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METHODOLOGY TO THE UNIFIED REGULATORY CHART OF ACCOUNTS FOR THE PURPOSES OF REGULATORY ACCOUNTING OF HEAT SUPPLY COMPANIES

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1. Introduction

The present methodology has been elaborated in compliance with the regulatory accounting requirements. Information carriers for the purposes of regulatory accounting are the balance sheet and the profit and loss statement of heat supply companies in addition to the approved supplementary regulatory reports. The information contained in all these reports must be classified and structured in such a way that the regulator has an opportunity to monitor and supervise the status of the respective legal parameters and requirements as objectively as possible.

The Unified Chart of accounts for regulatory accounting of heat supply companies should be as much as possible in agreement with the exemplary National Chart of Accounts and the requirements of the Accountancy Law, with the practice in these companies and with the international financial reporting standards (IFRS) applied by them. The purpose is for the new regulatory framework requirements to be fulfilled in a most expedient way so that efforts for restructuring information to this effect are minimized.

The Unified Chart of accounts covers all sections of the National Chart of accounts. Selection of groups must be consistent with the nature of activities. The better part shall keep its inherent content, numbering, section, group and account designation and additional one may be included, according to the new requisites.

It is suggested that accounts have three, four and six digit codes with the required level of analysis. Detailed specifications of accounts carrying the information that has greater importance for the regulatory body purposes have been compiled.

The content of methodology to be used with the Unified Chart of accounts covers:

- Sections and items in the Profit and Loss Statement and the respective accounts as per the Unified Chart of Accounts being carriers of the standardized information for the purposes of regulatory accounting;
- Balance sheet sections and items and financial accounts as per the Unified Chart of Accounts being carriers of the standardized information for the purposes of regulatory accounting

2. Identification of regulated activities and their internal structure

Object of regulation on behalf of the regulating state body shall be activities related to generation of electricity, generation, transmission and realization of heat energy and connection of consumers.

HEAT SUPPLY COMPANY		
REGULATED ACTIVITY		NON-REGULATED ACTIVITY
1. Generation of electricity		
2a. Generation; 2b. Transfer; and 2c. Realization of heat energy		
3. Connection of consumers		

Major information sections related to the activities generation of electricity, generation, transmission and realization of heat energy and connection of consumers, which shall be subject to monitoring, are the following:

- Operating revenue, including:
 - Revenue from sales of electricity
 - Revenue from sales of heat energy by groups of consumers
- Revenues from connection of consumers
- Operating expenses, including:
 - Fuel expenses
 - Service expenses
 - Repair expenses
- Expenses for support activities, including:
 - Fuel expenses
 - Expenses in garages and service centers
 - Expenses in repair shops
 - Expenses in laboratories and research centers
 - Expenses for other support activities
- Expenses for general and administrative purposes

- Expenses for capital construction

3. Classification and structure of operating revenues

In accordance with the requirements of IAS18 Income, operating revenue of companies shall be reported as revenue, received from the following types of transactions and events:

1. Sales of finished goods;
2. Sales of commodities;
3. Provision of services, and
4. Provision of company assets to other persons, which shall bring about interests, dividends and royalties.

Services may be rendered during one or more periods of time. Some contracts for rendering services shall be directly related to construction contracts for example designer services. Revenues from these contracts shall be considered to be in compliance with the construction contracts.

Revenue is the gross inflow of economic benefits during the period arising from the ordinary operating activities of a utility where this inflow results in increase of utility net worth other than increases related to shareholders' contributions.

Revenues include only gross inflow of economic benefits, while amounts collected by third parties like sales tax, commodity and service taxes and value added tax shall not be considered economic benefits received by the utility and do not result in net worth increase. Therefore they are not part of the revenues.

Revenue from sales of finished goods shall be recognized where considerable risk and benefits from ownership of goods are transferred to the purchaser.

Revenue from rendering of services shall be recognized considering the stage of completion of the related service, determined as a percent ratio of services rendered at the time and the complete amount of services that is expected to be provided.

Revenues from interests shall be recognized on time proportion principle in relation to the remaining period of time and the effective interest for the maturity period, in cases where it has been determined that such a revenue will be accrued to the company.

3.1. Determination of revenues by regulated activities for the purposes of regulatory accounting

The approach of revenue identification by function is adopted for regulatory mechanism purposes:

1. Revenue from generation of electricity;
2. Revenue from generation of heat energy;
3. Revenue from transfer and realization of heat energy;
4. Revenue from connection of consumers;
5. Revenue from non-regulated activities.

Each of these activities has its specific nature that makes possible for its separate booking. Therefore they can be monitored, metered and controlled using mechanisms of accounting reporting for the purposes of the regulatory body. At the same time consolidation of regulated activities allows for a complete coverage of process and its management in agreement with the current national energy policy.

To unbundle license activities heat supply companies have to perform the following:

1. Identify and report separately revenues from non-regulated activities;
2. Identify revenues by regulated activities and by groups of consumers.

Accounts for reporting revenues by function are comprised by subgroup “71 - Operating expenses” of the 7-th group.

