

# ACCOUNTING PRACTICES

Accounting unbundling

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- Definition of financial reporting
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  - Long-term assets and depreciation
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# *Unbundling* of energy activities

## Legal background

- Art. 21 Energy Law
- EU Directive 2003/55/EC
- 2003/54/EC

# Steps needed for implementation

- Defining of financial reporting and reporting periods
- CERC supervision on data delivery
- Equitable treatment of all subjects within one energy activity

# Defining of Financial Reporting (1)

- Present situation
  - Licensees submit financial reports at the end of four months
    - Balance sheet
    - Profit and loss statement
    - Report on cash flow
    - Notes accompanying financial reports

# Defining of Financial Reporting (2)

- Future situation
  - Introducing and developing supervision of licensees can be undertaken only via a developed reporting system
  - It is necessary to define specific forms of reports and intervals in which reports will be submitted

# Introducing and Developing Supervision

1. Preparing a Regulatory chart of accounts for the regulatory needs
2. Defining assets which is included in regulatory asset base and the amount of annual depreciation rates
3. Creating report forms

# 1. Unified Regulatory chart of accounts (RCA) (1)

- Most important element of accounting infrastructure and organization
- Important part of accounting framework which guarantees level of reporting that is truthful and detailed enough for the needs of regulation
- Instrument of introducing the highest level of uniformity while at the same time separating regulated from non-regulated activities (assets, liabilities, equity)

# 1. Unified Regulatory chart of accounts (RCA) (2)

- Transition towards RCA needs to be followed by guidelines and instructions for account application.
- Special significance will be given to the accounts of depreciation, material and non-material long-term assets, company assets paid for by consumers, expenses, reserves, working capital.

# 1. Unified Regulatory chart of accounts (RCA) (3)

- The purpose of such RCA is to enable the use of data from the ledger and other business books of a company in a simple manner so that accounting information is easily created and presented

## 2. Assets and Depreciation (1)

- There is a dilemma about a long term assets valuation (i.e. gas distribution).
  - book value of total material and non-material assets which gas distributors use in their day to day business or
  - present value of material assets defined by Art. 4 of the Regulation Book on Gas Distribution (gas distribution network, high pressure, medium pressure and low pressure distribution pipe lines, with measuring regulation and safety equipment, airing unit, home industrial connections, equipment in distribution system together with a meter.

This is still being debated within the passing of tariff system for gas distribution.

## 2. Assets and Depreciation (2)

In connection with depreciation, it is necessary:

- To pass instructions on the use of unified annual rates for long term assets according to depreciation life cycle determined for regulation needs
- To determine the method of depreciation calculation

### 3. Defining of reporting forms (1)

- The key element of implementing supervision of energy subjects doing business in the regulatory system is a reporting system which needs to proscribe the form, the indicators (financial and technical) and deadlines.

## 3. Defining reporting forms (2)

- Types of reports which need to be proscribed:
  - Asset Report
  - Expenditures and Receivables Report
  - Profit and Loss Statement
  - Planned and Completed Investment Report
  - Technical Data Report
  - Other reports