
IASB[®] Meeting

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Project	Power Purchase Agreements (PPAs)	
Topic	Own-use amendments	
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Purpose of this paper

1. In the Exposure Draft *Contracts for Renewable Electricity* (Exposure Draft), the IASB proposed changes for an entity applying paragraph 2.4 of IFRS 9 *Financial Instruments* to a contract that has the two specified characteristics included in the proposed scope requirements. This paper provides our analysis of the feedback on Question 2 of the Exposure Draft and our recommendations on how to proceed with these proposals. We also are asking whether you agree with our recommendations.

Summary of staff recommendations and question to the IASB

2. We recommend that the IASB proceeds with its proposed amendments for an entity applying the requirements in paragraph 2.4 of IFRS 9 to a nature-dependent electricity contract entered into for the receipt of the electricity, subject to the following:
 - (a) clarifying the application of the proposed amendments in the context of the requirements in paragraphs 2.4–2.7 of IFRS 9;
 - (b) clarifying that the additional considerations for these electricity contracts only apply when:

- (i) the specified characteristics expose the entity to the risk of over-supply of electricity during a delivery interval; and
 - (ii) based on the design and operation of the market in which electricity is received, the entity does not have the practical ability to avoid selling any over-supply of electricity at the market-determined time.
- (c) clarifying that an entity needs to expect to be a net-purchaser for a reasonable amount of time. Being a net-purchaser means the entity buys enough electricity in the market in which it receives electricity to offset sales of any over-supply in that market;
- (d) clarifying that in performing the assessment in (c), an entity:
- (i) considers information for a reasonable amount of time including the seasonality of the nature-dependent production source and the seasonality of its business. However, a reasonable amount of time shall not exceed 12 months from the date of the assessment.
 - (ii) considers all reasonable and supportable information, including that which is forward-looking, at the date of the assessment.
- (e) clarifies that on a 12-month rolling basis an entity needs to have bought enough electricity in the same market from which the entity received the electricity to offset the entity's sales of any over-supply of electricity.

Question for the IASB

1. Does the IASB agree with our recommendations included in paragraph 2 of the paper?

Terminology

3. In this paper we use the following terms for ease of reading:

Term	Explanation
NDE contract	a contract that has the specified characteristics we discuss in Agenda Paper 3A for this meeting. NDE stands for 'Nature-Dependent Electricity'.
NDE contract for receipt	an <i>NDE contract</i> for the receipt of electricity that can be settled net—commonly referred to as a physical power purchase agreement.
NDE contract for difference	an <i>NDE contract</i> that require net settlement of the difference between the prevailing market price and the contractually agreed price for the contracted volume of electricity without the obligation to deliver the underlying—commonly referred to as a virtual power purchase agreement.
own-use amendments	the proposed amendments that we discuss in this paper. The amendments deal with the additional considerations if an entity performs an <i>own-use assessment</i> for an <i>NDE contract for receipt</i> .
own-use assessment	an entity's assessment of whether it holds a contract for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements.
own-use requirements	the current requirements in paragraph 2.4 of IFRS 9.

Structure of the paper

4. We structured this paper by grouping feedback on the own-use amendments. In this paper we analyse the feedback about:
- (a) the need for the own-use amendments (paragraphs 5–15);
 - (b) the scope and context of the own-use amendments (paragraphs 16–23);
 - (c) the risks that arise from NDE contracts for receipt (paragraphs 24–48); and

- (d) the own-use assessment of NDE contracts for receipt (paragraphs 49–87).

The need for the own-use amendments

Proposals

5. The IASB proposed that an entity assesses the additional considerations included in the *own-use amendments* if the entity performs an *own-use assessment* of an *NDE contract for receipt*. The outcome is that these contracts could be accounted for as executory contracts as opposed to derivatives at fair value through profit or loss. The IASB did not propose to consider NDE contracts for difference in these proposals as these contracts are always accounted for as derivatives.
6. Paragraph BC14 of the Basis for Conclusions on the Exposure Draft explained that users of financial statements (investors) informed the IASB that if an entity uses the electricity it receives under the contract, the recognition of the fair value changes in profit or loss for these, typically long-term, contracts does not provide useful information about the performance of the entity. Instead, an entity should account for these contracts in the same way as other procurement contracts. The IASB concluded that accounting for these contracts at fair value when the electricity is used by the entity would not provide investors with useful information.

Feedback and analysis

7. Most respondents agreed that there is a need for the own-use amendments to ensure that these contracts are accounted for similar to other contracts for non-financial items. A few respondents said that unique risks arise from NDE contracts for receipt and said that they consider the own-use amendments to be principles-based because the amendments only apply when specified characteristics are present and the amendments are based on the current *own-use requirements*.

