



**USAID**  
FROM THE AMERICAN PEOPLE

**HYDRO POWER AND ENERGY  
PLANNING PROJECT (HPEP)**

# TRAINING SUMMARY REPORT

**WORKSHOP ON UNIFORM SYSTEM OF ACCOUNTS,  
July 21-29, 2014**

Monday, August 04, 2014

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# **TRAINING SUMMARY REPORT**

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JULY 21-29, 2014**

USAID HYDRO POWER AND ENERGY PLANNING PROJECT  
(HPEP)

CONTRACT NUMBER: AID-OAA-I-13-00018/AID-114-TO-13-00006

DELOITTE CONSULTING LLP

USAID/CAUCASUS OFFICE OF ECONOMY, ENERGY AND  
ENVIRONMENT

MONDAY, AUGUST 04, 2014

## **DISCLAIMER:**

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## LIST OF ACRONYMS

Acronym	Term
<b>CPR</b>	Continues Record Keeping on PP&E items
<b>CoA</b>	Chart of Accounts
<b>GNERC</b>	Georgian National Energy and Water Supply Regulatory Commission
<b>HPEP</b>	Hydro Power and Energy Planning Project
<b>IAS</b>	International Accounting Standards
<b>IFRS</b>	International Financial Reporting Standards
<b>PPE</b>	Property, Plant and Equipment
<b>USAID</b>	United States Agency for International Development
<b>USoA</b>	Uniform System of Accounting

## 1. EXECUTIVE SUMMARY

### 1.1 Introduction

This report summarizes the trainings on Regulatory accounting rules developed within the scope of Uniform System of Accounting adoption process by GNERC for licensed entities operating in electricity sector. The seminar was conducted by HPEP Financial Analysts - Neka Danelia and David Mujirishvili from 21.07.2014 to 29.07.2014.

### 1.2 Goals

The primary goal of the seminar was to introduce basic concepts of regulatory accounting documents to the participants and improve their practical skills. Identify potential deficiencies of the draft and discuss their resolution with electricity sector regulated participants.

### 1.3 Training Content

Trainings were held for two days for each license type holder separately: 1) Generation, 2) Transmission and Dispatch 3) Distribution network and supply - six days in total. First day of training was devoted to introduction of document “Accounting Guideline Property Plant and Equipment”. Second day of training was devoted to introduction of: COA instructions, “Revenue, cost and expenses”, “accounting guidelines for Georgian power market companies “contribution and grants” and Reporting forms and instructions on reporting forms.

### 1.4 Results

On first days of trainings participants were introduced in detail, which IFRS and IAS requirement are effective and mandatory to comply with requirements of “accounting guidelines PPE” and what are more specific requirements in USOA PPE guideline – such as maintaining CPR, allowed depreciation method, concept of standard costing, classifying PPE items according to their functionality.

On second days of training participants were introduced to USOA specific issues, such as: new set of accounts introduced, coding system of regulatory accounts, clearing rules of expenditure accounts on expense accounts. One of the challenging



issues was requirement of accounting for assets created by grants and/or third party contributions and keeping records on such assets by sub-dividing assets according to financing parties. It was explained to licensed company accountants importance of related party contracts disclosure and importance of keeping informative work orders.

## 2. ANNEXES

### 2.1 Attendance List

**Attendance Sheet**

Event Name	Dates		Time
	07/21/2014		14:00-17:00

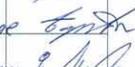
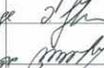
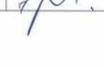
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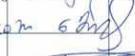
**Attendance Sheet**

Event Name		
Dates	07/22/2014	Time 14:00-17:00

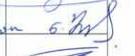
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**Attendance Sheet**

Event Name			
Dates	07/23/2014	Time	02:00-04:00
First Name, Last Name	Position	Contact Details	Signature
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**Attendance Sheet**

Event Name			
Dates	07/24/2014	Time	02:00-04:00
First Name, Last Name	Position	Contact Details	Signature
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Attendance Sheet

Event Name		Time 14:00-17:00	
Dates		07/28/2014	
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Amiran Tsilosan	Coordinator in financial issues	595 15 2233	
Nana Balakvashvili	Chief Accountant	595 218 006	
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**Attendance Sheet**

Event Name			
Dates	07/28/2014	07/29/2014	Time 14:00-17:00

First Name, Last Name	Position	Contact Details	Signature
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M. Madimashvili	Chief Accountant	699 263723	[Signature]
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გიორგი ბერიძე	specialist at reporting division Energo-Pro Georgia	577 35 06 45	გ. ბერიძე