Each revenue entry by function shall be given in levels that are subject to monitoring and control by the regulatory body and has direct or indirect relation to the regulated features of heat supply companies.

Accounts of group 70 shall be organized by the following types of transactions and events:

1. Revenues from sales of finished goods;
2. Revenues from sales of commodities;
3. Revenues from provision of services; and
4. Revenues from provision of company assets to other persons, which shall bring about interests, dividends and royalties.

Account 711 covers revenues from sales of finished goods. The account has levels as follows:

- Revenue from sales of electricity;
- Revenue from sales of heat energy; and
- Revenue from sales of finished goods from non-regulated activities

Account 713 covers revenues from sales of finished goods. The account has levels as follows:

- Revenue from transfer and realization of heat energy;
- Revenue from connection of consumers;
- Revenue from sales of non-regulated services.

Accounts 711 and 713 shall have additional levels by groups of consumers;

4. Classification and structure of operating expenses

The chart of accounts' structure in section Operating Expenses needs to have the levels needed to meet the purposes of regulatory accounting and where necessary to allow for retrieval of additional information, apart from the reporting classification, included in the Income and Expenses Statement of heat supply companies for the purposes of regulatory accounting.

Apart from statements related to cash flows companies shall prepare their financial statements on the accrual concept.

In accounting based on the accrual concept operations and events are recognized in the time of their occurrence, and not in the time of cash or cash equivalents receipt or payment; they shall be posted in accounting registers and reported in the financial reports for the related accounting period.

Expenses are recognized in the Income Statement on the basis of direct connection of expense incurred with income from specific revenue carriers (matching). Application of the principle(concept) of matching however shall not allow to recognize balance sheet items, which do not satisfy the definition of asset or liability; expenses shall not be recognized as assets in cases where they cannot be matched to specific revenue in following accounting periods. Revenues shall not be recognized as liabilities in case that they cannot be matched with specific cost in the subsequent accounting periods.

Reporting expenses by nature shall be performed by the accounts of group 60 Expenses by Nature, while reporting of operating expenses shall be performed by calculation accounts in group 61 Operating expenses.

4.1. Determination of expenses by regulated activities for the purposes of regulatory accounting

The following approach has been adopted to calculate expenses by function for the purposes of the regulatory mechanism:

1. Expenses for generation of electricity;
2. Expenses for generation of heat energy;
3. Expenses for transfer of heat energy;
4. Expenses for realization of heat energy;
5. Expenses for non-regulated activities.

Each of these activities has its specific nature that makes possible for its separate booking. Therefore they can be monitored, metered and controlled using accounting registering mechanisms for the purposes of the regulatory body. At the same time consolidation of regulated activities allows for a complete coverage of process and its management in agreement with the current national energy policy.

To unbundle license activities heat supply companies have to perform the following:

1. Identify and book separately expenses for non-regulated activities;
2. Identify direct expenses by types of regulated activities. (Calculation schemes by activity and site can be used to determine the cost of electricity and heat energy);
3. Identify indirect generation expenses and propose a justified mechanism for their allocation;

4. Identify expenses for each regulated activity along the complete production chain, so that their internal structure is built.

Determination of expenses by nature

Accounts for reporting expenses by nature are covered in subgroup “60 - Expenses by Nature” of 6-th group.

These operating accounts are kept using net turnover in order to provide data required for the income statement. Changes in initially posted amounts (returned materials, which have not been used in production, improperly paid benefits, etc.) can be made only by reversing entries.

Accounts of group 60 shall be organized by nature:

- 601 Material expenses;
- 602 Expenses for hired services;
- 603 Depreciation expenses;
- 604 Expenses for salaries;
- 605 Expenses for social allowances
- 609 Other operating expenses.

Analytical reporting in accounts of group 60 shall be organized in accordance with the necessity of information required for the purposes of monitoring by monitoring sites:

- Fuel expenses;
- Service expenses;
- Repair expenses;
- Expenses for support activities;
- Expenses for research and development;
- Expenses for capital construction;
- Expenses for general and administrative purposes;
- Expenses for non-regulated activities.

In the end of accounting period the accounts of group 60 must be closed (credited against debiting) to the accounts of group 61 Operating expenses and group 207 Fixed assets in progress.

Accounts 601 Material expenses, 602 Cost of hired services, 603 Depreciation expenses, 604 Expenses for salaries, 605 Expenses for social payments and allowances shall be completely identical to the same number accounts of the National Chart of accounts (Decree of Council of Ministers № 65/1998). It should be noted that before allocating costs of materials, services, depreciation/amortization, salaries/wages and social security in group 60 accounts, they need to be classified by functions for later allocating in the accounts of group 61 Operating expenses. There are two methods for this to be done: a) by additional analytical levels of group 60 accounts; b) by simultaneous allocation of the corresponding costs (posted in the analyzed primary document) crediting the account of group 60 and debiting the corresponding account in group 61. Our proposal is for the second method to be adopted in order to simplify analytical reporting.

Account 609 Other Operating Expenses is used to record all operating expenses that are not allocated in another account of group 60. The account shall be closed with the relative accounts in a group 61.