8. We agree with respondents that say the own-use amendments enable entities to apply the principles of the own-use requirements to the specific, and problematic, facts and circumstances that arise from NDE contracts for receipt. We also agree that unique risks arise from these contracts. We discuss these risks in more detail in paragraphs 24–48 of this paper.
9. A few respondents however disagreed with the own-use amendments. In their view, these proposals introduce an exception to the own-use requirements which is already an exception to the general requirements to account for contracts to buy or sell non-financial items that can be settled net as if they were financial instruments.
10. We disagree with these respondents. We continue to agree with the IFRS Interpretations Committee’s (Committee) conclusion (as explained in paragraph BC2 of the Basis for Conclusions on the Exposure Draft) that the own-use requirements are not sufficiently clear about how an entity performs its own-use assessment for an NDE contract for receipt. This is particularly the case when an entity expects there to be sales of unused electricity during some delivery intervals over the contract period resulting from the unique risks that arise from these contracts. Therefore, we see the own-use amendments as an extension of the own-use requirements that applies in particular circumstances.
11. A few other respondents disagreed with the own-use amendments because they said these amendments are rules-based and based on the nature of the underlying non-financial item. In their view, such an approach to standard-setting leads to different accounting treatments for similar contracts.
12. We disagree with these respondents. The own-use requirements were carried over unchanged from IAS 39 *Financial Instruments: Recognition and Measurement* to IFRS 9. Considering the feedback on the Exposure Draft and the output from the [Third Agenda Consultation](#) and the [Post-implementation Review of IFRS 9—Classification and Measurement](#) and [agenda decisions](#) for IFRS 9-related matters, the IASB has not come across evidence that identifies an immediate need for the IASB to more broadly reconsider the own-use requirements. However, recent market

developments in the sale and purchase of electricity produced from nature-dependent sources resulted in challenges in accounting for these contracts. We think that entities accounting for NDE contracts for receipt would be at a disadvantage without the own-use amendments compared to accounting for other contracts for non-financial items.

13. Lastly, a few respondents also said that because unique risks arise from NDE contracts for receipt, they think that measuring these contracts at fair value provides the most useful information about those risks.
14. We acknowledge this view. However, we did not find any evidence in the feedback that disproves the IASB's conclusion that using fair value for these contracts would not provide investors with more useful information. In fact, we note that in their comment letter an investor organisation agreed with the IASB's conclusion:

We agree with these proposals. In Q2 of our questionnaire, 72.7% of respondents agreed...[] this “exception to the exception” may be justified because recognizing changes in the fair value of physical PPAs, most of which are very long-term fixed-price contracts, in profit or loss would make the entity's performance highly volatile over a long period of time, which is not desirable for users to assess the profitability of the entity.

Staff recommendations

15. We recommend that the IASB proceeds with the own-use amendments. We consider possible clarifications to the own-use amendments in the rest of this paper.

The scope and context of the own-use amendments

Proposals

16. The own-use amendments stated that the *NDE contracts* that would be subject to the own-use amendments are those contracts ‘to buy and take delivery of electricity’

(NDE contracts for receipt). The Exposure Draft also stated that all the proposed requirements, including the own-use amendments, are not to be applied by analogy to other contracts that are not in-scope contracts.

Feedback and analysis

17. A few respondents asked:
 - (a) whether the own-use amendments apply to all NDE contracts, including NDE contracts for difference. Some of these respondents suggested that clarity could be improved by incorporating the own-use amendments in Chapter 2 *Scope* of IFRS 9 or by including them as application guidance in Chapter 2 of Appendix B *Application Guidance* of IFRS 9.
 - (b) how the own-use amendments work with the own-use requirements and paragraph 2.6 of IFRS 9—the paragraph that lists examples of how a contract to buy or sell a non-financial item can be settled net.
18. We agree that the understanding of the context of the own-use amendments can be improved by incorporating the own-use amendments in Chapter 2 or including them in Chapter 2 of Appendix B of IFRS 9.
19. We note that the IASB did not intend for the own-use amendments to be a replacement of the own-use requirements, but rather as additional considerations (an extension) to apply to an NDE contract for receipt. This also means that other own-use requirements in paragraphs 2.5–2.7 of IFRS 9 continue to apply to NDE contracts for receipt.
20. Others suggested the own-use amendments are extended to include NDE contracts for difference. We disagree with these respondents because such contracts are not contracts to buy or sell non-financial items that can be settled net. Instead, they are contracts that only references electricity and require net settlement. Accounting for NDE contracts for difference as executory contracts would not be consistent with the

substance of the contractual rights and obligations. These contracts are financial instruments within the scope of IFRS 9 and accounted for as derivatives.

21. A few respondents were concerned that the own-use amendments may appear to ‘interpret’ aspects of the own-use requirements. For example, how an entity makes long-dated estimations in accordance with the own-use requirements. A few others asked why the own-use amendments only apply to an entity that *buys* electricity.
22. The IASB did not intend for the own-use amendments to affect how entities apply the own-use requirements to other contracts. Paragraph BC6 of the Basis for Conclusions on the Exposure Draft explained that in developing the proposals the IASB aimed to minimise the risk of unintended consequences on how an entity accounts for other contracts to buy or sell non-financial items. Therefore, entities would continue to be able to determine the accounting treatment for most contracts to buy or sell non-financial items applying only the own-use requirements. For example, we think an entity that sells and delivers electricity under an NDE contract would be able to perform its own-use assessment applying only the own-use requirements. Responding to comments, our analysis in this paper aims to preserve this intention of the IASB.

Staff recommendations

23. We recommend that the IASB clarifies the application of the own-use amendments in the context of the requirements in paragraphs 2.4–2.7 of IFRS 9.