First Name, Last Name	Position	Contact Details	Signature
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დიანა ალბერტაძე	გულბ ბიჯინაძის აკრუნი	დიანა ალბერტაძე	[Signature]
Lika Gvazava	GNERC	გვავა ლიკა გვავაძე	[Signature]

## 2.2 Presentations

### 2.2.1 Presentation 1 on Accounting Guideline - Property Plant and Equipment



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**HYDRO POWER AND ENERGY  
PLANNING PROJECT (HPEP)**

# ACCOUNTING GUIDELINE PROPERTY PLANT AND EQUIPMENT

21, 23, 28 JULY, 2014  
DAVIT MUJIRISHVILI



**USAID**  
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## Accounting Guideline Property Plant and Equipment

Accounting Guidelines “PP&E” includes:

- References to applicable accounting standards and measurement systems;
- Procedures for PP&E classification and classification units;
- The example items of different classes of PP&E;
- Attribution rules of certain PP&E items to PP&E groups and subgroups;
- Main Principle : All measured costs shall be accepted by Power Market Regulator, thus shall be consistent with the Power Market Tariff Methodology and other rules adopted by the Power Market Regulator .



## References to Standards Related to PP&E and Applicable to Regulated Company

Recognition	}	IAS 16
Initial and subsequent costs		
Measurement at recognition		
Elements of cost		
Measurement of cost		
Cost and Revaluation Model		
Depreciation		
Lease		IAS 17
Borrowing Cost		IAS 23
Impairment of asset		IAS 36
Investment Property		IAS 40



### Recognition

The cost of an item of property, plant and equipment shall be recognized as an asset if, and only if:  
(a) it is probable that future economic benefits associated with the item will flow to the entity; and  
(b) the cost of the item can be measured reliably.

### Spare parts and servicing equipment

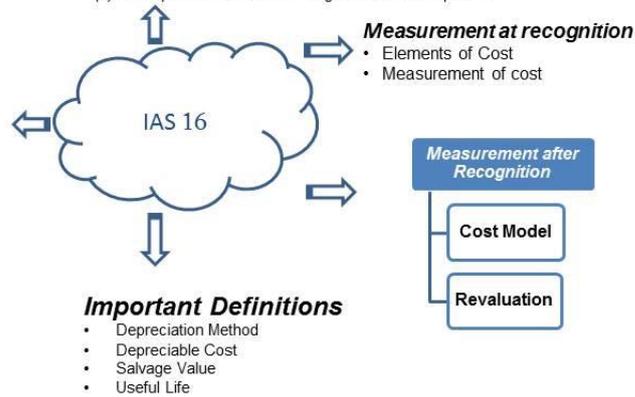
Technical Regulation #434  
Operation Rules for network and electric stations  
Article 37. Overhead Lines 25. Emergency reserve

### Attribution to PP&E

- Land parcels,
- Constructions,
- Transferring Units,
- Power machines, instrumentation,
- computing machinery,
- transportation means e.tc.

### Definition:

**Property, plant and equipment are tangible items that:**  
(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and  
(b) are expected to be used during more than one period.





## IAS 17 Lease – Classification

### IAS 17

#### 10. „Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract “

- Classification as a *finance* lease supported by
  - ownership transferred by end of lease term - might related to bargain purchase option
  - lessee receives most of economic benefit of asset
  - lessor obtains a return of investment in asset
  - asset is specialized to lessee’s needs, costly to modify for other use
  
- **Leases in the financial statements of lessees.**
  
- **Leases in the financial statements of lessors.**



## References to Standards Related to PP&E and Applicable to Regulated Company

### IAS 23 Borrowing Costs

“1 Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognized as an expense.”

### IAS 36 Impairment of Assets

“9. An entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset”

“12. In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

- External sources of information
- Internal Information

### IAS 40 Investment property

“Investment property is property (land or a building—or part of a building—or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both.”



## Regulatory Treatment

**Specific guidance based on standards that regulated company shall follow:**

Different type tangible items and expenses recognition as PP&E related issues

- Spare parts and servicing equipment.
- Subsequent cost and classification of works
- Cost model
- Lease (financial lease)

Depreciation.

- Depreciation method
- Useful life

Regulatory treatment for impairment of assets (keeping records for impairment loss separately or as PP&E).

Borrowing cost recognition as a element of cost.

