



Romanian Energy Regulatory Authority
– ANRE –



Case studies

Comparative data

Bogdan Anton

Expert

ANRE – Annual Reports Analysis Division

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Regulatory Accounting

- **ANRE collect a substantial amount of financial and technical information;**
- **There were no direct links between the data required for the purpose of tariff setting and the subsequent reporting by companies against their audited statutory accounts**

Regulatory Accounting

- **The purpose of regulatory accounts should be to provide to the *competent authority*:**
 - Information to assess the financial performance of companies against the assumptions which were made when establishing the tariffs for the regulatory period;
 - Information about the effects of regulation
 - Effects of unbundling;
 - Existence of market power;
 - Assessments of (transition) costs;
 - Credit risks of companies.

Regulatory Accounting

- **The purpose of regulatory accounts should be to provide the *competent authority*:**
 - **Help for the rates setting of regulated activities**
 - Valuation of costs to be recovered;
 - Depreciation rules;
 - Valuation of the Cost of Capital.
 - **Support for assets valuation of free market activities owned by regulated companies**
 - To prevent cross-subsidies;
 - To form an opinion on mergers and acquisitions;
 - To evaluate risks and margins in case of regulated markets.

Regulatory Accounting

- In order to move from the statutory accounting data to that required for regulatory accounting, it was necessary to adjust for the differences arising between the Regulatory Asset Base (RAB) and total fixed assets reflected in the statutory accounts, and the corresponding differences in depreciation between the two approaches.

Regulatory Accounting Particular Problems



- **Disputes/disagreements existing between ANRE and licence holders:**
 - **RAB vs. total Fixed Assets**
 - ⇒ **Depreciation assessment;**
 - **Regulated (allowed) costs vs. total Costs;**
 - **Keeping separate accounts for each licensed activity**
 - ⇒ **Unbundle the book accounts.**

Regulatory Accounting Particular Problems



- **Companies' complains:**

- **Hard work to break down the book value of all Assets and Liabilities representative of regulated activities and specific domains;**

Regulatory Accounting Particular Problems



- **Companies' complains:**
 - **Very hard or impossible to keep separate accounts for liabilities: Equity, Shareholders' funds, Reserves, etc;**
 - **High expenditures to implement the regulatory accounts (new software, new financial audit etc.);**

Regulatory Accounting Particular Problems



- **The ANRE Answers (if the companies adopt wrong accounting criteria):**
 - **Cross subsidies between regulated and free activities;**
 - **The companies could concentrate the credit risk in some units;**
 - **Rates could be burdensome to consumers.**

Regulatory Accounting Particular Problems



- **The process to resolve the disputes:**
 - Meetings, workshops, letters, discussions with interested parties (accountants/ book-keeping staff, managers, Ministry of Economy staff);
 - 2007-2008: Revision of the Financial Reporting Procedure

Regulatory Accounting Particular Problems



- **The Financial Reporting Methodology** (to be finalized in April, 2008)
- **New approach:**
 - Regulated Balance Sheet;
 - Regulated Capitals;
- **The annual accounting information (Reporting Forms) presented to ANRE should be in two versions, using:**
 - The statutory accounts, with separate identification of the adjustments required to arrive at the annual net profit and balance sheet under the regulatory requirements
 - The regulatory accounts, in a format compatible with the information obtained by ANRE for the regulatory period tariff setting.



Comparative Data

- **The annual Report of the ANRE Financial Reports Analysis Division use comparative data provided by utilities in other jurisdictions:**
 - **Examples:**
 - U.K.
 - France
 - Italy
 - Slovenia
 - Bulgaria
 - Hungary
 - Austria
 - Etc.

Comparative Data

- **The useful data – for financial analysis –**
- **To estimate the financial ratios, as:**
 - **Operating Return on Equity;**
 - **Gearing;**
 - **ROCE;**
 - **Net Asset Turnover;**
 - **Profit margin;**
 - **Current Ratio;**
 - **Liquidity;**
 - **ROTA;**
 - **Average collection period;**
 - **Day's Payables, etc.**

Comparative Data

- **The development of financial analysis is to assist in the process of benchmarking;**
- **For comparisons between regulated licensees within Romania, these can be achieved through the use of regulatory accounting information;**
- **Until now, for international comparisons, it was more appropriate to consider using data reflecting the statutory accounts, since different regulatory regimes took a different perspective on the valuation of the initial asset base;**

Comparative Data

- **The most efficient way to access data from other jurisdiction:**
 - Internet;
 - Annual Reports of the Regulators or Companies;
- **Unfortunately, not all the data are in English language.**



Comparative Data

- **The information contained in licensees' reports is considered to be of public interest, except the confidential / classified information, according to Art.36 of the Regulation for Granting Licenses, issued by GD no. 540/2004;**
- **All public information are available, on request;**
- **The ANRE Annual Reports are posted on the web site.**



Thank you for your attention !

b_anton@anre.ro

www.anre.ro