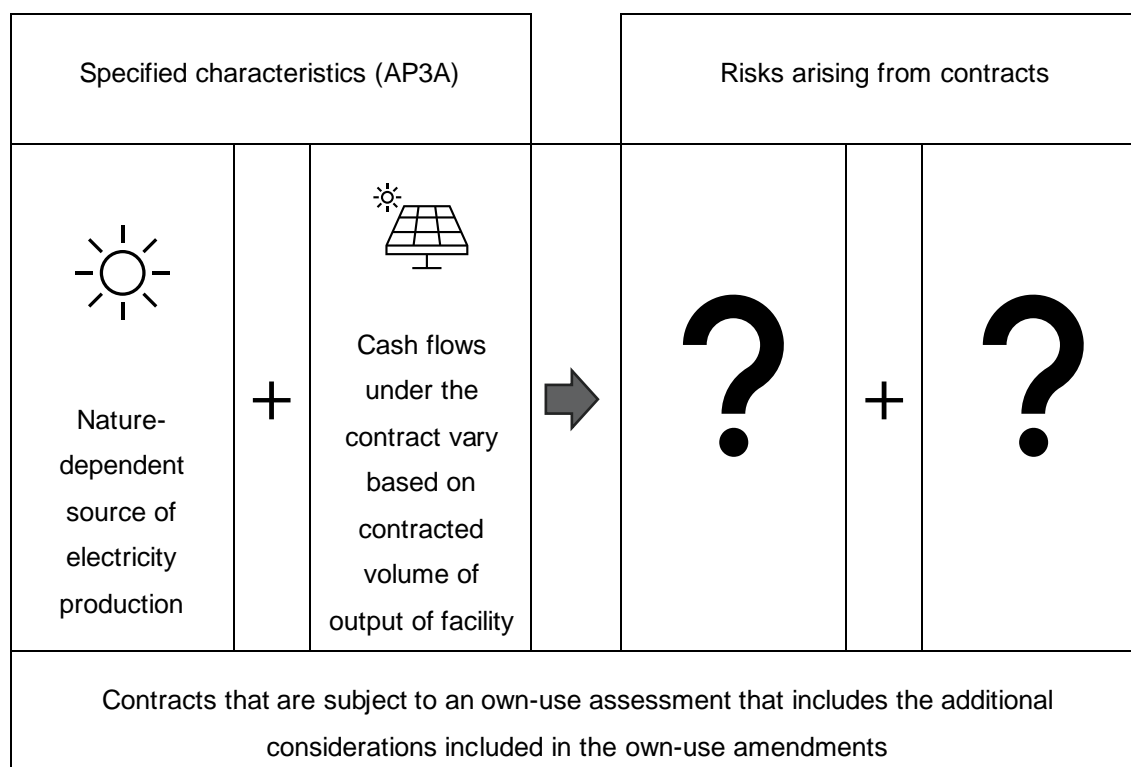
The risks that arise from NDE contracts for receipt

Introduction

24. Paragraphs BC18–BC20 of the Basis for Conclusions on the Exposure Draft explained that an entity’s intention for entering into an NDE contract for receipt is to receive electricity in accordance with the entity’s expected usage requirements. However, because of the risks that arise from these contracts, sales of electricity can

occur over the contract period. Such sales are not indicative of an intention to buy and sell the electricity for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. The own-use requirements are however not sufficiently clear how an entity considers the unique risks that arise from NDE contracts for receipt when performing its own-use assessment.

25. In Agenda Paper 3A for this meeting we discussed the specified characteristics of an NDE contract: (i) nature (or natural forces) controls the source from which electricity is produced and whether any electricity can be produced by the referenced facility at a given time; and (ii) the cash flows under that contract vary based on the contracted volume of electricity produced by the referenced production facility. These characteristics when coupled with an entity receiving electricity when it is produced, give rise to unique risks for the entity.
26. In this section of the paper, we discuss these risks that arise from NDE contracts for receipt and analyse how we think the IASB could clarify why these contracts are subject to the additional considerations included in the own-use amendments when performing an own-use assessment. (In the next section of the paper, we discuss the additional considerations for an own-use assessment that are included in the own-use amendments.)
27. We illustrate the purpose of this section of the paper as follows:



Risk one—volume risk

Proposals

28. The IASB proposed that the first reason why NDE contracts for receipt require additional considerations in an own-use assessment is because these contracts expose an entity to volume risk, giving rise to mismatches between the electricity delivered and the entity’s electricity demand at the time of delivery. These mismatches result in sales during some delivery intervals over the contract period. However, these sales are not indicative of a profit-taking motive or that the entity does not continue to hold the NDE contract for receipt in accordance with its expected usage requirements.
29. Volume risk was originally included as part of the scoping requirements in paragraph 6.10.1 of the Exposure Draft (see paragraphs 41–53 of Agenda Paper 3A). The IASB required that the contract needs to expose the entity to ‘substantially all’ the volume risk under the contract through ‘pay-as-produced’ features. Volume risk was

described as the risk that the volume of electricity produced does not align with the purchaser's demand for electricity at the time of production.

Feedback and analysis

Understanding volume risk

30. Most of those respondents asked the IASB to clarify the concept of 'volume risk' as described in the Exposure Draft. As we noted in Agenda Paper 3A for this meeting, most of the comments we received about volume risk, were made in connection with the own-use assessment when applying the own-use amendments.
31. For an NDE contract for receipt the proposed scoping requirements require an entity to buy the contracted volume of electricity produced by the referenced facility, as and when the electricity is produced and delivered and not, necessarily, when the entity needs electricity. Therefore, the entity is exposed to the risk that during a delivery interval, the entity can receive either an over-supply or an under-supply of electricity.
32. For the purposes of the own-use assessment, we think the risk of an *over-supply* of electricity during a delivery interval is more relevant than the risk of under-supply. This is because it is the over-supply of electricity during a delivery interval that leads to sales of electricity. Therefore, we think the concept of volume risk can be better explained by specifically referring to the risk of over-supply of electricity during a delivery interval.

