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## **Building an accounting model for rate-regulated activities**

### **Issues paper**

#### **Objective**

- 1 The objective of this session is to seek input from EFRAG CFSS and EFRAG TEG members in preparation for the July 2017 ASAF meeting on the accounting model for rate-regulated activities (the model) being developed by the IASB.

#### **Agenda Papers**

- 2 In addition to this paper, the following agenda papers are provided for the session for background only:
  - (a) agenda paper 09-02 ASAF paper 8 – Rate-regulated Activities - Cover note
  - (b) agenda paper 09-03 ASAF paper 8A – Rate-regulated Activities – Update of the Board’s discussions
  - (c) agenda paper 09-04 ASAF paper 8B – Rate-regulated Activities – Rate adjustment examples. The examples are summarised in the Appendix to this paper.

#### **Description of the model**

- 3 The purpose of the model is to address the financial effects of defined rate regulation. The model represents a supplementary approach that will require an entity to apply IFRS Standards, including IFRS 15 *Revenue from Contracts with Customers* before it applies the model. The model would replace IFRS 14 *Regulatory Deferral Accounts*. The IASB’s work plan indicates that the IASB will issue a Discussion Paper or an Exposure Draft in the first half of 2018.
- 4 In defined rate regulation, a regulatory agreement between the rate regulator and an entity sets out **regulatory requirements** that transfer rights to and impose obligations on the entity that may be in addition to the delivery of goods and services to a customer. The purpose of the model is to require an entity to account for these additional rights and obligations which are not addressed by existing IFRS.
- 5 The regulatory requirements are generally required to be met over different periods, which could mean that the regulated rate charged to the customer reflects an amount to cover these ‘supplementary’ regulatory requirements (and not merely reflect the price of the goods delivered during the same period). For accounting purposes, these different set of obligations need to be considered separately. In order to address these additional regulatory requirements the model should consider:
  - (a) the characteristics of defined rate regulation (scope of the project);

- (b) the regulatory agreement;
- (c) definitions of asset and liability; and
- (d) accounting for the rights and obligations arising from the rate-adjustment mechanism.

*Characteristics of defined rate regulation (scope of the project)*

- 6 The IASB staff are using 'defined rate regulation' as a label for a form of economic regulation established through a formal regulatory framework, which:
- (a) is binding on both the entity and the rate regulator;
  - (b) establishes a basis for setting the regulated rate (ie a rate-setting mechanism/rate-adjustment mechanism) chargeable by the entity to its customers for the transfer of specified goods and/ or services that comply with minimum quality levels or other service requirements.
- 7 Defined rate regulation is commonly used for services that governments consider essential for a reasonable quality of life for its citizens, such as the provision of clean and waste water services, electricity, some transport and communication services. The provision of such services are also subject to significant barriers to competition for supply because they require significant investment in infrastructure assets and networks and/ or there are physical and other barriers to the creation of more than one infrastructure network.

*Regulatory agreement*

- 8 The regulatory agreement between the rate regulator and the entity imposes regulatory requirements on the entity. These regulatory requirements are not restricted to the delivery of goods or services to customers during the current period. Instead, they may include service requirements for more than one period and may also include other requirements relating to government-imposed social or environmental policies.
- 9 The regulatory agreement also establishes the entity's entitlement to be compensated in exchange for satisfying its regulatory requirements. As such, the regulatory agreement establishes the basis for setting the price that the entity will charge its customers – the regulated rate. In principle, the regulatory agreement must include a rate-setting mechanism that establishes how the **regulated rate** to be charged to customers is calculated and identify the basis of the rate calculation in terms of the entity's regulatory obligations.
- 10 When establishing the regulated rate, the rate regulator considers two different perspectives:
- (a) Customer contract – Specifies a regulated rate chargeable to customers for goods and services received by individual customers during the period (PXQ). The customer contract is accounted for under IFRS 15.
  - (b) Regulatory agreement – specifies that the regulated rate used in individual contracts with customers is in fact an 'estimated price' because the rate regulator will adjust the future rate to reflect regulatory requirements in the regulated rate used to charge the customer.
- 11 The main purpose of the model is to focus on the rights and obligations that stem from the regulatory agreement.
- 12 The model indicates that there are two types of adjustments arising from the rate-setting mechanism in the regulatory agreement, that are reflected in the regulated rate (P):

