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RECOGNITION OF CONNECTION PAYMENTS OF ELECTRICITY DISTRIBUTORS UNDER IFRS 15: ONE TEST OF CONTINUING SERVICE (EVIDENCE FROM FOREIGN OPERATORS AND REGIONAL ELECTRIC NETWORKS JSC)

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Abstract
The thesis asks when the one-time connection payment of an electricity distributor is revenue of the connection and when it is an advance for later service under IFRS 15. Three foreign operators answer differently: two European distributors defer the payment over the lifetime of the connection assets, a Russian grid company recognizes it when the customer is connected. The thesis proposes one test – whether the same entity continues to serve the same customer after connection – and applies it to the three operators and to the Uzbek regulation, under which the regional electric networks enterprise connects customers up to 50 kW and then supplies them. For a 31–50 kW cable connection the test gives UZS 0.63 mln of revenue a year over an assumed 27 years instead of UZS 17.10 mln in the year of connection. In the text examined, the national revenue standard contains no connection rule, and Regional Electric Networks JSC names no connection payment in its 2025 IFRS statements.

Keywords: connection payments; IFRS 15; non-refundable upfront fee; contract liability; electricity distribution; national accounting standards

Problem. A new customer of an electricity distributor pays a one-time amount for the connection to the network. In Uzbekistan the amount depends on capacity and connection method: for a non-household consumer of 31–50 kW connected by cable up to 80 m, Annex 1 of Cabinet Resolution No. 555 prints UZS 17.27 mln, of which 99% goes to the account of the regional electric networks enterprise (HETK) [1, para 23, Annex 1]. IFRS 15 admits two answers for a payment of this kind. If the connection is

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a good or service transferred to the customer, the amount is revenue when the connection is made; if the connection only prepares the entity's later performance, the amount is an advance and becomes revenue as the later service is provided [2, paras 25, B49]. The choice moves most of the revenue from the year of connection to later years, yet the national framework gives no guidance: National Accounting Standard (NAS) 2 contains no provision on connection payments in the text examined [3], and the revenue policy in the 2025 IFRS statements of Regional Electric Networks JSC (hereinafter HET) names none [4, Note 2]. The question is which test decides between the two answers and what it gives for HET.

Existing approaches. Four groups of sources bear on the question. Standards. IFRS 15 excludes from performance obligations the activities that an entity must undertake to fulfill a contract unless they transfer a good or service, and treats a good or service as distinct if it is capable of being distinct and the promise is separately identifiable from the other promises in the contract [2, paras 25, 27]. For a non-refundable upfront fee the standard lists "initial fees in some supply contracts", calls the fee in many cases an advance payment recognized when the future goods or services are provided, and extends the recognition period beyond the initial contract if a renewal option gives a material right [2, paras B40, B48, B49]. IFRIC 18, superseded by IFRS 15, treated a service connection with stand-alone value as a separate service recognized when performed and, where the agreement fixed no period, spread revenue for the ongoing service over a period no longer than the useful life of the transferred asset [5, paras 15(a), 18, 20]. Interpretations. The IFRS Interpretations Committee observed that the activities a stock exchange performs at the start of a listing contract do not transfer a service to the customer [6], and a staff paper of the Transition Resource Group reads the period of an advance fee as possibly longer than the initial contract [7, para 13]. Practice. Enexis (Netherlands) and Energijos skirstymo operatorius (ESO, Lithuania) defer connection payments over the useful life of the connection assets [8; 9], whereas Rosseti Centre (Russia) recognizes them when the customer is connected [10]. National literature. Zurapov favors the accrual method, with revenue recognized when goods are shipped and risks pass [11], and Rakhimova contrasts recognition on

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acceptance acts and invoices with IFRS 15 [12]; neither addresses connection payments. No source examined offers a test that explains the split in practice.

Author's position. The split in practice is explained by one question about the structure of the contract: after the connection, does the same entity continue to serve the same customer? Three positions result. First, if it does, the connection benefits the customer only through the later service, so it is not distinct (para 27), the connection and supply contracts are combined (para 17(c)) and the payment is an advance (B49). Second, the advance is released over the expected relationship with that customer: when the supply continues and the customer is not charged for connection again, the payment gives a material right that extends the period beyond the initial contract (B40, B49); the useful life of the assets that serve the connection is the upper bound, by analogy with IFRIC 18. Third, if another party is served afterwards, as when transmission is negotiated with different consumers, the connection contract holds no further promise, the connection is a separate service and its revenue is recognized when it is completed [2, paras 17(c), 27, B40, B49; 5, para 20].

Grounds. The test follows from the wording of the standard. Paragraph 25 asks whether the connection work transfers a service, and paragraph 27 asks whether the customer can benefit from it on its own or with readily available resources; a connection is of use only when electricity is delivered through it, and where the same entity delivers it under the same contract structure, that delivery is not a resource the customer can obtain elsewhere. Where another party is served later, the connection agreement holds no further promise, which is the reasoning Rosseti Centre gives for its policy [10, p. 28]; under the test, a market model in which a separate supplier buys the network service would place a distributor in the separate-service branch. The Uzbek regulation fixes the structure that the test examines. The supply contract is formalized before connection (para 4), the enterprise performs all turnkey work for consumers up to 50 kW (para 22) and later supplies electricity under that contract (para 45), and the payment, made before the meter is sealed (para 39), is refunded if the connection is refused within three

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working days of the application (para 15) [1]. Household consumers are outside the payment (para 4). HET sells electricity to end consumers at tariffs approved by the Government [4, Note 1]. Table 1 applies the test to each case: the two European distributors and HET fall in the advance branch, Rosseti Centre in the separate-service branch, and NAS 2 offers no counterpart. The classification of Enexis and ESO rests on the author's reading, because their notes do not name the customer served after the connection.