Substantially all of the risk

33. A few respondents asked the IASB to clarify how various contractual features or entity-specific actions to mitigate the risk of over-supply affect whether an entity is exposed to 'substantially all' of the volume risk. For example:
 - (a) intermediaries might be contracted to streamline the intermittent supply from the production facility to a steadier supply profile (for example a solar bell profile), thereby reducing the entity's exposure to the variability of the output of the referenced production facility to some extent; and

- (b) contractual features such as caps and floors on the volume of electricity to be purchased during a delivery interval or under the contract might be included to mitigate an entity's risk of over-supply.
34. If an entity is not exposed to the risk of over-supply of electricity during a delivery interval, we think that any sales of electricity over the contract period arise from reasons that are not in accordance with an entity's expected usage requirements. Therefore, an entity's contractual exposure to an over-supply during a delivery interval remains a fundamental risk that justify why additional considerations are required.
35. However, we considered whether the own-use amendments still need to refer to 'substantially all' of the risk. The IASB included this part of the proposed requirement to cater for contractual features like caps or floors.
36. In our analysis we assume that the IASB agrees to clarify that volume risk is the risk of *over-supply during a delivery interval* and (as we recommended in Agenda Paper 3A) that the relevant volume of electricity is the *contracted volume* of the output of the referenced production facility. The contracted volume of electricity can be structured in many ways, including the volume risk mitigation features listed in paragraph 33.
37. We think that the clarifications we recommend and listed in paragraph 36 achieve the IASB's intention and adequately caters for features like caps or floors and without referring to 'substantially all'. We illustrate our thinking of the principle in the following example:

Background

An NDE contract for receipt requires Company A to purchase a contracted volume of the output of Wind Farm Z. Company A operates 24 hours a day and 7 days a week.

Company A receives electricity at 6-minute intervals per day. Company A is contractually obliged to buy up to 100 units of electricity per day as and when the electricity is produced and delivered. Per day, Company A's demand is approximately 200 units of electricity.

Analysis

Even though Company A's daily demand is much higher than the maximum volume of electricity it is required to buy, Company A is still exposed to the risk of an over-supply of electricity at a 6-minute delivery interval. Wind Farm Z might produce and deliver the 100 units all during one delivery interval or during a number of delivery intervals over the day, but in quantities that exceed Company A's electricity needs at that time. Therefore, Company A includes in its own-use assessment of this contract the additional considerations included in the own-use amendments.

Risk two—the market design*Proposals*

38. The IASB proposed that an entity also considers the design and operation of the market in which an entity is exposed to the risk of over-supply because it is the market design that requires the sale of any unused electricity. The IASB proposed that the design and operation of the market need to result in the entity not having the practical ability to determine the timing or price of the sale of unused electricity.
39. Paragraph BC17 of the Basis for Conclusions on the Exposure Draft explained that an entity's sales of electricity occur because of the design and operation of the electricity market which will either force the entity to sell unused electricity back into the market or, if a purchaser fails to do so, the independent market system operator will 'balance' the electricity grid network and require the entity to pay a, sometimes punitive, penalty.

Feedback and analysis

40. A few respondents suggested the wording 'result in the entity not having the practical ability to determine the timing or price of the sale of unused electricity' might exclude contracts entered into by entities that operate in an electricity spot market under which

prices are established *before* delivery of electricity takes place.¹ As we noted in Agenda Paper 3A for this meeting, many respondents also said that in their jurisdiction, parties cannot always access the electricity market directly but need an intermediary to do so on their behalf. Some of these respondents asked the IASB to clarify whether sales of any over-supply of electricity to an intermediary (an aggregator), or sales by another party (like the producer) on behalf of the entity, would still qualify as a permissible sale.