Determination of expenses by function

Accounts for reporting revenues by function are comprised by subgroup “61 - Operating expenses” of the 6-th group.

Each revenue entry by function shall be given in levels that are subject to monitoring and control by the regulatory body and shall have direct or indirect relation to the regulated features of heat supply companies.

Major production expenses (direct production expenses) shall be posted in account 611.

Account 611 shall have the following levels from the basic license activities:

- Expenses for generation of electricity;
- Expenses for generation of heat energy;
- Expenses for transfer of heat energy;

The specific nature of heat supply companies' functions determines existence of expenses that are common for both license activities - generation of electricity and generation of heat energy. These common production costs shall be allocated between them on a rational and consistent basis. Allocation is based on analysis of the production process and elaboration of the relative calculation.

Both other groups of production expenses (indirect production expenses), which are subject to distribution by major license activities are support activities' expenses and expenses for repair related to production activity. They shall be posted in account 612 and 617. These accounts shall also have levels by major license activities so that a subsequent allocation of expenses for support activities and expenses for repairs by major license activities (by closing the sub-accounts of this account with the sub-accounts of account 611). Also for the purposes of monitoring:

- Account 612 shall have additional levels by type of support activity;
- Account 617 shall have additional levels by type of repair.

Debit turnovers of sub-accounts by license activities of these accounts with the relative sub-accounts of group 60 accounts may be used for the purposes of analysis instead of additional levels.

All realization expenses shall be separated in account 615 . It shall have the following levels:

- Expenses for realization of electricity;
- Expenses for realization of heat energy.

Account 614 shall comprise all expenses for activities related to the general administrative organization of the production process. It shall have levels by types of expenses.

The general administrative and managerial expenses shall be allocated between regulated and non-regulated activities, where this allocation is based on the relative share of revenues from separate activities against the total revenue from operating activities of the heat supply company.

Then administrative and managerial expenses for regulated activity may be allocated by major license activities

It should be noted that on the other hand direct and indirect production expenses by nature can be manifested as:

- Relatively constant expenses;
- Variable expenses;

For example depreciation costs and building and plant maintenance expenses are relatively constant costs. Variable general costs cover auxiliary materials expenses, expenses for remuneration of personnel hired for general production activities, etc.

5. Classification and structure of assets

An asset is classified as current asset when:

1. It is expected that the asset shall be sold or it will be held with the purpose to be sold or used during the normal operating cycle of utility or;
2. It is held mostly for a commercial purpose or for a short period of time and it is expected to be sold within 12 months of the balance sheet date; or
3. It represents cash or cash equivalents with no restrictions on its spending.

All other assets are classified as non-current.

Current assets comprise inventory and trade receivables, which are sold, used or brought into effect during the normal operating cycle of utility, even if it is not expected for them to be brought into effect within the following 12 months after the balance date. Trading securities are defined as current assets if it is expected for them to be brought into effect within the following 12 months after the balance sheet date; otherwise they are defined as non-current assets.

5.1. Classification and structure of tangible fixed assets.

Classification and accounting operations shall comply with IFRS 16 – Property, plant and equipment, and account levels shall satisfy the purposes of regulatory accounting.

Accounts for reporting tangible fixed assets are comprised in subgroup “20 - Tangible fixed assets” of group 2. These include:

- 201 Land
- 202 Not used
- 203 Buildings
- 204 Machinery, plant and equipment
- 205 Vehicles
- 206 Furniture, fixtures and fittings
- 207 Tangible fixed assets in progress
- 208 Retired tangible fixed assets
- 209 Other tangible fixed assets

These accounts will have levels by mixed indications, registering hidden appurtenance of the elements of an asset subclass to a given class of assets.

Indications include a) class of activity: basic activity, support activity, administration and management, etc.; b) type of license activity: generation of energy (electricity, heat, and general), transfer of heat energy, non-regulated activities, etc.; c) class of asset (asset life is taken into consideration): metering devices and equipment, computer and communication systems, etc.

5.2. Classification and structure of tangible current assets

5.2.1. Classification and structure of inventory

Accounts for reporting tangible current assets shall be comprised in subgroup “30 - Materials, finished goods and commodities” in group 3.

Account 302 “Materials” shall have levels by groups of materials as follows:

- Fuels for technological purposes
- Other fuels
- Oil
- Process water
- Reagents and chemicals
- Spare parts
- Semi-finished goods - pipes, wire, etc.
- Office supplies and other materials used by administration and management
- Other materials

Sub-accounts of 302 shall have additional levels by type of materials.

5.2.2. Classification and structure of receivables

Account 411 “Customers” shall have obligatorily levels by type of revenues from sales (all kinds of regulated and non-regulated activities) and groups of consumers.

6. Classification and structure of liabilities

The following requirements must be taken into consideration for classification of liabilities for the purposes of regulatory accounting:

1. The sub-accounts of account 12 «Financial results (Profit and loss)» shall have levels by results from regulated and non-regulated activities.
2. The sub-accounts of account 401 «Suppliers» shall have levels by trade payables for regulated and non-regulated activities.