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***ANRE competences
in the field of maintenance of accounting
for activities of energy sector companies***

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Chisinau***

Legal Framework



The competencies of the Agency in the field of accounting are determined by the following:

- *Law on Energy, No.1525 of 1998*
- *Law on Electricity, No. 123 of 2009*
- *Law on Natural Gas, No. 124 of 2009*
- *Licensing conditions*
- *Accounting systems of energy sector companies, approved by ANRE*
- *Common reporting systems for the Agency – used by the license holders*

Functions of the Agency



According to art. 8 of the Law on Electricity and the Law on Natural Gas regarding the area of accounting, the Agency has the following functions:

- *Ensures compliance of license holders with the necessary and justified costs principle in calculation and approval of tariffs for regulated activities carried out in the electricity market, of tariffs for thermal energy produced by CHPs and for natural gas;*
- *Establishes:*
 - *accounting methods according to the National Accounting Standards;*
 - *requirements to accounting reports;*
 - *requirements related to revaluation of fixed assets for tariff purposes;*
 - *requirements related to compliance with the single reporting systems for the Agency.*

The rights of the Agency



To ensure fulfillment of the License Conditions, according to art. 9 of the Law on Natural Gas and the Law on Electricity, the Agency has the right to:

- gain access to the documents related to the activities subject to licensing, including to those which contain information constituting state secrets, commercial secrets or other confidential information;*
- to obtain from the license holders copies, excerpts from documents related to the performed activities, as well as necessary additional information.*

The license holder's responsibilities



According to art.18 of Law No. 123 on Natural Gas and Law No. 124 on Electricity the License holder should:

- ensure organizational and accounting unbundling by types of activities carried out;*
- keep accounting records separately by each type of network based on the voltage/pressure level (high, medium and low), in order to ensure transparency of costs and tariffs;*
- provide the Agency with specific reports on activities performed in the natural gas/electricity/thermal energy markets;*
- submit other information requested by the Agency, necessary to carry out duties according to the law.*

Accounting unbundling



In order to ensure effective and integral unbundling of accounts, the Agency developed the Regulation on the accounting unbundling for the activities of the companies regulated by the Agency // Law No.1525 on Energy, art.41, Law No. 123 on Natural Gas, art.18 and Law No. 124 on Electricity, art. 18//

- ***The purpose of accounting unbundling** , according to art. 29 of the Law on Electricity and the Law on Natural Gas is:*
 - *to ensure compliance with the principle of carrying out activities with minimal expenses and maximal efficiency;*
 - *to exclude the possibility of cross subsidies between generation, transportation, distribution and delivery activities and between different categories of consumers;*
 - *to obtain credible information applied for identification and establishment of regulated tariffs.*

Accounting unbundling



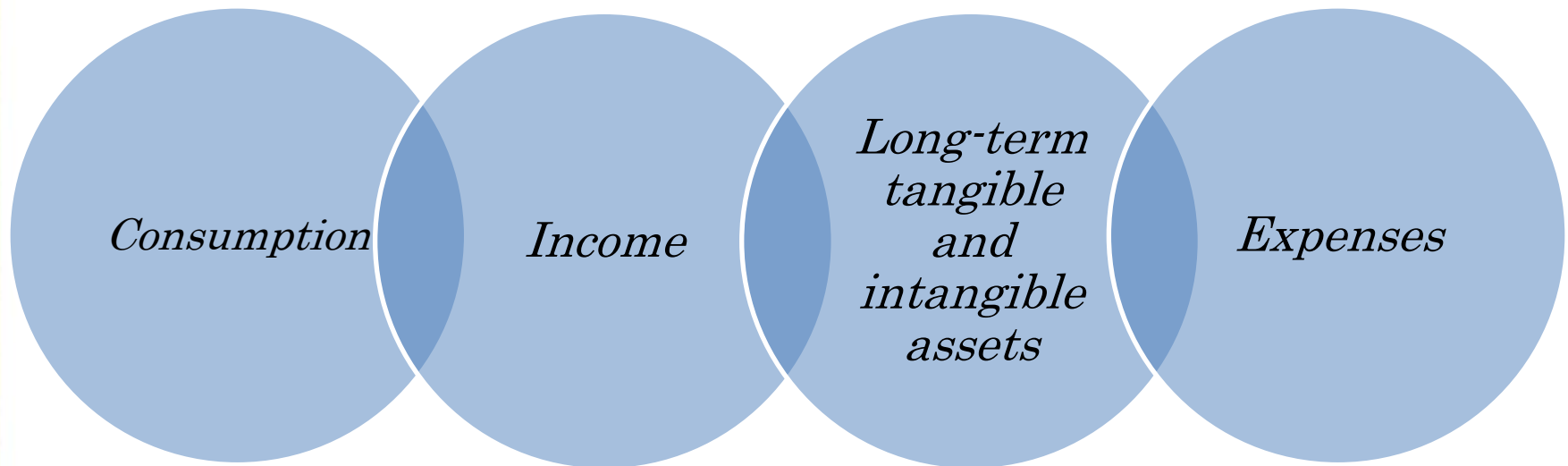
The objectives of the accounting unbundling :