Continuous Property Recording (CPR)



## The example Items for ``Elements of Cost``

- Contract works
- Labor cost (according IAS 19)
- Materials and supplies
- Transportation cost
- Cost of Special equipment
- Expenses inquires in workshop
- Rent expenses
- Design and supervisory cost
- Borrowing cost allowed to be capitalized
- The cost of abnormal amounts of wasted material, labor, or other resources incurred in installation or assemblage an asset is not included in the cost of the asset



## Subsequent cost and classification of works

**Accounting Guideline on PP&E sets criteria for expenses to be capitalized and Samples of capitalization criteria.**

- Maintenance of assets
- Reconstruction –(rehabilitation)
- Modernization
- Fitting
- New construction and acquisition
- Substitution
- Technical diagnostics



## Maintaining Records on Property Plant and Equipment Continuous Property Recording (CPR)

### Asset Information

Items:

- Unique asset number
- Serial number
- Model
- Manufacturer
- Asset Description
- Indication of asset nominal voltage
- Supplier
- Purchase order number
- Invoice Number

### Accounting and regulatory compliance

Items:

- Date purchased.
- Date available to use.
- Asset class
- Tax rates.
- Major account asset attributed.
- Subaccount asset recorded
- Possession form.
- Original cost
- Salvage value
- Depreciation Method
- Depreciable amount to the end of period
- Depreciation
- Depreciation rate.
- Accumulated depreciation
- Net book value
- Estimated Useful life

### Accountability

- Items

- Asset custodian
- Asset location
- Activity used for
- Last stock-take
- Next stock-take
- License number
- License expiration date

### Asset performance

- Items:

- Functionality
- Use
- Current condition
- Warranty and dates
- Warranty conditions
- Capital work orders
- Maintenance work orders



## Classes of PP&E and PP&E Items Attribution Principles

- Assigns PP&E items to different groups of PP&A “In Operation” and “Held for future use”, provides rules for attribution and inclusion of PP&E items to certain regulated asset group and subgroup.
- Provides rules and guidance for PP&E items classification and attribution.
- Clarifies principles and sets rules for attribution of PP&E items to functions of regulated company.
- Clarifies principles on PP&E items segregation and functional break down to sub groups.



## PP&E different groups

### **PP&E in operation**

- PP&E items in use to perform regulated and non-regulated activities.

### **PP&E not in operation (in warehouse)**

- Shall include PP&E major spare parts and servicing equipment together with property intended for future use.
- Regulated company should have definite plan submitted and approved by the Commission for inclusion of PP&E items to the regulated functional subcategory.



## Different classes of PP&E

- **Main classes of PPE incorporated in COA PP&E section structure**
  - 2110 LAND
  - 2120 CONSTRUCTION IN PROGRESS
  - 2130 BUILDINGS
  - 2140 CONSTRUCTIONS
  - 2150 MACHINERY AND EQUIPMENT
  - 2155 TRANSFERRING ASSETS ←
  - 2157 CONTRIBUTIONS AND GRANTS ←
  - 2160 OFFICE EQUIPMENT
  - 2170 FURNITURE AND FIXTURES
  - 2180 VEHICLES AND POWER OPERATED EQUIPMENT
  - 2185 INSTRUMENTS (TOOLS) AND OTHER L.T.T ASSETS ←
  - 2190 LEASHOLD IMPROOVEMENT
  - 2195 L.T.T. ASSETS NOT IN OPERATION (IN WAREHOUSE) ←
- **The stated PP&E are recognized as assets in operation except following assets: CIP and Long Term Assets Not in Operation (in warehouse).**
- For Power Market regulation purpose classes added ←



## Classes of PP&E and PP&E items attribution principles (cont.)

Accounting Guidelines on PP&E structure comprises subjects related to:

- General formulations to determine PP&E different type of items attributable to certain class of property and rules for classification and attribution for PP&E items.
- Example items of cost components for certain class of PP&E.
- The example items that comprise list for different type of PP&E items inside the certain classes of PP&E.
- Rules to perform classification of certain classes of PP&E items according to the voltage class, intended purpose of use and attribution to subgroups.



## Structure of PP&E Used in Regulated Activities

- Each class of PP&E comprises the groups for regulated and non-regulated activity.
- Asset group for regulated activities comprise further breakdown to different regulated activities.
  - Dispatch,
  - Transmission,
  - Distribution (further breakdown based on “Network” & “Supply” activities),
  - Generation of electricity (further breakdown based on type of technology).