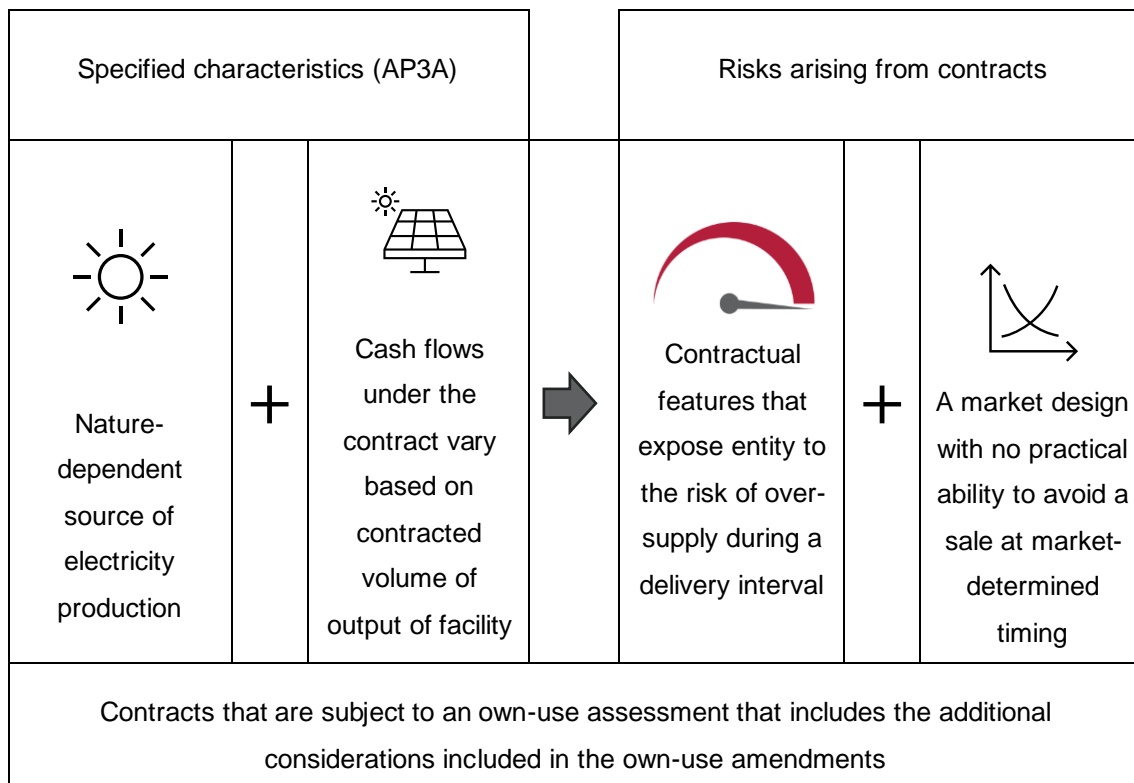
41. We agree with respondents that the wording may appear to exclude some market designs. For this reason, we think the IASB could simplify the wording to accommodate different types of market designs or operations while preserving the main principle. As with other non-financial items, there could be various price conventions or practices with regards to determining the market price. Therefore, we don't think it is appropriate for this proposed requirement to be more specific about the price.
42. The main principle of considering the design and operation of the market in which the electricity is received, is to ensure that the entity has no practical ability to avoid a sale of any over-supply of electricity—that is, a sale will be enforced by the market. If the market design offers alternatives to a sale, the entity applies only the own-use requirements because the unique risks that arise from NDE contracts for receipt are not present. The own-use requirements by itself are adequate to enable the entity to determine the appropriate accounting.
43. A few respondents asked whether an entity is required (or is permitted) to also consider entity-specific factors (as opposed to only market-related factors). For example, whether an entity considers its access to electricity storage.

¹ For example, in Europe, spot electricity markets are designed in three closely linked markets: the day-ahead market (DAM), the intra-day market (IDM) and the imbalance market (IM). The DAM is the main spot market and is used to determine electricity prices for the next day. DAM serves as a very short term (i.e., one-day-ahead) forward market where the prices are determined through a double-sided blind combinatorial auction. IDM operates in tandem with DAM, and market participants use it to manage the changes in their operating and consumption plans after the DAM is closed but before the physical delivery of electricity takes place. After trading both at DAM and IDM, if there are still some supply and demand mismatches these imbalances are cleared in the IM. ([European DAM Review 05 January 2021.pdf \(ed.ac.uk\)](#))

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44. Another few respondents asked whether an entity's ability to influence the *price* of the sales is relevant in the context of an own-use assessment—in their view an own-use assessment focuses on the expected volume of the electricity and therefore only the *timing* of the sale is important. Others asked whether the IASB means 'either the timing or the price' or 'the timing and the price'.
45. We think for an entity to have no practical ability to avoid a sale of any over-supply of electricity, the entity needs to be 'at the mercy' of the market for when sales of unused electricity occur. Entity-specific actions that provide an entity with the practical ability to avoid a sale or the ability to sell to the highest bidder means the sales are not required due to the market design. We, therefore, agree with respondents that the timing of the sale is the important factor in assessing the market design.
46. We also note that the assessment of the market design determines whether an entity includes in its own-use assessment the additional considerations included in the own-use amendments—and not whether the contract under assessment fails the own-use assessment. If an entity is not at the mercy of the market design, it does not automatically mean the contract fails the own-use assessment. It means that the entity applies only the current own-use requirements to perform its assessment.

Staff recommendations

47. In summary, we illustrate the risks that arise from the specified characteristics of NDE contracts for receipt as follows:



48. We therefore recommend that the IASB clarifies that the additional considerations for NDE contracts for receipt only apply when:
- (a) the specified characteristics expose the entity to the risk of over-supply of electricity during a delivery interval; and
 - (b) based on the design and operation of the market in which electricity is received, the entity does not have the practical ability to avoid selling any over-supply of electricity at the market-determined time.

An entity’s own-use assessment of NDE contracts for receipt

49. In this section of the paper, we analyse the feedback about how an entity performs its own-use assessment of NDE contracts for receipt by including the additional considerations included in these own-use amendments. We do this by first considering the additional considerations to assess an entity’s expected usage requirements—an element of an own-use assessment. Then we discuss how an entity makes long-term estimations when performing its own-use assessment.

Expected usage requirements***Proposals***

50. The IASB proposed that:
- (a) an entity performs its own-use assessment for an NDE contract for receipt: ‘at inception of the contract and at each subsequent reporting date’.
 - (b) an entity considers the purpose, design and structure of the contract including the volumes of electricity expected to be delivered over the remaining duration of the contract.
 - (c) for past and expected sales: ‘the entity expects to purchase at least an equivalent volume of electricity within a reasonable time (for example, one month) after the sale’.
51. Paragraph BC20(c) of the Basis for Conclusions on the Exposure Draft explained an entity might have frequent and substantial sales of electricity over the contract period. To ensure that the contract continues to be held for the receipt of electricity in accordance with the entity’s expected usage requirements, the IASB proposed to require that an entity purchases an equivalent volume of electricity that was sold shortly after delivery in the market, within a reasonable time after the sale (that is, the entity remains a net purchaser over a reasonable amount of time). ‘Reasonable’ depends on an entity’s operations. The IASB added an example of one month to demonstrate that a reasonable time is typically a short time.

