OVERVIEW OF GNERC REPORTING FRAMEWORK & INTRODUCTION OF UNIFORM SYSTEM OF ACCOUNTING
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USAID HYDROPOWER INVESTMENT PROMOTION PROJECT (HIPP)
CONTRACT NUMBER: EEM-I-00-07-00005-0
DELOITTE CONSULTING LLP
USAID/CAUCASUS OFFICE OF ENERGY AND ENVIRONMENT
TUESDAY, MARCH 26, 2013

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This document was prepared by:

<table>
<thead>
<tr>
<th>Author</th>
<th>Organization</th>
<th>Contact Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Davit Mujirishvili</td>
<td>Deloitte Consulting Overseas Projects</td>
<td><a href="mailto:dmujirishvili@dcop-hipp.ge">dmujirishvili@dcop-hipp.ge</a></td>
</tr>
</tbody>
</table>

**Reviewer**

<table>
<thead>
<tr>
<th>Reviewer</th>
<th>Organization</th>
<th>Contact Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valeriy Vlatchkov</td>
<td>Deloitte Consulting Overseas Projects</td>
<td><a href="mailto:vvlatchkov@deloitte.com">vvlatchkov@deloitte.com</a></td>
</tr>
<tr>
<td>Jake Delphia</td>
<td>Deloitte Consulting LLP</td>
<td><a href="mailto:jdelphia@deloitte.com">jdelphia@deloitte.com</a></td>
</tr>
</tbody>
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1.0 **List of Acronyms**

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<tr>
<td>GNERC</td>
<td>Georgian National Energy Regulatory Commission</td>
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<td>EC</td>
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<td>IFRS</td>
<td>International Financial Standards</td>
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2.0 Overview of Regulatory Reporting Framework of GNERC for Electric Utilities in Georgia

The power sector of Georgia is a specialized industry which needs to follow the financial reporting requirements according IFRS\(^1\), determined by the Law of Georgia on “Accounting and Auditing of Financial Statements”. Georgia has officially approved chart of accounts with defined names (main headings) and defined numbers\(^2\).

A statement prepared in accordance with International Standards assists owners and top management in decision making process. Business owners need to see the real situation of consolidated assets, profits, business lines. Also in case where companies are going to cooperate with foreign partners, the partner will be provided with information in the widely acceptable format to use.

Electric utilities are obliged to follow above mentioned reporting requirements and additionally Georgian Law on “Energy and Natural Gas” article 46 sets rules on separate accounting if utility in parallel with licensed activities performs other non-regulated activities, or utility holds more than one license.

In the past Energy Law article 46 paragraph 1 attempted to introduce principles of uniformity in the accounting system of electric and gas utilities but in 2006 amendments to the Energy law canceled action of mentioned paragraph.

Commission within its competence is responsible for control and monitor of financial and economic activities of utilities, defined by the Georgian Law on “Electricity and Natural Gas”.

Regarding data collection and monitoring GNERC is authorized to issue normative acts. The data requirements and obligation for reporting are listed in the Commission resolution 23\(^3\):

Commission in 2009 has developed and approved the annual\(^4\) and quarterly\(^5\) financial and technical reporting forms for certain type of license. Annual financial reporting forms require to be proved by Auditor, annual technical reporting forms approved by the person who has authorization on this.

All companies operating in electric power sector are obliged, from 1st of April to 1st of May, to submit to the Commission (in the form approved of by the Commission) reports on compliance with operation/service conditions, and operational/statistical reports within one month from the end of each quarter.

General Content of reports:
- Financial
- Industrial statistical information.
- Action plan for the following year
- Investment program for the current and following years
- Contracts entered into (upon request)
- Any other information the Commission deems necessary

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\(^1\) International Financial Reporting Standards (IFRS) are a set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements. IFRS are issued by the International Accounting Standards Board.

\(^2\) Accounting Standards Commission resolution 1 on "introduction of International Accounting Standards and approval of Chart of Account"

\(^3\) Georgian National Energy and Water Supply Regulatory Commission Resolution 23 on (Activities control and approval of licensing rules in electricity, natural gas and water supply sector"

\(^4\) Georgian National Energy and Water Supply Regulatory Commission Resolution #15/17 (Transmission)

\(^5\) Georgian National Energy and Water Supply Regulatory Commission Resolution #15/19
Commission uses for the overall analysis of utility’s financial/technical performance both type of forms and additionally is authorized to request any information deems necessary.

Data provided by annual financial forms used to determine liquidity, indebtedness and asset turnover and profitability indicators.

Annual technical forms used to collect data on: asset list according voltage level, its quantity parameters and performance of usage indicators, system loses, number and type of technical personnel, new customers connections etc.

Quarterly reports (technical/finance) used to collect data on utility's technical/economic and statistical data on technical performance, basic operational indicators of the utility, sale volumes, prices and revenues, investment in fixed assets, operational costs etc.

Reporting forms sections and articles on the level of subaccounts, doesn’t comprise non-regulated/non licensed activities, also direct references to preliminary defined accounts, where transactions for different regulated and non-regulated activities separately recorded and comprise separate sets of accounts kept for separate requirements.