## PP&E Classification and Attribution Rules

PP&E items further classification inside subgroups shall be performed according to:

- Network voltage class and nominal voltage of equipment.
- Type of equipment, and sources of acquisition.
- Technology employed (HPP, TPP, Gas fired and Combine Cycle Power plant).
- Intended purpose of use (technical services, administration, etc.)
- Supported by the rules for classification, general formulation for type of equipment attributable and list of example items.



## Examples for ``General formulation, classification and attribution rules to the class of PP&E``

### 2150 Machinery and Equipment

– **General formulation:**

Company shall attribute the cost of a property to machinery and equipment if the fixed or movable tangible assets used for operations such as transforming, conversing and converting energy, materials and information. Company shall depending on the primary (prevailing) purpose of use of devices, installation, apparatus and equipment attribute to the class of 'Machinery and equipment':

- Energy Equipment,
- Material-working machinery and Machine tool,
- Information technology equipment:
  - Communication Systems Equipment (stationary),
  - Instrumentation (mounted),
  - Computing machinery (only when an integral part of industrial system or installation).

– **Includes ``The example items of cost``**

– **Restriction of certain PP&E items attribution to the class Machinery and Equipment**

– **Includes ``The example items`` for the type of electricity generation technology employed.**



## Examples for ``General formulation, classification and attribution rules to the class of PP&E`` (cont.)

### 2155 transferring assets

– **General formulation:**

The following shall be attributed to the class of property "Transmissive units":

Completed functional installations (elements), through which different specification energy and communication signals, as well as liquid and gaseous substances (oil, water steam and gas) are transferred.

– **Includes ``The example items of cost``**

– **Restriction of certain PP&E items attribution to the class Machinery and Equipment**

– **Includes ``The example items`` for the type of electricity generation technology employed.**



## The example items of different type of “Transferring assets”

### Mains

- Gas pipelines, gas conduits
- Mains for petrochemicals
- Mains and conduits of heat network
- Interplant piping
- Intra shop technological piping
- Sewage gravity network.
- Water-supply pipeline network
- Slime conduits.
- Industrial fire line

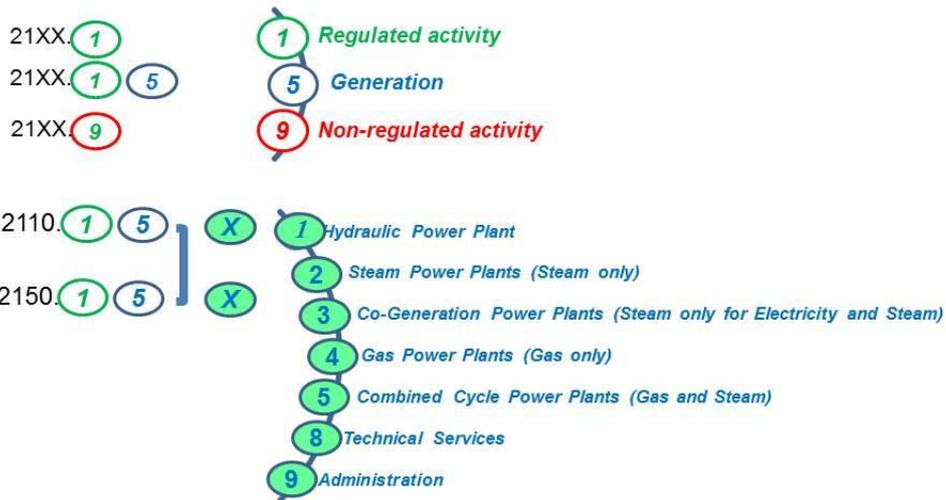
### Electricity transmission and electric communication means.

- Railway contact system
- Full gantry cranes power lines
- Overhead power lines
- Cable power Lines (Overhead and Underground)
- Telecommunication, electric communication cable lines
- Fiber-optic telecommunication lines
- Wire broadcasting lines

Do not attribute to the class of “Transferring assets” property such as: bus system, facilities constituent equipment and devices, cable channeling, control wiring and tunnels. Such items should be attributed to appropriate class of PP&E directly benefitted.



