

**Urgent Issues Group**

**Interpretation 1017**

November 2004

# **Developer and Customer Contributions for Connection to a Price-Regulated Network**



**Australian Government**

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**Australian Accounting  
Standards Board**

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## **PREFACE**

### **Main Features of UIG Interpretation 1017**

This Interpretation is applicable to annual reporting periods beginning on or after 1 January 2005. Early adoption of this Interpretation is not permitted. Application of this Interpretation will begin in the context of adopting all Australian equivalents to International Financial Reporting Standards. The requirements of Accounting Standard AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* must be observed. AASB 1 requires prior period information, presented as comparative information, to be restated as if the requirements of this Interpretation had always applied. This differs from previous Australian requirements where changes in accounting policies did not require the restatement of the income statement and balance sheet of the preceding period.

The Interpretation requires an entity receiving developer or customer contributions of non-current assets in return for connection to a service delivery network to recognise the contribution as revenue at the fair value of the contributed assets when the entity extends or modifies the network consistent with the terms of the contribution, thus connecting the developer or customer to the network. The Interpretation also requires cash contributions to be recognised as revenue when the network is extended or modified consistent with the terms of the contribution.

### **Comparison with Superseded Requirements**

There is no substantive difference with the previous requirements in Australia in the superseded UIG Abstract 17 *Developer and Customer Contributions in Price Regulated Industries*, except that revenue cannot be recognised progressively as the required network extension or modification is being carried out. The reference to accounting for a cash contribution under some arrangements as a construction contract has also been deleted. In addition, the discussion in Abstract 17 concerning the determination of the fair value of items of property, plant and equipment and the recoverable amount of network assets has been deleted because these matters are now covered by AASB 116 *Property, Plant and Equipment* and AASB 136 *Impairment of Assets* respectively.

**URGENT ISSUES GROUP**  
**INTERPRETATION 1017**  
***DEVELOPER AND CUSTOMER***  
***CONTRIBUTIONS FOR CONNECTION TO***  
***A PRICE-REGULATED NETWORK***

*Interpretation 1017 is set out in paragraphs 1 to 19.*

**ISSUE**

1. Many government trading enterprises (GTEs), including state owned corporations and government business undertakings, and private sector utility entities are subject to price regulation for at least some of their business activities. These entities commonly require developers or customers to provide, or fund the acquisition of, the additional “infrastructure” assets which are necessary to supply price-regulated services to customers. The pricing regulations usually prohibit the inclusion of contributed, or contributor-funded, assets in the rate-of-return or “required revenue” calculations used in establishing the regulated price per unit of service. The price-regulatory regime also usually prohibits the entity from applying differential pricing policies to customers in the same class or category according to whether they have made a contribution to obtain access to the network.
2. Developer and customer contributions for connection to a service delivery network can involve significant resources, and their treatment can have a material effect on the operating result and/or the balance sheet of recipient entities. In the case of these developer or customer contributions, the utility entity receives assets in exchange for rendering a service to the developer or customer in the form of extending or modifying the utility’s network so that the developer or customer has access to the network. The developer or customer contribution is thus the consideration received for the provision of initial access to the network. The pricing regulations mean that the developer or customer contribution is unrelated to continued access to the network and the provision of services in the future, as the developer or customer pays for those on the same basis as other customers in the same class or category.

3. Concern has been expressed that in some price-regulated industries entities are accounting for developer and customer contributions with similar characteristics in different and, in some cases, inappropriate ways. It has been argued that variability in accounting for such contributions undermines the comparability of the general purpose financial reports of these entities.
4. The issues dealt with in this Interpretation relate to developer and customer contributions made to extend or modify a service delivery network. The Interpretation deals only with developer and customer contributions which:
  - (a) are made to GTEs or private sector utility entities which are subject to a price-regulatory regime which excludes those contributions from the asset base used in determining allowed tariffs; and
  - (b) must be made if the developer or customer wishes to secure access to the network.

The Interpretation does not deal with other fee-for-service transactions that occur between the GTE or private sector utility entity and its customers, or with other arrangements which might be termed developer or customer contributions but which do not satisfy the definition of developer or customer contributions in paragraph 6. In addition, the Interpretation does not deal with accounting for the provision of services to the customer following connection to the network.

5. The issue is:

How should a recipient entity account for developer or customer contributions of non-current assets or cash to extend or modify a service delivery network so that the developer or customer obtains access to the network?