- (a) **Estimation variances** - differences between actual and estimated amounts that give the entity a right to increase a future regulated rate ('allowable estimation variance') or an obligation to reduce a future regulated rate ('chargeable estimation variance').
  - (b) **Temporary differences**<sup>1</sup> that arise when:
    - (i) the entity fully or partially fulfils a regulatory requirement but the related compensation amount has not yet been included in the regulatory rate for the current period (ie a right to increase a future regulated rate); or
    - (ii) the regulated rate for the current period includes an amount relating to a regulatory requirement that has yet to be fulfilled (ie an obligation to reduce a future regulated rate).
- 13 Estimation adjustments and temporary differences give rise to rights and obligations that potentially meet the definitions of assets and liabilities in the IASB revised *Conceptual Framework (Conceptual Framework)*.

*Assets and liabilities in the context of defined rate regulation*

- 14 The ASAF paper 8A (provided for background purposes) includes an analysis of the links between the definitions of assets and liabilities in the *Conceptual Framework* and the characteristics of defined rate regulation as outlined in paragraph 6 above.
- 15 The preliminary analysis is that a combination of those characteristics suggests that the rights and obligations created by the rate-setting mechanism are assets and liabilities under the *Conceptual Framework*. The analysis is summarised in the paragraphs below.
- 16 Under the (revised) *Conceptual Framework*:
- (a) An asset is defined as – a present economic resource **controlled** by the entity as a result of **past events**. An economic resource is a **right** that has the potential to **produce economic benefits**.
  - (b) A liability is defined as – a **present obligation** of the entity to transfer an economic resource as a result of **past events**.

*Binding on both the entity and the rate regulator*

- 17 The model focuses on reflecting the entity's rights and obligations created by a regulatory agreement that binds both the entity and the rate regulator. Those binding terms establish rights and obligations for the entity that have commercial substance because they clearly have a discernible effect on the economics of the regulatory agreement. They also help to ensure that:
- (a) an entity's supplementary rights created by the rate-adjustment mechanism in the regulatory agreement have the potential to produce economic benefits; and
  - (b) an entity's supplementary obligations created by that mechanism have the potential to require the entity to transfer economic benefits.

*Establishes a basis for setting the regulated rate*

- 18 Defined rate regulation establishes a basis for (1) setting the regulated rate (ie a rate-setting mechanism) chargeable by an entity to its customers for the transfer of specified goods and/ or services and (2) includes a mechanism that adjusts the

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<sup>1</sup> This is the term currently being used in the IASB agenda papers.

regulated rate to reflect the correction of estimation variances and/or temporary differences.

- 19 The IASB Staff considers that both these characteristics are necessary for defined rate regulation to give rise to assets and liabilities under the *Conceptual Framework*.
- 20 In summary:
- (a) A right arises from the rate-adjustment mechanism if the entity has already partially or fully fulfilled a regulatory requirement (**past event**) but the current regulated rate does not yet reflect the compensation that the entity is entitled to in exchange. Even though the entity cannot compel its customers to buy the regulated goods or services, the entity's right to charge an increased future regulated rate has the potential to produce for the entity an inflow of economic benefits that are not available to other parties. That **right** will be consumed as the entity includes the rate increase in future regulated rates and will **lead to an inflow of economic benefits** if customers pay the increased future regulated rate for the future delivery of goods or services.
  - (b) An obligation arises from the rate-adjustment mechanism if the entity has already received economic benefits through billings to customers (**past event**) that will require it to supply regulated goods or services at a reduced future regulated rate (ie to transfer an economic resource by charging a reduced regulated rate for that supply). The **entity has no practical ability to avoid** making that transfer because of the binding terms of the regulatory agreement.