## Coding in COA PP&E Section – Electricity Production





## “The example items” for the type of electricity generation technology employed.

### *Hydraulic Power Plants*

#### – **WATER WHEELS, TURBINES & GENERATORS**

- Hydraulic Turbine Blocks
- Mechanical Equipment of Hydro Technical Constructions and Machinery hall.
- Hydro Generators
- Hydro generators Automation
- Hydro machine automatic control system
- Auxiliary equipment

### *Steam Power Plant*

#### – **TURBINE EQUIPMENT**

- Steam Turbine (with regulated, middle steam extraction and back pressure)
- Turbine equipment

#### – **GENERATOR (STEAM TURBINE)**

- Stator
- Rotor
- Excitation System
- Hydrogen cooling system
- The cooling system of distilled water
- Air cleaning and cooling apparatus, drive equipment, louvers, pumps, hoods, etc.
- Fire-extinguishing systems
- Bearings
- Lubricating systems
- Other equipment

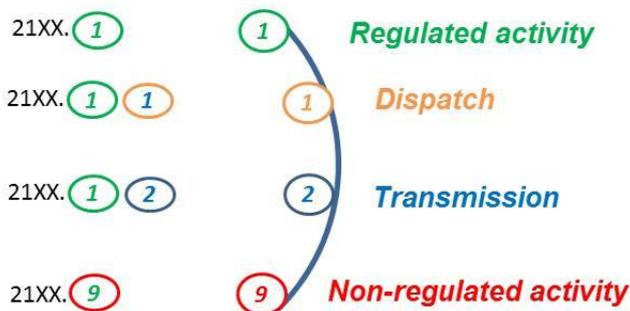
### *Gas fired Power Plant*

#### – **PRIME MOVERS**

- Air-filtering system.
- Belting, shafting, pulleys, reduction gearing, etc.
- Cooling system, including towers, pumps, tanks, and piping.
- Cranes, hoists, etc.,
- Engines, natural gas, or other internal combustion
- Water Supply System
- Foundations and settings Steelwork
- Governors.
- Exhaust mine
- Protection and Automation Systems
- Lighting systems.
- Mechanical meters, including gauges,
- Fire extinguishing system
- Backup diesel generator
- Plant condition monitoring system
- Piping.
- Compressed air systems,
- Modules of digital control systems and display

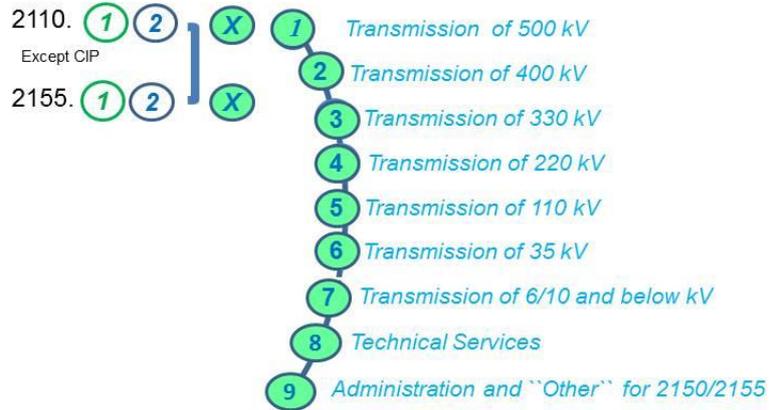


## Coding in COA PP&E Section –Transmission & Dispatch





### Coding in COA PP&E Section –Transmission



### Coding in COA PP&E Section - Transmission





## “The example items” for the Machinery and Equipment - Transmission

### **Substation Equipment**

- Open Switchgear 6-500 KV
- An indoor switchgear 35-220 KV
- An indoor switchgear 3-20KV
- Converters
- Electric machine
- Start up and control devices
- Low voltage devices
- Outdoor lighting equipment and devices
- Control equipment, Switchboards, including control wiring, etc.
- Tools and appliances
- Accumulator plant
- Meters.

### **Automation and Relay Protection**

- Program Logic Controllers.
- Networking Equipment
- Input-output units (modules)
- Cordless network
- Computing engineering in automation
- Automatic reclosing devices
- Emergency automation devices
- Bay controller Device
- Digital Fault Recorder Device
- Distance Protection Device
- Circuit-Breaker Management Device
- Overcurrent Protection for Line Device
- Differential and Distance Protection Device
- Differential Protection Device
- Fire and thermal protection devices
- Relays, Panels and enclosures, switches.
- Relay cases, mounting hardware, terminations, isolating devices and wiring.

### **Transmission Metering**

Company shall attribute the cost of property to metering equipment that can be used for the purposes of revenue metering, interchange metering and generation integration metering.

The example items for metering equipment include:

- Different type of meter
- Enclosure to house meter and its supports
- Instrument transformers
- Connection and communication devices and wiring
- Cost of installation, testing and calibration.
- Meter panels



## “The example items” of different type of “Transferring assets”

### **Transmission High Voltage Lines**

**Transmission Overhead Lines**, including supporting structure and fixtures and overhead conductors and devices which are primary used for transmission of electricity (capacity).