Feedback and analysis

52. Almost all respondents agreed (or did not disagree) in-principle with the IASB’s proposals but asked the IASB to clarify aspects of its proposals. We discuss each aspect in turn.

Timing of the assessment

53. A few respondents asked whether the IASB intended that an entity is required to *only* perform its own-use assessment for NDE contracts for receipt at contract inception and at each reporting date. In their view, the own-use requirements require a continuous assessment throughout a reporting period.
54. Paragraph BC20(b) of the Basis for Conclusions on the Exposure Draft explained that the IASB aimed to ensure with its proposals that contracts are timely reclassified as derivatives when the expected volumes to be delivered are no longer in accordance with the entity's expected purchase or usage requirements. Therefore, the IASB proposed to specify that an entity *also* performs its own-use assessment, 'at inception of the contract and at each subsequent reporting date' as a safeguard.
55. We, however, agree with respondents that this safeguard could be understood to replace the requirements in paragraph 2.4 of IFRS 9 for an entity to perform its own-use assessment continuously. We think that if the IASB agrees with our recommendation to clarify that paragraphs 2.4–2.7 of IFRS 9 remain applicable for NDE contracts for receipt, such a clarification also responds effectively to this feedback.

The purpose, design and structure of the contract

56. A few respondents asked whether the proposed requirement for an entity to assess the reasons for sales of unused electricity are not in itself sufficient—in accordance with the own-use requirements, some think an entity is already required to assess the purpose, design and structure of a contract even if not specifically mentioned in the own-use requirements.
57. Paragraph BC20(b) of the Basis for Conclusions on the Exposure Draft explained that if an entity enters into a contract that is expected to continuously deliver more electricity than the entity needs, such an 'oversized' contract would not be in accordance with the entity's expected usage requirements. The unique risks that arise from NDE contracts for receipt result in a high level of estimation uncertainty about

the volumes of electricity an entity expects to receive under the contract and how that volume continues to be in accordance with the entity's expected usage requirements. We think that this variability in the possible outcomes could mask 'oversized' contracts. Therefore, we continue to think that the own-use amendments need to include additional considerations to avoid such a situation.

58. We, however, think that the phrase 'purpose, design and structure of the contract' lacks sufficient clarity to communicate the abovementioned principle. We think this can be addressed by better articulating the 'net-purchaser over a reasonable amount of time' proposed requirement. We discuss this proposal in the next sub-section of this paper and also include an example of how an entity might identify when an NDE contract for receipt is oversized.
59. With regards to the structure of the contract, a few of these respondents asked if an NDE contract for receipt can still be considered as held in accordance with the entity's expected usage requirements if an entity knows that it will have frequent sales of unused electricity during some delivery intervals—referred to by one respondent as a 'structural imbalance in the contract'. For example, an entity requires no electricity during the night, but the contract requires the entity to buy electricity if produced during the night—they asked if these are still permissible mismatches.
60. We note that a contract is not precluded from being held in accordance with the entity's expected usage requirements if an entity knows that it will have frequent sales of unused electricity during some delivery intervals such as over weekends. In fact, NDE contracts for receipt that are subject to the own-use amendments need to give rise to the two unique risks we already discussed in this paper (that is, exposure to an over-supply of electricity at a delivery interval and to a market design that results in the entity not having the practical ability to avoid selling any over-supply of electricity). Specifying these risks in the own-use amendments aims to ensure that only contracts that result in permissible sales are subject to the own-use amendments.

Net-purchaser over reasonable amount of time—forward-looking assessment

61. To ensure that an NDE contract for receipt continues to be held in accordance with an entity’s expected usage requirements, most respondents agreed (or did not disagree) with the principle that an entity should always expect to be in a net-purchaser position over a reasonable amount of time. (We discuss feedback on what constitutes a reasonable amount of time in the next sub-section of this paper.)
62. Some of these respondents asked whether the net-purchaser assessment needs to be performed over discrete periods (for example an individual one-month period) on a stand-alone basis or assessed on a rolling basis. In their view, an entity might purchase at least an equivalent volume of electricity within a month after the sale but not be in a net-purchaser position over a longer period of time. The below example illustrates that even though the entity consistently purchased at least an equivalent volume of electricity within a month after the sale, over a longer period (five months in the example), the entity is not in a net-purchaser position:

Month	Actual Delivery	Usage	Excess/(deficiency) of usage vs. actual
1	10	10	0
2	11	5	(6)
3	8	7	(1)
4	5	5	0
5	8	8	0
Totals	42	35	(7)

63. We think the objective of an own-use assessment (in general) is for an entity to evaluate whether the quantity of the non-financial item the entity will receive under a contract is in accordance with the entity’s expected usage requirements. The assessment can be illustrated as follows:

$$\textit{Expected usage requirements} \geq \textit{Expected receipts under the contract}$$

64. As an additional consideration when performing an own-use assessment for an NDE contract for receipt, the IASB proposed that for the above-mentioned equation to be true, the entity needs to expect to buy enough electricity in the market over a reasonable amount of time to offset sales of any over-supply of electricity. This assessment can be illustrated as follows:

$$\text{Expected purchases in the market} \geq \text{Sales of any over – supply of electricity}$$