#### *Accounting for these supplementary regulatory requirements*

- 21 The principle of the model is to recognise the rights and obligations arising from the rate-adjustment mechanism specified in the regulatory agreement and which are not reflected in the accounting under IFRS 15.
- 22 Those rights and obligations result from activities undertaken by the entity during the reporting period and constitute a right or an obligation to charge a higher or lower regulated rate in a future period.
- 23 The IASB staff do not propose to amend IAS 38 *Intangible Assets* to reflect any rights or obligations arising from the regulatory agreement. Few respondents to the IASB Discussion Paper on rate-regulated activities expressed support for developing an intangible asset model, for both conceptual and practical reasons.

#### **Questions for EFRAG CFSS and EFRAG TEG members**

- 24 Do you consider the description of the model to be clear on how the regulatory agreement creates rights and obligations for the entity? If not, what changes do you suggest?
- 25 Do you consider that the characteristics of defined rate regulation support the conclusion that the rights and obligations created by the rate adjustment mechanism meet the definitions of assets and liabilities in the forthcoming *Conceptual Framework*? In particular do you agree with the conclusion in paragraph 20?
- 26 Do you have any preliminary views or suggestions about how the regulated rate adjustments could be presented in profit or loss? The examples in the Appendix prepared by the IASB staff suggest that a "regulated rate adjustment" could be presented as a single line item following the revenue recognised in accordance with IFRS 15.

- 27 Do you agree with the conclusions and outcome on each of the examples presented in the Appendix of this paper? If not, please explain why and how you would account for the adjustments in the respective examples?
- (a) Example 1 - input price variance
  - (b) Example 2 – maintenance temporary difference
  - (c) Example 3 – accelerated depreciation temporary adjustment
  - (d) Example 4 – regulatory capitalisation of costs temporary adjustment
  - (e) Example 5 – prefunding of construction temporary adjustment

## Appendix 1- Rate adjustment examples

- 1 Agenda paper 09-04 ASAF paper 8B provide a series of examples that illustrate the application of the model.
- 2 As previously explained, there are two types of adjustments namely (1) estimation adjustments and temporary differences that result from defined rate regulation. The examples discussed in this appendix illustrate both these adjustments. These include:
  - (a) Example 1 – input price variance
  - (b) Example 2 – maintenance temporary difference
  - (c) Example 3 – accelerated depreciation temporary adjustment
  - (d) Example 4 – regulatory capitalisation of costs temporary adjustment
  - (e) Example 5 – prefunding of construction temporary adjustment
- 3 The examples are based on a fact pattern of a fictional water utility company (Entity W) that undertakes defined rate-regulated activities under a regulatory agreement. Entity W has a December year-end. The regulatory agreement has a rate-setting mechanism that states that the regulated rate is reviewed and set every three years.

### Example 1 – input price estimation variance

- 4 The regulatory agreement gives Entity W the right to charge a regulated rate intended to recover the actual input cost incurred for chemicals used in treating waste water. Entity W includes any estimation variance arising in the regulated rate for the next year.
- 5 The estimated input cost for each year 20X1-20X3 is CU30.000. During 20X1, the actual input cost of the chemicals is CU2.000 higher than estimated. This creates an allowable variance of CU2.000, which is included in the rate charged to customers during 20X2. No further input cost variances arise during the three-year period.

#### *Analysis*

- 6 The right to charge an extra CU2.000 in 20X2 arises only because the rate-adjustment mechanism specifies that the input cost variance arising in 20X1 is added to the rate charged in 20X2.
- 7 This creates a right, arising from the regulatory agreement and from the input cost variance, which has the potential to produce economic benefits for Entity W. During 20X2, Entity W bills customers using the higher regulated rate and recognises another asset—cash or a receivable. As a result, the entity no longer has a regulatory asset at 31 December 20X2.

