of a Windfarm (IFRS 16).

I have extensive experience in accounting advice on International Financial Reporting Standards across a wide range of clients, industries and issues in the for-profit, not-for-profit, private and public sectors.

My clients have included listed companies, unlisted and private companies, charitable and not-for-profit organisations, federal, state and local government departments and agencies in the public sector, and government owned corporations (government business enterprises). I also have some commercial, standard setting and academic experience.

Overall

Before the TAD is issued, the Committee needs to adequately explain what it means by “obtain any of the electricity the windfarm produces and supplies to the grid.” At present, the TAD is unclear as to whether an entity with some sort of purchase obligation using an intermediary grid is within the scope of the TAD or not.

The IFRS 16 Illustrative Examples (Example 9—Contract for energy/power) referred to in the staff paper appear to be based on the substance of the arrangement being the delivery of electricity from the supplier through a grid, even if the source of the electricity cannot be identified. This is because, with electricity being a fungible item, the only way that you can know that the actual electricity generated is supplied to the customer is through physical, and exclusive, transmission lines. There are no such physical restrictions in the illustrative examples, and so it seems that purchases from the electricity grid system matching supplies into the electricity grid system would be seen as purchase and supply.

While the facts in the illustrative examples refer to the inability of the supplier to substitute another electricity plant, this is common in power purchase arrangements and is often linked

to the need for the customer purchasing the electricity, or at least purchasing the renewable energy credits, to be able to claim that their power supply has come from renewable sources, and often from identified sources like specific wind farms. The lack of inability to change the electricity generator / supply plant appears to be within the agreement and not a physical limitation like building a transmission line to another electricity plant.

The need to deal with purchases and supply of a fungible item through an intermediary (like the electricity grid) is also relevant for natural gas that must often travel through a shared gas pipeline to go from the gas wells to the gas user / purchaser.

The illustrative examples may also need to be updated for developments in the electricity market. Example 9A states “There are no decisions to be made about whether, when or how much electricity will be produced because the design of the asset has predetermined those decisions.” This may have an underlying assumption that whatever is produced is fed into the grid. In Australia, we are finding that negative electricity prices are becoming more common^{1,2}. Newer arrangements may include some decision making as to when generated electricity is sold into the market to avoid large exposures by the purchaser, even if the supplier does not care with the effective fixed price sales.

Editorial – I suggest the references to ‘right’ be reviewed to determine if they should be changed to ‘right nor the obligation’ to be consistent with the reasoning for the obligation to make purchases from the grid.

Yours sincerely,

David Hardidge

<https://www.linkedin.com/in/davidhardidge/>

¹ “Wholesale electricity prices fell below zero a record 3662 times last year (2020) as solar power generation surged.”

Angela Macdonald-Smith, Negative power prices hit record in strained grid, Australian Financial Review, Jul 2, 2021 (paywall), viewed 16 August 2021

<https://www.afr.com/policy/energy-and-climate/negative-power-prices-hit-record-in-strained-grid-20210701-p585wn>

² “For the first time, the average cost of power per megawatt-hour during the 10:00am–3:30pm off-peak was regularly into negative territory in South Australia, at negative \$12.” ABC News, Solar panels, cooler summer drive power prices into negative territory in South Australia, 28 Apr 2021, viewed 16 August 2021

<https://www.abc.net.au/news/2021-04-28/sa-wholesale-power-price-drop-sees-sa-in-negative-territory/100100776>