- setting a single method for license holders to separate business accounts by the types of activities performed;*
- setting a single system for license holders for applying business operating accounts and to record in these accounts financial and economic operations;*
- exclusion of possible cases of abuse on behalf of license holders in relation to consumers by inclusion of unjustified expenses in the tariff;*
- ensuring transparency in development of tariffs by setting criteria and principles of tariffs calculation separately:*
 - for each type of activity and,*
 - for each type of network based on the network voltage/pressure level.*

Accounting unbundling



Accounting unbundling will allow to obtain information concerning activities performed in the following areas:



Accounting unbundling



Accounting principles and rules for consumption and expenses

Accounting for product consumption:

- *Product consumption represents resources consumed for manufacture of products and for service delivery for the purpose of obtaining income directly related to the production process or service delivery and is classified in:*
 - *direct product consumption which is identified directly for a specific product or other means of consumption and are included in their cost based on the primary documents;*
 - *indirect product consumption related to maintenance and management of production departments and which cannot be included directly in the cost of the delivered products, services rendered.*

Accounting unbundling



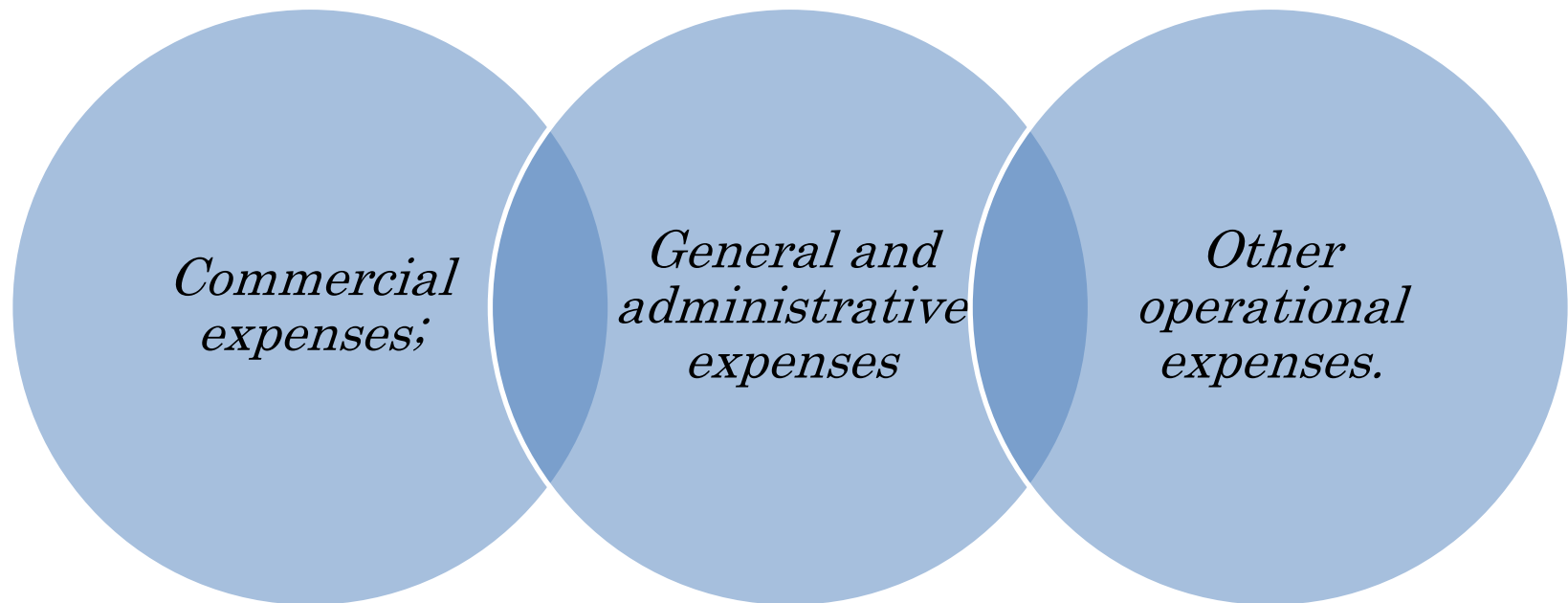
Indirect product consumption will be distributed and accounted by items of consumption separately for each type of activity performed according to principles and rules set out in the Regulation on the accounting unbundling as follows:

