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25 March 2008

The Chairman
Australian Accounting Standards Board
Level 7, 600 Bourke Street
Melbourne, VIC 3000

Dear Sir

IFRIC Draft Interpretation D24 Customer Contributions

ETSA Utilities is pleased to comment on the International Financial Reporting Interpretations Committee's (the IFRIC's) Draft Interpretation D24 *Customer Contributions* (referred to as the Draft Interpretation).

Whilst we support the IFRIC's efforts to provide guidance on accounting for customer contributions, we do not support the consensus as proposed in the Draft Interpretation.

Moreover, we do not support the withdrawal of AASB Interpretation 1017 *Developer and Customer Contributions for Connection to a Price Regulated Network* in the event that the final IFRIC interpretation is issued substantially unchanged from the Draft Interpretation.

The Draft Interpretation would require gifted assets and cash customer contributions to be treated as deferred income in the balance sheet and released to the profit and loss account over the life of the assets to which they relate, on the basis that there is an obligation to provide ongoing access to a supply of services.

We do not believe that that there is an obligation to provide ongoing access to a supply of services with respect to customer contributions made to entities operating within the Australian electricity supply industry, as:

- the gifted asset / customer contribution is given in consideration for initial access to the electricity distribution / transmission network; and
- pricing regulations mean that the gifted asset / customer contribution is unrelated to continued access to the network and provision of services in the future, as the customer pays for these on the same basis as other customers in the same class or category.

Consequently we believe that:

- the current Australian treatment – recognising income immediately – remains the most appropriate method of accounting for customer contributions for connection to a price-regulated network; and therefore that

- IFRIC should re-deliberate the Draft Interpretation to take into account the particular circumstances of price-regulated networks.

Should the final IFRIC interpretation be issued without taking into account the particular circumstances of price-regulated networks and should the Australian Accounting Standards Board decide to withdraw AASB Interpretation 1017 *Developer and Customer Contributions for Connection to a Price Regulated Network*, then we believe that it may cause significant dislocation to the Australian economy.

In 2007, ETSA Utilities recognised customer contribution revenue of \$82 million.

Electricity network assets have particularly long effective useful lives. ETSA Utilities sub-transmission and distribution system assets have estimated useful lives of between 20 and 71 years, with an approximate average life of perhaps 40 years.

The effect of deferring customer contribution revenue over the lives of these assets would then be to reduce ETSA Utilities' reported profits by billions of dollars over the next half century. This is of particular concern because ETSA Utilities will not be able to proceed with its planned cash distributions as it will have insufficient retained profits to pay out those dividends.

Many investors, particularly retired people, purchase utilities stocks for their dividend yield and certainty of continued cash flow. The inability of ETSA Utilities to pay its planned distributions is likely to cause hardship to its shareholders.

ETSA Utilities represents but a small fraction of the Australian electricity sector, so clearly the overall impact on the Australian economy may be significant.

We believe that this makes it imperative that the IFRIC and the AASB take into account the particular circumstances of price-regulated networks in formulating the final accounting treatment of customer contributions.

If you have any questions concerning our comments, please do not hesitate to contact me.

Yours faithfully

A handwritten signature in dark ink, appearing to read 'Lewis W Owens', written in a cursive style.

Lewis W Owens
Chief Executive Officer