Albanian Electricity Regulator

Monitoring of utilities and licenses through charts of accounts. Current status of charts of accounts and extent of monitoring that ERE performs.

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Legal Framework

- Articles 21 and 23 of the Law No. 9072, dated May 23, 2003 “On Power Sector”, as amended:

  ERE establishes and adopts a uniform and standardized system of accounts for all licensees in the electric power sector based on the Albanian legislation and internationally accepted accounting standards.

During the tariff approval process:

- It is necessary for ERE to know the financial and economic situation of the licensed sector participants regarding profits and losses, in terms of changes made in assets and liabilities.
- To identify casual relationships between them.

Financial statements allow ERE to have a clear picture with respect to:

- Accrued income and expenses,
- Acquired fixed assets, intangible assets,
- Cash flows,
- Executed current and capital repairs,
- Information on credits and loans.

However:

- With respect to most assets of companies, there is no clear accounting in terms of usage activities of these assets

  (KESH: generation,distribution, supply bundled; Private: licensed and non-licensed activities)

That is why a need occured to introduce a new accounting system for companies

- Improvement of the existing accounting system,
- Supplementing it with accounts and sub-accounts related to regulated and non-regulated activities.
- Accounting system specified in the USoA will be applicable for all licensed companies of the power sector who are obliged to fulfill the regulatory demands for accounting in compliance with the “Law On Power Sector”.

The new system allows to distinguish:

- A specific licensed activity by certain divisions and functional features.
- If a company carried out more than one type of licensed activity /certain types of licensed activities.

USoA Objectives:

- **Primary Objective** – to guarantee that the companies' Accounting system can easily generate all reports defined in the regulatory reporting requirements according to the energy legislation in effect.

- **Secondary Objectives:**
- Being consistent with the National Accounting Standards and the Accountancy Law, to fulfil the reporting requirements according to the IAS and IFRS.
- Support variety of internal and external reporting requirements for different users of accounting and financial information.
- Provide a platform that can change as requirements change
- Integrate budget, financial, tax and regulatory reporting
- Provide flexibility for future organizational changes.
- Be user-friendly

USoA Structure:

- Regulatory Accounting Manual for the licensed electricity companies. (Instructions for use of USoA and annual report presentation of the performance.
- Regulatory Chart of Accounts of electricity **generation** companies
- Regulatory Chart of Accounts of electricity **transmission** company
- Regulatory Chart of Accounts of electricity **distribution** companies
- Regulatory Chart of Accounts of **public supply** companies
- (Detailed, allowing costs allocation for tariff setting and benchmarking purposes; also giving the assuarance for complying with the license conditions. Each account is devided into regulated and non-regulated activities)

USoA Numbering System

- Each of these accounts has three-digit sub-accounts
- In certain instances, numbers have been skipped in order to allow for possible later expansion or to allow better coordination with the numbering system.
- Records shall allow analysis by USoA accounts and allow preparation of regulatory reports directly from company records according to the accounts prescribed in USoA.

Manual

- Guidelines on accounting period,accounting records (justifying documentation, the preserving period of accounting books, etc.)
- Definitions, categories, structure and evaluation methods for assets in general.
- Inventories, receivables
- Assets held for future use
- Deferred expenses
- Tangible Fixed Assets (depreciation methods and useful life evaluation)
- Intangible Fixed Assets
- Un-collectible Receivables (“Bad debt”)
- Working Capital
- Liabilities
- Operating Expenses

Fixed Assets

Used and useful Asset Test and Prudent Investment Test

- **The Used and Useful Test** is used by the Regulator to determine whether an asset was actually used in service and was useful in providing service. If not, ERE may decide to exclude the asset from the RAB.
- **The Prudent Investment test** is used to determine whether the Licensee has exercised prudence in the acquisition or construction of a particular asset, based on the information it had, and in light of the existing circumstances at the time of making the investment decision. If the asset fails to pass the prudent investment test, ERE may decide to exclude the asset from the RAB.

