Power Breakfast
Refresher on Interpretation of Financial Accounting Standards No. 16 (Service Concession Arrangements)
Agenda

1. The relevance of ISAK 16
2. How the standard is affecting Indonesian IPPs
3. Key learning points
Overview of Service Concession Accounting

01 It’s an IFRS standard. ISAK 16 is adopted from IFRIC 12, ‘Service concession arrangements.’

02 It applies to public to private partnership arrangements.

03 Government (regulator) controls the infrastructure to be used in serving public service obligation.
The Relevance of Service Concession Accounting

Why do you need to work out the accounting before you start the project ...

01 Difference between fixed asset power plant Vs financial (or intangible) asset on balance sheet

02 Determines how revenues & expenses are recorded

03 Affects key financial ratios and timing of dividend distribution

04 Interaction with tax and deferred tax accounting
Public service obligation to provide electricity

IPPs play an important role in this supply chain.

A number of laws and regulations task PLN with a public service obligation to provide electricity to general public (including Electricity Law No. 30/2009).

IPP’s power plants are integrated to PLN’s electricity supply chain.
Control of power plants by PLN (grantor)
ISAK 16 specifies a few factors to establish control

1. Does PLN control the outputs of the power plant?
   - Yes

2. Does the government control prices of electricity?
   - Yes

3. Is the power plant built & operated by a private sector?
   - Yes

4. Will PLN (or government) receive residual interest of the power plant?
   - Yes
**Multiple element approach to record revenue**

Revenue from sale of electricity is split across its multiple elements:

- **A. Capital cost recovery**
- **B. Fixed Operation & Maintenance**
- **C. Energy payment (fuel costs)**
- **D. Variable Operation & Maintenance**
- **E. Special Facility**
- **F. Construction CoD**
- **G. Operations**

**A. Construction revenue is recognised up to COD**

**B. O&M income is recognised as the IPP performs its services**

**C. Energy payments are recognised for fuel to run the power plant (pass through)**

**D. O&M income is recognised as the IPP performs its services**

**E. PLN may ask IPP to build a special facility (e.g. transmission line)**
**ISAK 16 requires IPP to record a financial (or intangible) asset**

<table>
<thead>
<tr>
<th>Features of PPAs signed with PLN</th>
<th>IPP</th>
<th>ISAK 16 assets</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1</strong> PLN pays fixed, determinable, amounts (e.g. take-or-pay)</td>
<td>![Checkmark]</td>
<td>Financial asset</td>
</tr>
<tr>
<td><strong>2</strong> PLN purchases all outputs produced (e.g. must pay based on availability)</td>
<td>![Checkmark]</td>
<td>Likely financial asset</td>
</tr>
<tr>
<td><strong>3</strong> PLN pays based on usage</td>
<td>![Checkmark]</td>
<td>Intangible asset</td>
</tr>
<tr>
<td><strong>4</strong> PLN guarantees to pay a certain amount (take-or-pay) in the first few years and will pay based on usage in later years</td>
<td>![Checkmark]</td>
<td>Hybrid – financial &amp; intangible asset</td>
</tr>
</tbody>
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# A comparison of revenue profile

**ISAK 16 Vs traditional owner operated model**

<table>
<thead>
<tr>
<th></th>
<th>Traditional owner operated</th>
<th>ISAK 16</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Construction phase</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>-</td>
<td>Construction</td>
</tr>
<tr>
<td>O&amp;M income</td>
<td>-</td>
<td>O&amp;M Income</td>
</tr>
<tr>
<td>EBITDA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Finance income</td>
<td></td>
<td>Finance income</td>
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<tr>
<td>PBT</td>
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</table>

- **Revenue from sale of electricity**
- **Revenue from construction**
- **Interest income**
- **O&M income**
A comparison of cumulative profits profile
ISAK 16 Vs traditional owner operated model

ISAK 16 cumulative profits build up gradually over time

Some assumptions are simplified for illustrative purposes only
# Mapping the terms of your PPA

The terms of your PPA will determine the accounting model

<table>
<thead>
<tr>
<th>Category</th>
<th>Power is supplied to PLN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Typical arrangement</td>
<td>Service / maintenance contract Build-own-operate- transfer (&quot;BOOT&quot;)* Build-own-operate (&quot;BOO&quot;)</td>
</tr>
<tr>
<td>Asset ownership</td>
<td>PLN (grantor) IPP (operator)</td>
</tr>
<tr>
<td>Capital investment</td>
<td>PLN (grantor) IPP (operator)</td>
</tr>
<tr>
<td>Demand risk</td>
<td>PLN (grantor) PLN (grantor) IPP (operator) PLN IPP</td>
</tr>
<tr>
<td>Take-or-pay arrangement</td>
<td>- Yes Only during a specified period of the PPA - Yes -</td>
</tr>
<tr>
<td>Typical duration</td>
<td>&lt; 5 years 25 - 30 years (life of the asset) Over the economic life of the asset or shorter, ranges from 5 - 30 years</td>
</tr>
<tr>
<td>Residual interest belongs to</td>
<td>PLN (grantor) IPP</td>
</tr>
<tr>
<td>Relevant PSAKs (IFRS8s)</td>
<td>PSAK 23 (IAS 18) on revenue ISAK 16 (IFRIC 12) - service concession arrangement ISAK 8 (IFRIC 4) and PSAK 30 (IAS 17) on leasing</td>
</tr>
<tr>
<td>Accounting model</td>
<td>Power plant belongs to PLN, private contractor simply records O&amp;M revenues IPP records a financial asset for the amounts guaranteed by PLN A hybrid of financial asset &amp; an intangible asset model. Financial receivable is recognised up to the guaranteed amount by PLN, the remaining portion is recorded as intangible asset Intangible asset is recorded by IPP based on the fair value of the power plant Assessment of terms and conditions of the contracts are necessary. Where the offtake period only covers less than half of the economic life of the power plant, it is likely that it is an operating lease. On the contrary, where (1) the offtake period covers substantially all of the economic life of the asset, (2) there is a minimum amount guaranteed by PLN, and (3) almost all of the capital investment can be recovered from the PPA; it is likely for the IPP to have a finance lease. It is also possible for IPP to conclude that ISAK 16 (IFRIC 12) applies in this case.</td>
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</tbody>
</table>
**Key learning points**

*Issues that all investors should look out for ...*

- Pay attention to the key terms of your PPA. Not all PPAs will have the same accounting treatment.
- If you are not in ISAK 16 (IFRIC 12), you may still have to use ISAK 8 (IFRIC 4) lease accounting model.
- POJK No. 6/2017 provides some reliefs from complex accounting for listed entities. Not expected to be many.
- If you need more information, reach out to your PwC consultants.
Q & A
Thank you

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