- at the **manufacturing companies** indirect product consumption is distributed at the end of the reporting period amongst those two types of energy (electric and thermal) proportionally to the expenses for fuel supply used in the generation of the relevant type of energy;*
- at the **transport network and system operator** the indirect product consumption will be determined by the categories of the electric network proportionally to the amount of the electricity transmitted through this network;*
- at the **electricity distribution operators** the indirect product consumption will be distributed for each type of network proportionally to the book value of fixed assets related to the relevant type of the network;*
- at the **natural gas distribution operators** the indirect product consumption will be distributed for each type of network proportionally to the labor compensation fund of the personnel employed.*

Accounting unbundling

Expense account

Expenses are all the expenses and losses arising as a result of financial-economic activities and are not directly related to the production process, they include:



Accounting unbundling



Unlike consumption, expenses are not included in the cost of products or services, but are reflected in the income statement and are deducted from the income when determining the profit (loss) of the reporting period

- In order to distribute, for rate-making purposes and for the purpose of reporting to the Agency, commercial, general and administrative expenses some principles and rules were established:*
 - manufacturing companies will distribute these expenses among those two types of energy (electric and thermal) at the end of the reporting period proportionally to the expenses for fuel supply used in the generation of the relevant type of energy, from the total expenses for the fuel used for generation of both types of energy;*
 - the transport network and system operators will distribute the abovementioned expenses by each category of the electrical grid proportionally to the amount of the electricity transmitted through this grid;*

Accounting unbundling



operators from the electricity sector will distribute commercial expenses, which were not directly assigned, general and administrative expenses, among distribution and delivery activities, proportionally to the labor compensation fund of the personnel directly involved in these activities;

- in their turn, expenses related to **distribution** of electricity will be distributed among electric networks of high, medium and low voltage proportionally to amount of the electricity delivered to the final consumers.*
- operators from the natural gas sector will distribute commercial expenses, which were not directly assigned, general and administrative expenses, among distribution and delivery activities, proportionally to income from these activities;*
 - in their turn, the expenses related to **distribution of natural gas** will be distributed among the natural gas distribution networks of high, medium and low pressure proportionally to the labor compensation fund of the personnel directly involved in maintenance and operation of these networks.*

Accounting unbundling



Accounting for income is performed based on the principles which gave rise to generation of such income

Accounting for the value of long-term tangible and intangible assets

- The long-term tangible and intangible assets will be grouped into assets:
 - **used directly** which will be identified and assigned to all regulated companies (except CHPs) by the type of the activities carried out;
 - **used indirectly**, jointly and of commercial, general and administrative type.