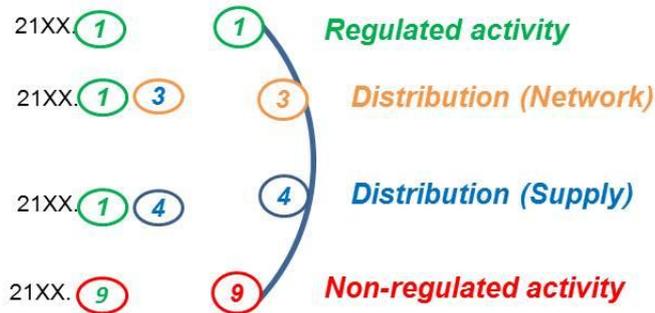
- Transmission Towers, Poles and Fixtures and Overhead Power Conductors and Devices.
- Lattice towers and steel and concrete poles that include rigid and guyed structures, which support insulators and conductors(cables);
- Structural foundations that support lattice and monopole structures and include several different types and designs.
- Insulators that provide adequate insulation levels and clearance between energized conductors and grounded structures;
- Insulator hardware used as connecting devices for the insulators;
- Grounding.
- Overhead cables, Devices for Overhead cables

**Underground (Cable) Power Conductors and Devices**, including insulated cables, potheads, covered conductors installed in conduits, ducts or trenches, used in transmission of electricity.

- Foundations and settings specially constructed for and not expected to outlast the apparatus for which constructed
- Cables, cable racks and hangers etc., permanently attached to manholes
- Sumps, including pumps.
- Underground conductors and devices.
- Fireproofing, in connection with any items listed herein.
- Insulators, potheads, etc.
- Lightning arresters.
- Switches.
- Other line devices.



### Coding in COA PP&E Section – Distribution (Network & Supply)

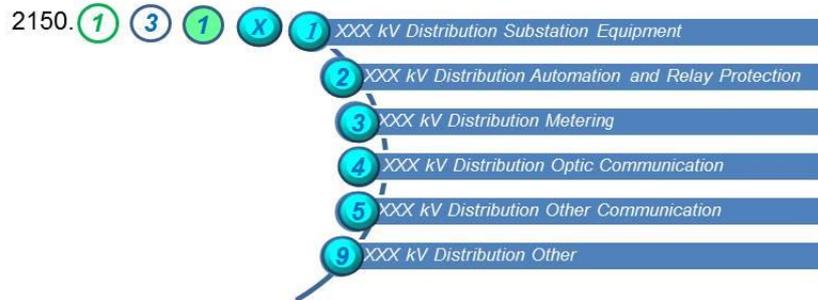


### Coding in COA PP&E Section –Distribution (Network)





## Coding in COA PP&E Section - Distribution (Network)



## ``The example items`` for the Machinery and Equipment – Distribution (Network)

### **Substation Equipment**

- Open Switchgear 6-110 kV
- An indoor switchgear 35-110 KV
- An indoor switchgear 3-20KV
- Converters
- Electric machine
- Start up and control devices
- Low voltage devices
- Outdoor lighting equipment and devices
- Control equipment, Switchboards, including control wiring, etc.
- Tools and appliances
- Accumulator plant
- Meters.

### **Automation and Relay Protection**

- Program Logic Controllers.
- Networking Equipment
- Input-output units (modules)
- Cordless network
- Computing engineering in automation
- Automatic reclosing devices
- Emergency automation devices
- Bay controller Device
- Digital Fault Recorder Device
- Distance Protection Device
- Circuit-Breaker Management Device
- Overcurrent Protection for Line Device
- Differential and Distance Protection Device
- Differential Protection Device
- Fire and thermal protection devices
- Relays, Panels and enclosures, switches.
- Relay cases, mounting hardware, terminations, isolating devices and wiring.

### **Distribution Metering**

Company shall attribute the cost of property to metering equipment that can be used for the purposes of revenue metering, for use in measuring the electricity delivered to its users.

The example items for metering equipment include:

- Different type of meter
- Enclosure to house meter and its supports
- Instrument transformers
- Connection and communication devices and wiring
- Cost of installation, testing and calibration.
- Meter panels

To this subgroup of assets regulated company shall not attribute meters for recording output of a generating station, substation meters, etc.

It includes only those meters used to record energy delivered to customers.