Nonexistence of rules to keep separate sets of accounts for separate requirements may create uncertainties in the process of reporting and may lead to inconsistency in data reporting.

In such cases, rules how to keep records such as Uniform System of Accounts incorporates is very useful for regulatory accounting and reporting purposes.

Above mentioned system and instructions, shall describe actions that can be taken and how it should be taken, or options that the reporting utility can consider when making decisions on what to report on.

This could be useful for applicants and commission to use it in increasing the level of transparency and effectiveness in the licensees monitoring and management processes.

3.0 Introduction of USoA

Electric utilities perform rate regulated activities such as electricity transmission, generation, and distribution etc. and incorporate complex cost structure which require specific accounting and reporting rules for regulatory purposes. Such kind of regulations may vary from state to state.

Historically, in cases where General Accounting and Reporting Practices used to cater to the interest of shareholders and investors, were insufficient to consider and unify all specific issues related to complex structure of rate regulated activities, accounting, reporting and regulatory data requirements, commission decisions such adoption of USoA, reporting forms, minimum filling requirements and clear instructions, became one of the main regulatory instrument to create and balance the connection of the interest of consumers, utilities and other stakeholders.

To ensure such kind of balance in Georgia, regulator as a rule, requires separate accounting data for monitoring and tariff setting process to ensure, that any costs out of this balance are disallowed.
Some electric utilities in Georgia possess of more than one license, others perform regulated and non-regulated activities and establish affiliate companies that are involved in the various activities. In such cases it becomes difficult to identify those data from accounts that shall be directly attributed to the licensed/regulated activity or to check distribution of all expenses between services provided, regulated and non-regulated activities, despite the existence of certain general interpretation methods.

As it was mentioned, for monitoring purposes utilities in Georgia should separate financial statements and reports, but it is not easy to separately (regulated/non-regulated, types of service) identify: expense accounts such as administrative, operating and maintenance, plant accounts, capital expenditures, depreciation, cost of materials and fuel attributable to the certain type of activity, similarly income accounts should be maintained according to the sources of revenues, etc.

Currently there is not existence of approved cost allocation methodology and manual or uniform approach in energy sector that would allow resolving this issue.

It is important to develop the qualified expense allocation methodology and system with clear rules and instructions to provide consistent data for cost allocation, in order to justly and more accurately set tariffs.

Also, according interpretational notes working paper prepared by the EU commission working group on “Unbundling Regime” following Directives 2009/72 EC and 2009/73 EC, “for accounting unbundling, an accurate application of accounting principles is of fundamental importance. It is vital that cost items are allocated in a transparent and accurate manner to the activities concerned. Notably, any overstatement of the costs of the network business must be excluded”

All above mentioned, leads to the need to maintain unified accounting rules and principles as the basis for future “Unbundling Regime”, cost allocation and requirement to make traceable information from reports.

4.0 About the Uniform System of Accounts

In order to ensure uniformity in accounting and financial reporting and comparability of financial statements, NARUC, in collaboration with FERC, developed the Uniform System of Accounts (USoA) which has been instituted by the regulated utilities in the United States, as well as in many countries in Europe (Bulgaria, Albania) and Asia (Mongolia, Bangladesh).

The Uniform System of Accounts (USoA) is the accounting system which reports the results of events in a manner which enables both commission and management assess these results within a specified accounting period.

The USOA also provides clear data for financial performance results (based on the extent to which regulator permits, in consistency of accepted accounting principles and legally adopted accounting and reporting rules) of the utility to the Commission.

USoA provides a complete chart of accounts with detailed instructions of how transactions recorded. How expenses, revenues, assets, liabilities, and other items are measured and classified within each account.

Sections and articles in the Income Statement and Balance Sheet, including the corresponding account numbers in line with the Uniform Chart of Accounts.
Utilities in countries like United States, Albania and Bulgaria are required to submit financial reports quarterly and annually prepared in compliance with USoA and comprising guidelines and references to accounts where transactions recorded. Notes to the financial statements shall summarize activities and describe significant changes, liabilities and other relevant information.

5.0 Benefits from USoA

Each regulatory decision requires accounting treatment and the USoA establishes the accounting records, utilities must use for regulatory purposes that assists in providing adequate information base for establishing rates and monitoring performance.

The USoA requires accounting separation, when the regulated entity has other businesses that the Commission does not regulate or as it may require separating different activities within a regulated entity.

In states where regulatory accounting such as USoA were approved and used, general structure of chart of accounts comprises segregation of income by type of activity and expenses by both economic elements (by nature) as well as by expenses by activities (functionalized cost).

This means that separate records shall be maintained by electric plant accounts of the book cost of each plant owned, income and expenses of different regulated activity and for non-regulated activity are recorded in separate accounts (where it is direct attributable) and then allocated to the cost of activities performed.

USoA Provides consistency in reporting across time periods, utilities performance indicators verification, support process of benchmarking and reflects revenue collections across utilities, etc.

USoA may serve as an Accounting Application to satisfy or meet requirements of “Unbundling Regime”.
USAID Hydropower Investment Promotion Project (USAID-HIPP)

Deloitte Consulting Overseas Projects - HIPP

11 Apakidze Street, Tiflis Business Center

Tbilisi, 0171, Georgia