#### *Applying the model*

- 8 Without the proposed model, Entity W recognises a 'loss' of CU2.000 in 20X1 but then recognises a 'profit' of CU2.000 in the next year when the increased rate is billed to customers.
- 9 Using the model, the entity will recognise a regulatory asset of CU2.000 in 20X1, together with the related **regulated rate adjustment income**<sup>2</sup> in profit or loss at 31 December 20X1.

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<sup>2</sup> The IASB has not discussed how this item of income should be presented in the profit or loss.

- 10 During 20X2, Entity W includes the CU2.000 in its bills to customers. Entity W also recognises a **related regulated rate adjustment expense**<sup>3</sup> in profit or loss for the period to reflect the fact the amount of revenue recognised in 20X2 using IFRS 15 includes CU2.000 that was already recognised as regulated rate adjustment income in 20X1.
- 11 Entity W records the following at 31 December.

Year to 31 December	20X1 CU000	20X2 CU000	20X3 CU000
<i>Existing IFRS Standards</i>			
Revenue (amounts billed)	30	32	30
Operating expenses	(32)	(30)	(30)
Profit/ (Loss)	(2)	2	0
<i>Proposed model</i>			
Revenue (amounts billed)	30	32	30
Regulated rate adjustment: income/ (expense)	2	(2)	0
Operating expenses	(32)	(30)	(30)
Profit/ (Loss)	0	0	0
Regulatory (liability)/ asset	2	0	0

### Example 2 – maintenance temporary difference

- 12 For the three-year period 1 January 20X1 through 31 December 20X3, Entity W is required to carry out an agreed programme of enhanced maintenance on the network of pipes supplying water to customers' premises and removing waste water from those premises. The estimated cost of the agreed work is CU150.000. The maintenance does not meet the conditions for capitalisation under IAS 16 *Property, Plant and Equipment*.
- 13 The regulatory agreement states that Entity W can choose when, during the three-year period, to carry out the work. However, the rate regulator decides that the cost will be spread evenly for customers through the regulated rate in each of the three years 20X1-20X3 (CU 50.000 is included in the regulated rate each year). As a result, Entity W has the right to charge a regulated rate intended to produce cash inflows of CU50.000 each year through the amounts billed to customers for the delivery of water services.
- 14 Entity W undertakes all of the agreed work during 20X2. The work costs CU150.000, as forecast.

### Analysis

- 15 The IASB Staff argue that, at 31 December 20X1, the entity has a present obligation to transfer economic benefits as a result of past events because:

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<sup>3</sup> The IASB has not discussed how this item of expense (or reversal of previous income) should be presented in the profit or loss.

- (a) it has already received economic benefits (the CU50,000 billed to customers during 20X1); and
- (b) it has no practical ability to avoid transferring economic benefits that it would not otherwise have had to transfer had it not received that benefit. The benefits to be transferred are the regulated goods or services that will be priced using the unfavourable regulated rate.
- 16 The obligation is to charge a regulated rate that results in the entity transferring goods or services to customers during 20X2 on terms that are unfavourable to the entity, and gives rise to a liability. During 20X2, Entity W completes the maintenance work at a cost of CU150.000 and fulfils the obligation. Entity W now has a right, arising from the regulatory agreement and the costs incurred during 20X2, and that right has the potential to produce economic benefits for Entity W.

*Applying the model*

- 17 Without the proposed model, Entity W recognises a profit of CU50.000 for each of the years 20X1 and 20X3 when it bills those amounts to customers. Entity W recognises a loss of CU100.000 in 20X2, when it incurs the maintenance costs of CU150.000 but bills to customers only the 20X2 instalment of CU50.000.
- 18 Using the model, Entity W will recognise a regulatory liability of CU50.000 at 31 December 20X1, together with a related regulated rate adjustment expense in profit or loss.
- 19 During 20X2, it recognises the costs incurred of CU150.000 together with related regulated rate adjustment income of CU100.000 in profit or loss. This rate adjustment income reflects the fulfilment of the CU50.000 liability recognised in 20X1, and the origination of the CU50.000 regulatory asset in 20X2.
- 20 During 20X3, Entity W bills customers CU50.000, which is included within the revenue recognised using IFRS 15 and derecognises the regulatory asset. Consequently, during 20X3 a regulated rate adjustment expense of CU50.000 is recognised in profit or loss.
- 21 Entity W records the following at 31 December.

