

# Accounting and Reporting – Regulatory Dilemma

Workshop:

Uniform System of Accounts

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Tirana, September 2007

# Reporting

## ***Major issue is to find the balance***

(BETWEEN REGULATORY REQUIREMENTS FOR THOROUGH DATA AND EFFICIENCY IN COMPILING DATA)

- ✓ how many data
- ✓ how often to submit data
- ✓ how to define criteria
- ✓ how to evaluate company's data

# Reporting obligations

- 1) documentation produced by company according to laws and other regulation**
- 2) plans of measures and activities, as well as reports of their implementation according to restructuring commitments, improvement of financial management system, reduction of distribution losses, and other obligations imposed by laws,**
- 3) report related to important events that may have effect on company's business,**
- 4) technical and financial data submitted on prescribed forms.**

# Company documentation

- set of financial reports (balance sheet, income statement, changes in capital, tax report) and auditor's opinion;
- fixed assets register and trial balance with all accounts specified in Regulatory Chart of Accounts;
- annual report, with report on investments in fixed assets;
- “electricity balance” for the following three years;
- business plan for the following three years;
- investment plan for the following three years;
- development plan for the following five years.

# Reporting in transition period

- report on planned and performed activities on improvement of financial management system
- report on planned and performed activities on functional and accounting unbundling
- distribution company reports about:
  - systematic load research
  - projection of development of load and consumption
  - distribution losses.

# Important events

- changes of organization form
- changes of legal status
- changes of registration data
- establishment of new legal entity
- joint venture
- sale, transfer or pledge of assets included in regulatory assets base
- initiation of receivership or bankruptcy procedure
- acquirement or loss of concession or other rights related to licensed business
- other events that may affect licensed business

# Forms for technical and financial data

- Submission schedule
  - technical data: submitted monthly, quarterly or annually (technical data may include monetary values)
  - financial data: submitted quarterly or annually

**In request for approval of tariffs**, all technical and financial forms are attached to the application, along with supporting documentation.

If any of the forms or documents have already been submitted within regular reporting schedule, they do not have to be submitted again.

# Technical data

- Set of forms with technical data are specified for each licensed activity (generation, distribution, supply and trade),
- Forms include data related to plan and realization of: quantities of electricity (generated, distributed, sold, supplied), load and demand, usage of material and fuel, usage of assets, ancillary services (provided, used), pollution, quality of services provided etc.

# Financial data

Set of forms for each licensed activity include:

- costs and revenue data
- licensed assets data
- regulatory assets base
- maintenance schedule and related cost
- investments in fixed assets / previous three years and following three years
- working capital data
- capital structure
- costs of borrowed capital

# Reporting and tariff application

- Technical and financial data submitted within regular reporting schedule are used for tariff application.
- Base year data are recalculated in respect of:
  - required rate of return on capital,
  - variable cost adjusted to the volume of electricity in tariff period.
- Any other adjustment has to be explained separately in tariff application.

## **RAB: *too much or not enough***

- **Assets:** only assets listed in the Regulatory Chart of Accounts can be included in regulatory assets base;  
Adjustments: for assets in acquisition, for grants in assets;  
Adjustments: review of fair value / purchase value
- **Working capital:** based on lead/lag analysis for stocks in material and spare parts, for accounts receivable and for cash;  
Adjustments: for lead / lag period

# Costs: too much or not enough

- **fixed costs** (expensed regardless the outputs)
  - maintenance costs: based on maintenance schedules for types of assets, required material and spare parts, required labor, required outsourced services;
  - depreciation: on assets included in RAB
  - labor costs: basically benchmarking, retail prices indices
  - administrative and general service costs.
- **variable costs** (expensed depending on outputs):
  - material, fuel used to produce outputs;
  - energy losses in distribution;
  - energy based levies;
  - some labor costs (payable on volume of outputs).
  - provisions (fixed or variable, depending on grounds for recognition)
- **reduction** (revenues from non-regulated business using licensed assets)

# Return on capital: too much or not enough

- leverage
- return on equity
  - rate of return: to promote investments, or to cover for losses and overspending
  - equity (total equity vs appropriated equity and revaluation surplus)
- return on borrowed capital
  - interest rate
  - total borrowings vs borrowings for long term assets

# Dilemma

Too much or not enough regulation in terms of:

- number of submitted data
- frequency of submission
- management's responsibility to define accounting and reporting policies
- terms and conditions of licenses
- criteria to evaluate reasonableness of costs.

⇒ too much or not enough approved for tariffs.



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