Asset Valuation

1. The Historic Cost
2. The Market Value
3. The Replacement Cost

- In the USoA, licensed companies shall follow the method established by ERE.
- The Historical Cost shall ordinarily be presumed to be appropriate.
- Where the Replacement Cost and the Market Value are used, the portion of the value above historical cost may be subject to ammortization on a schedule different than the depreciation schedule for the historical cost of assets.

Inventories

- The Specific identification method (specific costs are attributed to identified items of inventory)
- The weighted average cost method (may be calculated on a periodic basis, or as each additional shipment is received)

Receivables (Bad debt)

- **The receivables** from clients shall be reported at their billing value, from which a provision for impairment is deducted
- **Un-collectible receivables** shall be viewed as expenses of selling on credit. The expenses from bad debt are reported in the same accounting period as the revenue they are associated with.
- Income Statement method (Percentage of Sales)
- Balance Sheet method (Percentage of Outstanding Receivables)

Working Capital

- Represents the capital investment provided by the owner during the interval between incurring expenses of providing service and receipt of revenues from customers.
- Working Capital Allowance (WCA) comprises: cash and minimum bank balances, materials, prepayments, and tax payments. WCA shall be enough to bridge the gap between the time when costs in providing the service are paid for, and the time the utility is paid for that service.
- **Cash** WCA is an estimate of the investor-supplied cash to finance the pre-defined Allowance for Utility Operating Costs (AUOC) in the period in which operating income is collected. Determined through a lead-lag study.

Working Capital (continued)

- The working capital requirements are determined by the so-called performance of a “lead-lag” study. It compares the difference in the timing lead or the timing lag between cash inflows and outflows. The time-difference under the lead and lag method is then multiplied by the average daily operating expenses to arrive at the required level of working capital for inclusion in the regulatory base.

Expenses

- The Chart of Accounts structure has been further detailed for regulatory accounting purposes and allows, where necessary, to extract additional information, beyond the classification for reporting included in the Income Statement of the power generation companies for the purposes of the regulatory mechanism.

- The expenses by economic elements shall be reported in the accounts from Group 60 Expenses by economic elements, and the Operating expenses shall be reported in the calculative accounts from Group 61 Operating expenses.

Cost Allocation

- The methodology for classification of costs is in accordance with the USOA. A major requirement is clear differentiation and financial separation of regulated and non-regulated activities for each energy company. USOA comprises the following cost classifications:
  1. By functions
  2. By nature
  3. By groups of consumers
  4. By voltage levels
- The methodology for classification of costs by functions in accordance with the functional expense accounts prescribed in the USOA shall be based on engineering, economical and statistical analysis.
- The costs will be assigned to certain services or certain rate classes, in order to secure that the total expense or a share of an expense is assigned to the related class. In the absence of detailed information the licensee shall propose certain type of allocation of costs and shall be prepared to justify it to ERE.

Relation between the USoA and the Tariff Application Forms

Retail Supply Services

Line No.	Col. 1 Cost Description	Col. 2 Ref. nr in USoA	Col. 3 Allocation Factor	Col. 4 Rate Class 1 (Mln LEKE)	Col. 5 Rate Class 2 (Mln LEKE)
1	Purchased Power				
2	Transmission Service Expenses				
3	Distribution O & M Expenses				
4	Management				
5	Research Department				
6	Load Dispatching				
7	Station expenses				
8	Overhead lines				
9	Underground lines				
10	Line transformers				

Current Status

- The ERE Board Decision No. 85 dated December 26, 2007 “On the initiation of procedure for the Uniform System of Accounts” started the design process for the USoA.
- The experience on this issue from the workshops organized by USAID.
- Consultation with KESH and TSO representatives and other players in the sector.
- The USoA draft is sent to the interested parties in order to receive their comments and proposals. The final version will take into consideration their suggestions as well.

Monitoring

- The new monitoring structures are in the process of being prepared;

  - Market monitoring sector

  - License monitoring sector.

USoA – an important element for successful Reforms in the Energy Sector

The USoA greatly reduces the **regulatory risk** of business operations and investment by providing:

- **Constistency-** all companies will be treated in the same fashion for pricing and license monitoring.
- **Fairness-** fair approach defining the basis for tariff setting and monitoring.
- **Transparency -** all price elements will be known to companies and customers.

THANK YOU