Year to 31 December	20X1 CU000	20X2 CU000	20X3 CU000
<i>Existing IFRS Standards</i>			
Revenue (amounts billed)	50	50	50
Operating expenses	<u>0</u>	<u>(150)</u>	<u>0</u>
Profit/ (Loss)	50	(100)	50
<i>Proposed model</i>			
Revenue (amounts billed)	50	50	50
Regulated rate adjustment: income/ (expense)	(50)	100	(50)
Operating expenses	<u>0</u>	<u>(150)</u>	<u>0</u>
Profit/ (Loss)	0	0	0
Regulatory (liability)/ asset	(50)	50	0

### Example 3 – accelerated depreciation temporary adjustment

- 22 At the end of 20X0, Entity W purchased new software to upgrade its customer billing system for CU24.000 with an economic life of three years starting from 20X1. The rate regulator allows the entity to recover the cost of CU24.000 through the regulated rate over two years – 20X1 and 20X2 – instead of three years. The regulated rate in 20X1 and 20X2 includes CU12.000 per year.

#### *Analysis*

- 23 The entity is obliged to transfer goods or services to customers during 20X3 on terms that are unfavourable to the entity. Entity W fulfils its obligation to provide goods or services at the reduced (unfavourable) rate.
- 24 Entity W has a present obligation to transfer economic benefits as a result of past events, ie liability, because:
- (a) it has already received economic benefits (the extra CU4.000 billed to customers in each year 20X1-20X2); and
  - (b) it has no practical ability to avoid transferring economic benefits in 20X3 that it would not otherwise have had to transfer had it not received that benefit. The benefits to be transferred are the regulated goods or services that will be priced using the unfavourable regulated rate.

#### *Applying the model*

- 25 Without the proposed model, Entity W recognises a depreciation expense of CU8.000 in each of the three years 20X1-20X3 (economic life of the software). Without the proposed model, Entity W recognises a 'profit' of CU4.000 in each of 20X1 and 20X2 when it bills customers CU12.000 per year. Entity W then recognises a 'loss' of CU8.000 in 20X3 when the reduced rate is billed to customers but the asset continues to be consumed and a depreciation expense of CU8.000 is recognised.
- 26 Using the model, Entity W recognises a CU4.000 regulated rate adjustment expense in profit or loss for each year 20X1 and 20X2. This results in a regulatory liability of CU4.000 at 31 December 20X1, which increases to CU8.000 at the end of 20X2. During 20X3, Entity W recognises regulated rate adjustment income in profit or loss to reflect the fulfilment of its obligation to transfer services to customers on unfavourable terms. Entity W also derecognises the regulatory liability.
- 27 Entity W records the following at 31 December.

Year to 31 December	20X1 CU000	20X2 CU000	20X3 CU000
<i>Existing IFRS Standards</i>			
Revenue (amounts billed)	12	12	0
Operating expenses	(8)	(8)	(8)
Profit/ (Loss)	4	4	(8)
<i>Proposed model</i>			
Revenue (amounts billed)	12	12	0
Regulated rate adjustment: income/ (expense)	(4)	(4)	8
Operating expenses	(8)	(8)	(8)
Profit/ (Loss)	0	0	0
Regulatory (liability)/ asset	(4)	(8)	0

#### Example 4 – regulatory capitalisation of costs temporary adjustment

- 28 During 20X1, Entity W built an extension to one of its water treatment plants. The rate regulator approved the cost of CU170.000, which included CU20.000 of overheads that do not qualify for inclusion in the carrying amount recognised using IAS 16 *Property, Plant and Equipment*.
- 29 The CU170.000 added to the Regulatory Asset Base (RAB) will be included in the regulated rate on a straight-line basis over the ten-year useful economic life of the plant, beginning in 20X2. Entity W depreciates the plant on the same basis in its IFRS financial statements.
- 30 The example prepared by the IASB staff focusses on the CU20.000 and, in principle, is the same as the above examples.