65. We agree with respondents that the phrase, ‘purchase at least an equivalent volume of electricity within a reasonable time...after the sale’ did not adequately represent the IASB’s intention with requiring an entity to be a net-purchaser over a reasonable amount of time. We think clarity can be improved by requiring an entity to expect to buy back more electricity from the market than it sells over a reasonable amount of time.
66. Performing the net-purchaser assessment, a few respondents asked whether the assessment should be done on a contract level, a reporting entity level or a higher level. To illustrate, one respondent asked whether an entity only considers the usage for the specific site or operation for which the contract is intended; or could the total expected usage of the reporting entity or other entities within a consolidated group be considered. In their view, just considering a specified site of the reporting entity that signed the agreement would be too restrictive when the intention with the contract is for other sites of the reporting entity or other entities within the group to also use the electricity. Another respondent said that in their view, it would be inappropriate to consider expected usage in electricity markets that are different from or unconnected to the market in which the entity receives the electricity under the contract. A few other respondents said that under some contracts the location of physical delivery does not coincide with the location of electricity usage. According to these respondents, these markets are, however, integrated and interconnected.
67. Paragraph 2.4 of IFRS 9 refers to the [emphasis added], ‘...*the entity’s* expected purchase, sale or usage requirements.’ We note that the level of an own-use assessment (in general) is at the entity level. We are, however, persuaded that it would

be inappropriate to consider expected purchases in electricity markets that are different from or unconnected to the market in which the entity receives the electricity under the contract. As we already discussed in this paper, the design and operation of the market in which the entity receives the electricity is a key risk that arise from NDE contracts for receipt. It, therefore, brings unity to the own-use assessment under the own-use amendments to limit the net-purchaser assessment to the same market.

68. We note also that the own-use requirements refer to ‘the receipt or delivery of a non-financial item’. Paragraph BC13 of the Basis for Conclusions on the Exposure Draft stated that the proposals do not include requirements about the meaning of delivery because this matter was considered by the Committee in its agenda decision [Meaning of delivery \(IAS 39\)](#) (August 2005). In the agenda decision, the Committee noted that ‘delivery’ for the purposes of the own-use requirements is not necessarily restricted to the physical delivery of the underlying to a specific customer, as physical delivery is not a condition of the exemption. The Committee was of the view that an allocation of the non-financial item to customer’s account could be regarded as delivery.
69. In the context of the net-purchaser assessment, we think an entity needs to apply its judgement in which market the entity receives (or takes delivery of) electricity under the contract—understanding that ‘receipt’ does not have to be ‘physical’ receipt.
70. In summary, the net-purchaser assessment can then be illustrated as follows:

$$\begin{aligned} & \textit{Expected purchases in the market in which the entity receives the electricity under the contract} \\ & \geq \textit{Sales of any over – supply of electricity in that market} \end{aligned}$$

71. We illustrate our thinking of the net-purchaser assessment, including what might constitute an oversized contract, in the following example:

Background

Company A enters into an NDE contract for receipt to power its hydrogen production facility. The inherent uncertainty of the nature-dependent source of production exposes Company A to potential operational inefficiencies if the referenced production facility fails to

provide sufficient electricity to run the hydrogen facility at optimal levels. Consequently, Company A negotiates the NDE contract for receipt for 120% of the electricity capacity of the hydrogen facility to ensure that, based on a probability-weighted average, it is more likely that it will receive electricity that is sufficient to run the facility at optimal levels.

Analysis

The net-purchaser assessment requires that an entity expects to buy more electricity in the market than it sells because of any over-supply under the contract. The expected purchases are not limited to purchases for only the hydrogen facility. Company A considers all its expected purchases in the market in which the entity receives electricity under the contract. Company A would need to expect to have sufficient headroom in its overall demand so that the expected purchases in that market offset the sales of any over-supply of electricity. The NDE electricity contract would be ‘oversized’ if Company A does not have sufficient headroom.

Reasonable amount of time

72. As we already noted, most respondents agreed (or did not disagree) with the principle that an entity should always expect to be in a net-purchaser position over a reasonable amount of time. However, most of these respondents said that a period of one month is too short for a reasonable amount of time because of the seasonality of the related nature-dependent production source or the seasonality of an entity’s operations. These respondents suggested that instead of including an example of one month, the IASB includes factors, like the seasonality of the nature-dependent source or an entity’s operations, that an entity needs to consider when determining a reasonable amount of time. A few of these respondents also suggested that a maximum period of 12 months as a backstop, might also be appropriate while avoiding the practical challenges that arise from seasonality.
73. Paragraph BC20(b) of the Basis for Conclusions on the Exposure Draft explained that the IASB intended that ‘reasonable’ depends on an entity’s operations. We think it would better reflect the IASB’s intention to replace the one-month example with a requirement for an entity to consider the seasonality of its operations to determine what would constitute a reasonable amount of time. We are also persuaded by respondents that an additional factor in determining ‘reasonable’ is the seasonality of

the related nature-dependent production source. Different sources have different seasonal profiles and would therefore affect over what period an entity is able to offset sales of unused electricity with purchases.

74. Due to the typical long-term duration of NDE contracts for receipt, we think it is important to retain the IASB's objective in paragraph BC20(c) of the Exposure Draft—the IASB expects a reasonable amount of time to typically be a 'short time'. We, therefore, are persuaded by the suggestions of a maximum period of 12 months as a backstop—we agree such a backstop seems reasonable while avoiding the practical challenges that arise from seasonality.