## The example items of different type of “Transferring assets”

### *Distribution High Voltage Lines*

**Distribution Overhead Lines**, including supporting structure and fixtures and overhead conductors and devices which are primary used for Distribution of electricity (capacity).

- Distribution Towers, Poles and Fixtures and Overhead Power Conductors and Devices.
- Lattice towers and steel and concrete poles that include rigid and guyed structures, which support insulators and conductors(cables);
- Structural foundations that support lattice and monopole structures and include several different types and designs.
- Insulators that provide adequate insulation levels and clearance between energized conductors and grounded structures;
- Insulator hardware used as connecting devices for the insulators;
- Grounding.
- Overhead cables, Devices for Overhead cables

**Underground (Cable) Power Conductors and Devices**, including insulated cables, potheads, covered conductors installed in conduits, ducts or trenches, used in Distribution of electricity.

- Foundations and settings specially constructed for and not expected to outlast the apparatus for which constructed
- Cables, cable racks and hangers etc., permanently attached to manholes
- Sumps, including pumps.
- Underground conductors and devices.
- Fireproofing, in connection with any items listed herein.
- Insulators, potheads, etc.
- Lightning arresters.
- Switches.
- Other line devices.



## Examples (Elements of cost, acquisitions by postpone payment)

Regulated company is going to enter in operation part of substations to form new capacity.

1. Amount paid for electrical equipment (supplier price + TAX) 1 500 000 GEL.
2. Expenses for the first delivery and storage 25000 GEL.
3. Site preparation and construction cost 30 000 GEL.
4. Costs incurred for consultants services on equipment selection and installation 25 000 GEL
5. Interest cost paid to supplier for delay of payment 150 000 GEL.
6. 25 years after inquires estimated costs 2200 GEL for dismantling.
7. Operating losses before load at full capacity 2500 GEL.

- According IAS 16 cost not subject of capitalization :



### Examples (Elements of cost, acquisitions by postpone payment)

- 1 VAT shall be excepted form total price of 1 500 000 GEL – VAT paid 271186,44 GEL.
- 2 Expenses for the first delivery and storage 25000 GEL.
- 3 Site preparation and construction cost 30 000 GEL.
- 4 Costs incurred for consultants services on equipment selection and installation 25 000 GEL
- 6 Discount rate 7%.  
estimated costs of dismantling at the recognition =  $2200 \text{ GEL} / (1 + 0,07)^{25} = 405,3 \text{ GEL}$

cost            1351591,78



### Examples (land acquisition)

- "The Distribution company has acquired land to construct Distribution transformer substation rated at nominal voltage 35 kV (with a total area of 600 square meters. For Land, paid 12,000 \$. In addition to the money paid by the company for land parcel acquisition, company incurs notary fee 50 GEL, 200 GEL for registration Property Rights in Public Registry, and brokerage fee 200\$
- The total cost of land parcel is  $12000 * 1,75 + 50 + 200 + 200 * 1,75 = 21600 \text{ GEL}$
- In accordance with technical documentation or some normative act 300 square meters of land requires for projected (to be completed in one fiscal year) transformer substation. Company has a definite plan to expand existed or construct new transformer substation in the period of tariff regulation that consist of three years.

Cost of Land parcel proposed to be recorded to 2110.132 calculated as a required portion of land parcel  $300 \text{ Sq.} * (21600/600) = 10800 \text{ GEL}$ , The cost of remaining portion of land parcel after commission approval might be included in account 2195.13



### Examples (Changes in Useful life and residual value)

Regulated company owns a water pumping equipment (Componentry part of TPP boiler plant equipment) with an original cost of GEL 350 000.

On acquisition, management determined that the useful life was 10 years and the residual value would be GEL 15,000.

The asset is now 7 years old, and during this time there have been no revisions to the residual value. At the end of year 7, company has reviewed the useful life and residual value and has determined that the useful life can be extended to 12 years. As a result, the residual value will reduce to GEL 10,000.

The asset has a carrying amount of GEL 115 500 at the end of year 7: 350 000 (cost) less 234 500 (accumulated depreciation).

Accumulated depreciation is calculated as:

Depreciable amount equals cost less residual value = 350000 – 15000=335000

Annual depreciation = depreciable amount divided by useful life =335000 / 10 = 33500

Accumulated depreciation = 335000 × no. of years (7) = 234500.

Revision of the useful life to 12 years results in a remaining useful life of 5 years (12 – 7). The revised depreciable amount is \$105 500: carrying amount of 115500 – the revised residual amount of 10,000. Thus depreciation should be charged in future at 21100 per annum (105500 divided by 5 years).