#### Analysis

- 31 The regulatory agreement creates a right for Entity W to charge a regulated rate intended to recover its allowable costs including the overhead costs of CU20.000.
- 32 In each year from 20X2 onwards, a part of the entity's right to charge a favourable rate is consumed as it bills customers using the higher rate.

#### Applying the model

- 33 Without the proposed model, Entity W would record a 'loss' of CU20.000 in 20X1. When the plant comes into use in 20X2, Entity W starts to depreciate the asset and charge its customers for the goods or services provided. Consequently, without the model, Entity W will record a 'profit' of CU2.000 in each year from 20X2 onwards, reflecting the delayed recovery of the CU20.000 allowable costs incurred in 20X1.
- 34 Using the model in 20X1, Entity W recognises a regulatory asset of CU20.000 and records a corresponding regulated rate adjustment income in profit or loss.
- 35 During 20X2 onwards, Entity W recognises a regulated rate adjustment expense in profit or loss and decreases the regulatory asset with the same amount. This reflects the pattern in which the entity recovers its allowable overhead cost from customers through the regulated rate.
- 36 Entity W records the following at 31 December.

Year to 31 December	20X1 CU000	20X2 CU000	20X3 CU000
<i>Existing IFRS Standards</i>			
Revenue (amounts billed)	0	2	2
Operating expenses	(20)	(0)	(0)
Profit/ (Loss)	(20)	2	2
<i>Proposed model</i>			
Revenue (amounts billed)	0	2	2
Regulated rate adjustment: income/ (expense)	20	(2)	(2)
Operating expenses	(20)	(0)	(0)
Profit/ (Loss)	0	0	0
Regulatory (liability)/ asset	20	18	16

### Example 5 – prefunding of construction temporary adjustment

- 37 During 20X0, the rate regulator approved a plan for Entity W to upgrade sections of its pipe network at a cost of CU90.000. The work is scheduled to be carried out in 20X2. The work will be capitalised under IAS 16 and has an economic life of 10 years. To help the entity's cash flow, the rate regulator approves a rate increase that will provide Entity W with CU30.000 cash in 20X1 through amounts billed to customers prior to construction.
- 38 Entity W carries out the upgrade work in 20X2 and incurs costs of CU90.000, as forecast. The remaining CU60.000 will be included in the regulated rate over a ten year period starting in 20X3 (CU6.000 per year).

#### Analysis

- 39 The regulatory agreement specifies that the CU30.000 included in the regulated rate charged to customers during 20X1 relates to the upgrade work, which has not been carried out by the end of 20X1.
- 40 As a result, at 31 December 20X1, the entity has a present obligation to transfer economic benefits as a result of past events because:
- it has already received economic benefits (the CU30,000 billed to customers during 20X1); and
  - it has no practical ability to avoid transferring economic benefits that it would not otherwise have had to transfer had it not received that benefit. The benefits to be transferred are the regulated goods or services that will be priced using the unfavourable regulated rate.
- 41 Similar to the analysis in example 2, the IASB Staff is of the view that the obligation created is not an obligation to incur the upgrade costs. Instead, the obligation is to charge a regulated rate that results in the entity transferring goods or services to customers from 20X3 onwards on terms that are unfavourable to the entity (the price the entity will charge is lower than it should be). As a result, the IASB Staff conclude that the obligation meets the definition of a liability and should be recognised by Entity W in its IFRS financial statements.

