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National
Association of
Regulatory
Utility
Commissioners



ENERGY REGULATORS
REGIONAL ASSOCIATION

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Overview of Uniform System of Accounts

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EMCS Inc.**

**Regional Workshop on Uniform System of Accounts and Regulatory
Reporting**

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USoA Objectives

- **Primary Objective:** The primary objective of USoA shall be to guarantee that the Companies' Accounting Information Systems can easily generate all the reports defined in the regulatory reporting requirements based on information extracted from the General Ledger and Subsidiary Ledgers.
- **Secondary Objectives:**
 - a. Conform to financial best practices, while being consistent with the Accounting Standards of the Country and the Accountancy Law
 - b. Support variety of internal and external reporting requirements for different users of accounting and financial information
 - c. Provide a platform that can change as requirements change
 - d. Integrate budget, financial, tax and regulatory reporting
 - e. Provide flexibility for future organization change, including reengineering and reorganization
 - f. Be easy to use



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Regulatory Requirements

- **Licensing**
 - **Assets**
 - **Capital Structure**
 - **Expenses**
 - **Planning**
- **Tariff Setting**
 - **Revenue Requirements**
 - **Cost Allocation**
 - **Annual Adjustments under Incentive pricing**
- **License Monitoring**
 - **Service Quality**
 - **Technical Quality**
- **Benchmarking**



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Regulatory Requirements

Non-Regulated Activities

- Need to discuss with all stakeholders what is meant by separating out regulated activities from rest of the licensee activities
- Regulated energy tariffs should only reflect the cost of providing the energy and nothing more
- Activities not related to energy provision are identified and separately accounted for;
- Energy activities that are priced competitively should be separately accounted for;
- Least amount of allocation of costs (that is, separating out the activities by division or department) is best.
- All non-direct costs (such as top management of the holding company) should be allocated to all activities (in other words, regulated activities should not bear all costs of top management nor general headquarters).



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Data Requirements

Tariffs Setting

- Volumes
 - Energy use (kWh), peak load (kW), # of customers (by class)
 - Km of circuits, # of transformers (by size and voltage), losses
- Topological data (service area, customer locations, etc.)
- Historical cost information
 - Expenses
 - Capital expenses
- Pro forma information
 - Expense levels
 - Capital additions
- Allocation factors
- Inflation Indices



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Data Requirements

Licensing

- **Applicant specific information**
 - Contact information
 - Key personnel
 - Experience in license activities
- **Business Plans**
 - Investments
 - Operational expenses
 - Maintenance expenses
- **Construction**
 - Development Schedule
 - EIA
 - List of works and costs by asset group



Data Requirements

License Monitoring

- Service quality
- Energy quality
- Customer service
- Monitoring and proper repair of equipment
- Accurate metering and billing
- Public notifications
- Resolutions of complaints
- Notice of non-compliance
- Annual compliance report



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Data Requirements

Benchmarking – comparison of licensed activity to those of similar size and customer base.

- **Customers/circuit km**
- **Employees/peak load (kW)**
- **Cost of assets/customer**
- **Operating costs/customer**
- **SAIFI, SAIDI, CAIDI**
- **Cost of customer service/customer**
- **Average days for new connection**



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Data Requirements

Market Monitoring

- Free market purchases and sales
- Average wholesale market strike price
- Balance prices, on-peak, off-peak
- # of customers switching suppliers
- % of competitive sales by trader
- % of competitive sales by top 2 suppliers
- Import and export sales
- Outstanding disputes
- MWHs of constrained sales



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Compliance with Existing Legislation

EU Legislation (Directives 2003/54 & 2003/55)

The unbundling regime of the new electricity and gas directives

- In order to ensure non-discriminatory access to the network and avoid conflicts of interest it is necessary to separate the network business (natural monopoly) from those activities of vertically integrated companies which compete on the market, namely production and supply.
- Achieving this separation is the purpose of the unbundling provisions in the new electricity and gas directives, which are considerably strengthened in comparison to the previous directives.
- The basic elements of the new unbundling regime are the following:
 1. Legal unbundling of the transmission system operator (TSO) and distribution system operator (DSO) from other activities not related to transmission and respectively distribution.
 2. Functional unbundling of the TSO and DSO, in order to ensure its independence within the vertically integrated undertaking.
 3. Possibility of exemptions from the requirement of legal and functional unbundling for DSOs.
 4. Accounting unbundling: requirement to keep separate accounts for TSO and DSO activities.