Net-purchaser over reasonable time—backward-looking assessment

75. Almost all respondents agreed (or did not disagree) with the principle of requiring an entity to have been a net-purchaser of electricity over periods of reasonable time during a reporting period. Also, the feedback about how to determine whether an entity is a net-purchaser and about what constitutes 'reasonable' apply equally to the backward-looking assessment.
76. We think how an entity determines whether it is a net-purchaser and how it determines a reasonable amount of time need to be the same for both the forward-looking and the backward-looking assessments.
77. We are therefore of the view that for the backward-looking assessment, an entity needs to have been a net-purchaser for the 12-month period that ends at the date of an own-use assessment. This results in a rolling 12-month assessment for both the forward- and backward-looking assessments.

Long-dated estimates

Proposals

78. When performing its own-use assessment, the IASB proposed to add that: 'the entity is not required to make a detailed estimate for periods that are far in the future—for

such periods an entity may extrapolate projections from reasonable and supportable information available at the reporting date. However, an entity shall consider reasonable and supportable information available at the reporting date about expected changes in the entity's purchase or usage requirements for a period *not shorter* than 12 months after the reporting date (or the entity's normal operating cycle as described in paragraph B95 of IFRS 18 *Presentation and Disclosure in Financial Statements*)'.

79. Paragraph BC20(b) of the Basis for Conclusions on the Exposure Draft explained that the proposals do not mean that an entity ignores reasonable and supportable information at the reporting date about changes in the entity's usage requirements over a longer period.

Feedback and analysis

80. A few respondents asked whether making use of 'reasonable and supportable information' would be unique to the own-use assessment when applying the proposed amendments. In their view, an entity would also need to consider reasonable and supportable information when applying the existing own-use requirements to other contracts to buy non-financial items.
81. A few others raised concerns that this proposal might cause unintended consequences. They said that when applying the existing own-use requirements, an entity makes its decision based on reasonable and supportable information at the date of assessment. In some instances, such information only comes from an entity's budget, which in many situations covers only a 12-month period. In their view, the proposed amendments could imply that for other contracts, entities must make detailed estimates for periods longer than 12 months because the IASB decided to propose relief only for NDE contracts for receipts. Therefore, they are concerned that the proposed amendments could inadvertently change practice for other contracts to which the current own-use requirements are applied.
82. Paragraph BC20(b) of the Basis for Conclusions on the Exposure Draft explains that many NDE contracts for receipt are long-term and subject to a high levels of

estimation uncertainty. The IASB did not intend with the own-use amendments for an entity to incur undue cost or effort to forecast, in detail and for each delivery interval, expected: (i) electricity receipts under the contract; (ii) sales of any over-supply of electricity; and (iii) purchases of electricity in the market, over the remaining contract period. The degree of judgement applying the own-use assessment for periods that are far in the future depends on the availability of detailed information. Therefore, the IASB proposed to not require a detailed estimate for periods that are far in the future—for such periods, an entity may extrapolate projections from available, detailed information.

83. We note that the IASB used the phrase ‘reasonable and supportable information’ as this is a known and well understood phrase in IFRS 9 with regards to the requirements in paragraphs B5.5.49–B5.5.54 of IFRS 9.
84. We continue to agree that the proposed amendments states clearly that an entity uses reasonable and supportable information available at the assessment date. We think the unique nature of NDE contracts for receipt require such a statement to enable consistent application of the proposed amendments across different jurisdictions. We think such a statement does not require or prohibit an entity to do the same when performing an own-use assessment for other contracts.
85. A few respondents asked the IASB to clarify (or reconsider) requiring an entity to consider reasonable and supportable information available at the reporting date about expected changes in the entity’s purchase or usage requirements for a period not shorter than 12 months after the reporting date. Particularly,
- (a) some suggested the wording of the proposed requirement is not clear about whether an entity is permitted to ignore reasonable and supportable information about periods more than 12 months after the reporting date.
 - (b) some asked if the minimum time may accidentally exclude an entity’s budget as reasonable and supportable information if those budgets are approved before the end of a reporting period. Respondents said that such information is usually derived from the operating budget of the entity. These budgets

however, while usually covering a period of 12 months, are not approved on the reporting date and therefore would technically be shorter than 12 months.

86. We acknowledge respondents' concerns about the potential for misunderstanding with regards to considering a period not shorter than 12 months, or in which circumstances an entity might need to consider a shorter period. We think these concerns could be addressed by simplifying the wording to refer to 'reasonable and supportable information' and clarifying that this phrase has the same meaning as explained in paragraphs B5.5.49–B5.5.54 of IFRS 9. We also think that our recommendations about how an entity determines whether it expects to be a net-purchaser for a reasonable amount of time (including the 12-month backstop) already adequately operationalise the own-use amendments without the need to refer to another period of 12 months.

Staff recommendations

87. We recommend that the IASB:
- (a) clarifies that an entity needs to expect to be a net-purchaser for a reasonable amount of time. Being a net-purchaser means the entity buys enough electricity in the market in which it receives electricity to offset sales of any over-supply in that market;
 - (b) clarifying that in performing the assessment in (a), an entity:
 - (i) considers information for a reasonable amount of time including the seasonality of the nature-dependent production source and the seasonality of its business. However, a reasonable amount of time shall not exceed 12 months from the date of the assessment.
 - (ii) considers all reasonable and supportable information, including that which is forward-looking, at the date of the assessment.

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- (c) clarifies that on a 12-month rolling basis an entity needs to have bought enough electricity in the same market from which the entity received the electricity to offset the entity's sales of any over-supply of electricity.