The value of assets, which by their nature, cannot be divided directly by the types of activities, will be divided between them proportionally to the income derived from these activities.

Accounting unbundling



The value of assets used in electricity and natural gas distribution, but which cannot be distributed directly to a specific type of distribution network, the value of assets of the additional departments, of assets used for commercial, general and administrative purposes are divided among distribution networks of high, medium and low voltage/pressure as follows:

- a) proportionally to the book value of the assets related directly to each type of electric distribution network (high, medium and low voltage);*
- b) proportionally to the labor compensation fund of the personnel directly involved in maintenance and operation of the distribution networks (of high, medium and low pressure) of the natural gas.*

The Agency demands from license holders to account separately the results of revaluation of fixed assets since according to the Tariff methodology their depreciation is not allowed more than once.

Specific report



Based on separate accounting, each license holder develops and submits to the Agency the specific report which includes the statement of income and expenses distributed by each type of activity:

- generation of electricity, thermal energy and aqueous makeup;
- transportation of electricity and natural gas;
- distribution of electricity, natural gas;
- electricity, natural gas supply;
- transportation and distribution of thermal energy ;
- thermal energy supply;
- other activities.

Specific report



A specific report submitted for each type of activity includes:

- income statement;
- consumption statement;
- statement of expenses;
- information about long-term tangible and intangible assets.

Analysis and approval of the specific report consists of verifying the compliance with the principles, criteria and rules established by the Regulation on the accounting unbundling, which were the basis for developing of separate accounting records.

Positive impact and benefits of accounting unbundling



Following the implementation of the Regulation on the accounting unbundling in the activity of the energy sector companies existing problems will be solved in terms of monitoring and calculating differentiated tariffs.

The main benefits will be:

- enforcement of Law on Energy, No. 1525, Law on Natural Gas, No. 123 and Law on Electricity, No. 124.*
- clear determination of consumption and expenses related to the generation, transmission, distribution and supply of electricity, thermal energy and natural gas;*
- correct determination of tariffs for delivery of electricity, thermal energy and natural gas and exclusion of the possibility to include in tariffs unjustified costs related to other activities;*
- ensuring transparency in relation to the costs of distribution and supply of electricity, thermal energy and natural gas by determining real costs separately for distribution and separately for supply of electricity and natural gas at regulated tariffs;*

Positive impact and benefits of the accounting unbundling



- correct determination of the consumption and expenses related to each category of consumers in order to eliminate cross subsidies, and each category of consumers to pay the actual cost of the purchased electricity, thermal energy and natural gas;*
- determination of operators from energy sectors in order to increase the efficiency and minimize the costs of the activities carried out, which will be for the benefit of consumers;*
- improvement of the investment climate, and, respectively, attraction of investments required for construction of new plants, for expansion of the electric grids, heating networks and gas pipelines, as well as for the reconstruction of the existing ones.*

Following the unbundling of accounts the necessary conditions will be created for all companies in the sector to be in a position to maintain accounts with maximum transparency so as to have a possibility to obtain true and complete information about the costs taken into account when calculating tariffs.

Accounting for expenses related to repairs



Criteria for capitalizing expenses related to capital repairs and follow-up investments of the fixed assets, according to NAS 16 (National Accounting Standards), are:

- if following this repair the useful life of the asset is increased;
- if the company obtains an economic advantage which exceeds the one initially measured at purchasing.

Applying these criteria in the energy sector has a relational nature because:

- not always following the capital repairs the useful life increases;
- not always the economic benefits increase.

At the same time, failure to perform regular current, medium or capital repairs may lead to decrease of the economic advantage initially evaluated.

In order to determine correctly for tariff purposes expenses for capital repair and future investments, the Agency forces the license holders to account for consumption and the current expenses for maintaining and operating the fixed assets separately from consumption and expenses to be capitalized.

Thank you!