*Applying the model*

- 42 Without the proposed model, Entity W recognises a ‘profit’ of CU30.000 in 20X1 (amount billed to customers through the regulated rate). From 20X3 onwards, Entity W will show an annual ‘loss’ of CU3.000 because the regulated rate will include only CU6.000 per year but the depreciation charged in profit or loss using IAS 16 will be CU9.000 per year (CU90.000 depreciated on a straight-line basis over ten years).
- 43 Using the model, at 31 December 20X1, Entity W will recognise a regulatory liability of CU30.000, and a corresponding regulated rate adjustment expense in profit or loss. During 20X2, the entity recognises a CU90.000 increase in property, plant and equipment (an asset).
- 44 During 20X3, Entity W starts to use the upgraded pipes. Entity W also starts to recognise annual regulated rate adjustment income in profit or loss to reflect the fulfilment of its obligation and reduces the regulatory liability by CU3.000 per year over ten years. This means that the prefunding of CU30.000 received from customers in 20X1 is recognised in profit or loss on the same basis as, and over the same periods in which, the entity recognises as expenses the related costs for which the prefunding is intended to compensate.
- 45 Entity W records the following at 31 December.

<b>Year to 31 December</b>	<b>20X1 CU000</b>	<b>20X2 CU000</b>	<b>20X3 CU000</b>
<i>Existing IFRS Standards</i>			
Revenue (amounts billed)	30	0	6
Operating expenses	<u>(0)</u>	<u>(0)</u>	<u>(9)</u>
Profit/ (Loss)	30	0	(3)
<i>Proposed model</i>			
Revenue (amounts billed)	30	0	6
Regulated rate adjustment: income/ (expense)	(30)	0	3
Operating expenses	<u>( 0)</u>	<u>(0)</u>	<u>(9)</u>
Profit/ (Loss)	0	0	0
Regulatory (liability)/ asset	(30)	(30)	(27)

## Consolidated results

- 46 The consolidated regulated rate adjustments of the combined examples are made up as follows:

Year to 31 December	20X1	20X2	20X3	End 20X3 Regulatory (liability)/ asset
	CU000	CU000	CU000	CU000
Example 1—Estimation variance	2	(2)	-	0
Example 2—Enhanced maintenance	(50)	100	(50)	0
Example 3—Accelerated depreciation	(4)	(4)	8	0
Example 4—Overheads capitalised	20	(2)	(2)	16
Example 5—Prefunding	(30)	0	3	(27)
<b>Regulated rate adjustment: income/ (expense)</b>	<b>(62)</b>	<b>92</b>	<b>(41)</b>	<b>(11)</b>

- 47 The consolidated results is as follows:

Year to 31 December	20X1	20X2	20X3	Total
	CU000	CU000	CU000	CU000
<i>Regulatory report—actuals<sup>5</sup></i>				
Revenue (amounts billed)	215	212	205	632
Allowable costs	(215)	(212)	(205)	(632)
Profit/ (Loss) (as forecast—paragraph 19)	0	0	0	0
<i>Existing IFRS Standards</i>				
Revenue (amounts billed)	215	212	205	632
Operating expenses	(153)	(304)	(164)	(621)
Profit/ (Loss)	62	(92)	41	11
<i>Proposed model</i>				
Revenue (amounts billed)	215	212	205	632
<b>Regulated rate adjustment: income/ (expense)</b>	<b>(62)</b>	<b>92</b>	<b>(41)</b>	<b>(11)</b>
Operating expenses	(153)	(304)	(164)	(621)
Profit/ (Loss) (as forecast—paragraph 19)	0	0	0	0
Net regulatory (liability)/ asset	(62)	30	(11)	

- 48 The CU 215.000 revenue and CU 215.00 allowed costs represents the estimated amounts used to calculate the regulated rate for each year ending 31 December. There is an assumption that the entity makes no profit or loss in any year and the accounting adjustments recognised using the model produce the same result.