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Compliance with Existing Legislation

The Energy Law of Bulgaria provides in part as follows:

- Energy companies shall keep separate accounts of:
 - Each activity, subject to licensing under the Energy Law;
 - Activities, subject to licensing under the Energy Law;
 - Each industrial branch or company;
 - Activities in the cases of regulated and freely negotiated prices;
- The rules for keeping separate accounts by energy companies, including assets for the purposes of pricing by groups of consumers, as well as the form and content of the financial statement for regulatory purposes.
- The Uniform System of Accounts developed by the Bulgarian State Energy and Water Regulatory Commission (SEWRC) for the Electricity Distribution Companies (EDCs) provides the framework for the rules for keeping separate accounts by the Licensees, including assets, equity, liability, revenues and expenses for the purposes of pricing by groups of consumers.
- Applicability of USoA by the licensed entities.
- The system of accounts set in the USoA shall be applicable to all EDC Licensees subject to the Commission's regulatory accounting requirements under the Energy Law.



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Compliance with Existing Legislation

The Primary Legislation is the key tool in order to define the responsibilities belonging to the Regulator:

The rules for performance for keeping separate accounts by energy companies, including assets for the purposes of pricing by groups of consumers, as well as the form and content of the financial statement for regulatory purposes - USoA development and implementation

Approves the general terms of the contracts under the Energy Law

Drafts the secondary legislation under the Energy Act

The terms and procedure for issuance, modification, supplementing, termination and withdrawal of licenses, for issuance of permits, for approval of the general terms of contracts, for supply of electricity, as well as for voluntary dispute settlement

The Commission imposes compulsory administrative measures and administrative penalties

Adopts and controls the implementation of a methodology for setting of prices and methods of price regulation of the rules for their price formation or setting and modification, the procedure for providing information, the introduction procedures for the presentation of proposals on prices;



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Compliance with Existing Legislation

- **Misunderstandings of roles, rules and policies:**
 - Regulatory accounting policies are specifically related to regulatory activities and do not repeat the policies and procedures within accounting legislation
 - The Regulator must have an IAS cognizant staff
 - Confusion between financial audit and regulatory audit – need to be clear what is the role of the regulatory audit and auditor
 - The National Audit Office and the Public Procurement Agency also plays complimentary roles, but are not focused on regulatory issues.
 - Regulatory auditing is a special profession that requires expertise not normally found in SE Europe.



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Structure and Elements

In developing a USoA, it is important that the accounting system is able to provide correct accounting information for:

- Regulatory Purposes
- Management of Company
 - Budgeting
 - Control
- Auditing
 - Internal
 - External
- Other



Internal Control

- **How transactions are identified**
- **What accounting records and supporting documentation are kept**
- **Structure and organization of the accounting process**
- **Management's role**
 - **Attitude**
 - **Awareness**
 - **Actions**
- **Control procedures in place**



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Structure and Elements

Functional

- **Generation**
- **Transmission**
- **Distribution**
- **Supply**
- **Administrative & General**

Cost Element

- **Labor**
- **Capital**
- **Expense**
- **Income**
- **Equity**
- **Materials & Supplies**



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Cost Elements

Example:

Problem:

Electric Distribution Company is not meeting one of its service quality targets set by the regulator. In order to correct the problem additional personnel are required.

Question:

How much is the additional costs for the new personnel?

Answer:

By having an accounting system that provides costs by cost element (e.g. labor cost by specific job), the calculation of the additional labor costs can be accomplished easily.



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