Table 1. The continuing-service test applied to foreign practice and to the Uzbek texts

Entity (year)	Reported treatment and period	Does the same entity serve the same customer afterwards?	Branch
Enexis, Netherlands (2025)	Not a separate performance obligation: a fee received before the connection is an advance for a service still to be provided; revenue is spread across the connection's useful life (years not stated); liability EUR 1,406 mln at year-end [8]	Yes: grid access for the connected customer (author's reading)	**Advance**
ESO, Lithuania (2020)	Fees deferred over the estimated useful lives of the assets used for the connection: 27 years on average for the electricity grid, 46–55 years for the gas grid; liability EUR 226 mln at the end of 2020 [9]	Yes: distribution to the same customer (author's reading)	**Advance**
Rosseti Centre, Russia (2024)	Separate performance obligation; revenue at a point in time, after the consumer is connected; the agreement has no further obligations [10]	No: connection and transmission are negotiated separately with different consumers [10]	**Separate service**
HET, Uzbekistan (2025)	Payment of UZS 17.27 mln (cable) or 14.27 mln (overhead line) for 31–50 kW, due ahead of meter sealing (para 39); the revenue policy names no connection payment [1; 4]	Yes: the enterprise connects after the supply contract (para 4) and then supplies (para 45)	**Advance** (by the test)
NAS 2, Uzbekistan (2024)	Services by stage of completion (paras 18–19); advances are not revenue (para 21); the price of post-sale service is deferred (para 15); no rule on connection found [3]	Not addressed	**No rule**

Note: advance – the payment is released to revenue over the period of the later service; separate service – revenue is recognized when the connection is completed. Source: compiled by the author from the sources cited.

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Evidence. Figure 1 shows what the choice does to revenue. In panel A, a 31–50 kW cable connection brings HETK UZS 17.10 mln, which is 99% of the UZS 17.27 mln printed in Annex 1 [1]. Recognized on connection, all of it is revenue of the first year. Deferred over 27 years, the average useful life that ESO's auditor reports for electricity-grid connection assets [9], it gives UZS 0.63 mln a year, so first-year revenue is lower by about UZS 16.5 mln per connection; over 10 years it would still be only UZS 1.71 mln. In panel B, Enexis received EUR 127 mln in 2025 (2024: EUR 107 mln) and released EUR 40 mln (EUR 38 mln) to revenue, which is 31.5% (35.5%) of the amounts received, so that the liability rose to EUR 1,406 mln [8]. For HET the statements do not show the treatment. The words connection and technological connection do not occur in the readable text, which lacks Notes 15 and 19; the revenue policy states that each type of goods or services is sold under a separate identifiable contract with a separate buyer, a general statement that does not address connection; and deferred income of UZS 6.52 trn at the end of 2025 is reported in the related-party note as the balance with state-controlled entities [4, balance sheet, Notes 2, 5], while the interim statements link deferred income to government subsidies for the construction and modernization of networks [13, Note 11]. By the test the answer for HET is an advance; whether HET applies it is not disclosed.

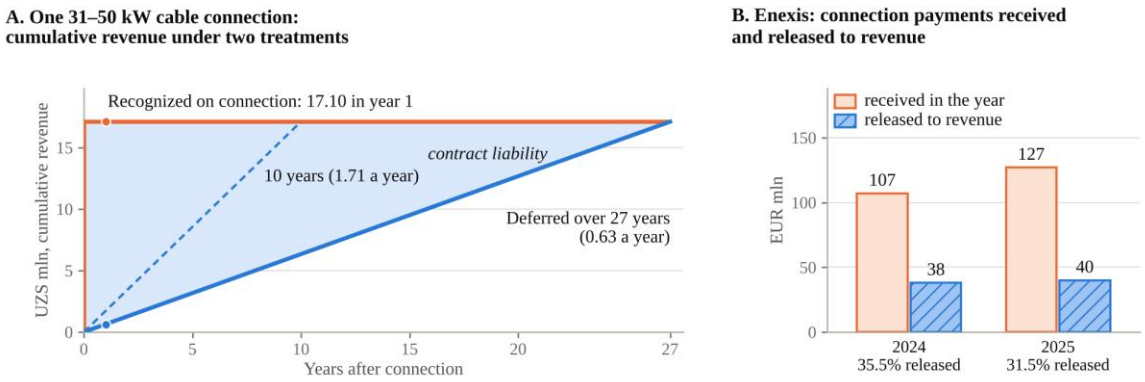

Fig. 1. Revenue from one connection payment under two treatments (A) and connection payments of Enexis received and released to revenue (B)

Note: A – illustration for HETK: 99% of UZS 17.27 mln (Annex 1, 31–50 kW, cable line up to 80 m; the first of the two sums printed in the row, read as the base payment; value added tax not stated), revenue straight-line from the year of connection; 27 years is the average useful life of electricity-

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grid connection assets reported for ESO, an upper bound and not an estimate for HET; dashed line – 10-year sensitivity. B – Enexis, Note 24, rows "Received during the year" and "Amortised". Source: author's calculations from the sources cited in Table 1.

Conclusion

A connection payment is revenue on connection only if another party is served afterwards; where the same entity serves the same customer, it is an advance released over the expected relationship, capped by the life of the connection assets. Applied to the Uzbek regulation, the test points to deferral for HET, which would reduce first-year revenue per 31–50 kW cable connection from UZS 17.10 mln to UZS 0.63 mln under the 27-year bound. The accounting policy of HET, which names no connection payment, and the national revenue standard, which has no connection rule in the text examined, should state the test. The result is limited by the author's reading of the foreign statements, by a period borrowed from a Lithuanian operator and by the absence of HET connection volumes.

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