## **CONSENSUS**

6. **For the purposes of this Interpretation, a developer or customer contribution is a contribution of non-current assets, or a contribution to assist in financing the acquisition or construction of such assets, which:**
  - (a) **is made to extend or modify a service delivery network which is subject to price regulation;**

- (b) is made by a developer or customer to a government trading enterprise or a private sector utility entity to secure access to the network; and
  - (c) is not included in the asset base used by the price regulator for determination of the regulated tariff.
7. A developer or customer contribution of non-current assets shall be recognised by the recipient as revenue when the recipient extends or modifies the network consistent with the terms of the contribution. The amount of the revenue and asset recognised shall be the fair value of the contributed assets as at the date on which the recipient obtains control of the contribution.
8. A developer or customer cash contribution shall be recognised by the recipient as revenue when the network is extended or modified consistent with the terms of the contribution.
9. The total amount of developer and customer contributions recognised as revenue during the reporting period shall be disclosed.

## **Application**

10. This Interpretation applies to government trading enterprises and private sector utility entities as follows:
- (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the *Corporations Act 2001* and that is a reporting entity;
  - (b) general purpose financial reports of each other reporting entity; and
  - (c) financial reports that are, or are held out to be, general purpose financial reports.
11. This Interpretation applies to annual reporting periods beginning on or after 1 January 2005.
12. This Interpretation shall not be applied to annual reporting periods beginning before 1 January 2005.
13. The requirements specified in this Interpretation apply to the financial report where information resulting from their application is material in accordance with AASB 1031 *Materiality*.

**14. When applicable, this Interpretation supersedes Abstract 17 *Developer and Customer Contributions in Price Regulated Industries*, as issued in May 1998.**

**15. Abstract 17 remains applicable until superseded by this Interpretation.**

## **DISCUSSION**

16. This Interpretation deals only with contributions made by developers or customers to a government trading enterprise (GTE) or a private sector utility entity to gain access to a service which is subject to price regulation. While these GTEs and private sector entities are normally profit-seeking entities, the price regulations to which they are subject exclude contributed, or contributor-funded, assets from rate-of-return and other calculations used to establish the allowed price per unit of service. This is to ensure that contributors are not “double-charged” for the costs of the addition or modification to the service delivery network. Typically, developer and customer contributions as defined in this Interpretation have the following characteristics:
- (a) they are made to extend or modify the service delivery network to provide access to the network for new city and suburban customers and commercial or residential development projects, to provide access to the network for remote area commercial or residential sites, to meet the non-standard connection requirements of some new customers or to modify the network in response to the changing needs of an existing customer. In return for the contribution, the service delivery network is extended or modified to enable new or existing customers to access the network. The recipient of the contribution obtains ownership and control of the contributed, or contributor-funded, extension or modification to the service delivery network; and
  - (b) they must be made if the developer or customer wishes to receive or modify their access to the service delivery network provided by the GTE or private sector utility entity. The access provided by the GTE or private sector utility entity is generally necessary, if not essential, to the commercial viability of the development or the enjoyment of the property.
17. The non-current assets contributed by a developer or customer are recognised as assets by the GTE or private sector utility entity when it obtains control of the contribution. The recipient entity also recognises a liability until the network is extended or modified as required, since the entity will have to return the contributed assets to the developer or

customer to the extent that the required extension or modification is not completed. In some cases, a developer or customer is required to make a cash contribution in respect of costs incurred by the GTE or private sector utility entity in drawing up specifications for the extension to the network and in approving work done. In other cases, a developer or customer may contribute the cash necessary to fund the extension or modification to the service delivery network. When these contributions are made in advance they will be accounted for as a liability until the developer or customer is connected to the service delivery network in accordance with the terms of the contribution.

18. The approach described in the preceding paragraph means that contributor-funded assets cannot be recognised at an amount net of the cash contribution. This is because a cash contribution will be recognised as revenue when the network is extended or modified and the contributor-funded assets will be initially recognised by the GTE or private sector utility entity at their cost of acquisition or construction.

## **Disclosure**

19. This Interpretation requires the total amount of developer or customer contributions recognised as revenue in a reporting period to be separately disclosed. This will enable users of the financial report to identify the impact of such contributions on reported results.

## REFERENCES

### *Australia*

The Urgent Issues Group discussed Issues Paper 04/3 “Revision of Various UIG Abstracts for 2005” in relation to this Interpretation at meetings on 22 July, 26 August and 5 October 2004. In developing the superseded Abstract, the UIG discussed Issue Summary 97/6 “Developer and Customer Contributions” at meetings on 22 October and 10 December 1997 and 29 January, 24 March and 30 April 1998.

Accounting Standard AASB 116 *Property, Plant and Equipment*

Accounting Standard AASB 118 *Revenue*

### *Canada*

CICA Handbook Section 3830 *Non-Monetary Transactions*

### *International Accounting Standards Board*

International Accounting Standard IAS 16 *Property, Plant and Equipment*

International Accounting Standard IAS 18 *Revenue*

### *United States of America*

Accounting Principles Board APB Opinion No. 29 *Accounting for Nonmonetary Transactions*