### Examples (borrowing cost capitalization)

A regulated company X projected to construct a new derivation tunnel. The tunnel would take two years to build and the total projected cost for the construction would be not less than \$11 million.

- " To allow itself a margin of safety, the regulated company X borrowed \$13 million from three sources and used the extra \$2 million for its working capital purposes. Financing was arranged in this way:•
- Bank term loans: \$3 million at 12% per annum•
- Institutional borrowings: \$2 million at 7% per annum•
- Corporate bonds: \$8 million at 7,5% per annum

At the first phase of the construction of the tunnel, there were idle funds of \$6 million, which the X invested for a period of six months. Income from this investment was \$500, Weighted-average cost of borrowed funds was 8,46% and borrowing cost to be capitalized = \$1,86 million -500=\$1,36 million, "



### Examples (lease)

- An entity enters into a lease agreement to lease a transformer and other substation equipment or overhead line from another entity. Electric facilities operation was carried out in compliance with the technical requirements. There is technical assessment indicating that 25% of useful life still remains.
- Contract terms for lease doesn't comprise transfer of ownership to regulated company at the end of lease agreement but includes Bargain purchase Option \$100.
  
- *Lease terms comprise monthly payments 1000 GEL during 30 month.*
- *Discount rate is 8%*
- *Appraiser determined fair value of leased asset as a 29 000 GEL*



### Examples (lease) cont.

- *In the example given lease might be classified as a:*
- *A) operating lease*
- *B) financial lease*
- *Is it possible to recognize leased property as a PP&E by the regulated company?*
  
- $PV_T = FV * (1 + 0,08)^{-T}$
- *PV of minimum lease payments + Bargain Purchase Price 27109 GEL.*
- *Present value of Minimum lease payments less than fair value of assets, cost of asset recognized as PP&E should be 27109 GEL*



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# Part 1

## COA and Instructions on COA



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### Structure of Regulated COA

- USOA COA structure in general is in compliance with COA approved by resolution #1 of THE COMMISSION ON ACCOUNTING STANDARDS ON AUGUST 12, 1999.
- On the level of first two digits there are introduced two new accounts:
  - 7500 – Total operating expenses of regulated activity
  - 7700 – expenditures on long term assets- usage of those accounts is optional



## Structure of Regulated COA

There are added following accounts on the level of four digits:

1485	Prepayments to custom-house
1635	Interim account
<b>2155</b>	Transferring assets
<b>2157</b>	Contribution and Grants
<b>2185</b>	Instruments and Other Long Term Tangible Assets in Operation
<b>2195</b>	Long Term Tangible Assets Not in Operation (in warehouse)
<b>2255</b>	Accumulated Depreciation of Transferring assets
<b>2257</b>	Accumulated Depreciation of Contribution and Grants



## Regulated and non regulated accounts

There are two types of accounts in COA:

regulated

- Regulated are accounts, where first four digits are followed by symbol "." (dot) and then figures, which bear certain code value.

Non-regulated

- Non-regulated are all the rest four digit accounts



## Main groups of regulated accounts are:

1410	• Accounts receivable - trade	6100	• Operating Income <sup>1</sup>
1910	• Other Current Assets	7100	• Cost of products sold (goods-producing and services industries)
21 XY	• Fixed Assets	7400	• General and administrative expenses
22 XY	• Depreciation of Fixed Assets	7500	• Total Operating Expenses for Regulated Activities <sup>o</sup>
25 XY	• Intangible Assets	8100	• Non-Operating income
26 XY	• Accumulated Amortization of Intangible Assets	8200	• Non-Operating Expenses/Losses



## Transaction recording rules on regulated accounts

According to instructions:

- On regulated accounts which have lower levels direct entries are not made;
- entries are made on the accounts which are lowest level in their sub-groups
- In the case of regulated accounts licensees
  - Can open sub accounts to the lowest level of regulated account.
  - On the upper levels of accounts regulated entities can open subaccounts with permission of commissioner

Licensees can open non-regulated accounts, sub-accounts to them on their own discretion



## Coding of regulated activity

The Code of a Regulated Account is specially stated and has two parts: general and specific. General and Specific parts are separated with the point symbol, “.”.

7100.1 – regulated electricity  
7100.9 – non-regulated

- Fifth figure denotes whether account is regulated or not

7100.11 - dispatch  
7100.12 - Transmission  
7100.13 – Distribution (network)  
7100.14 – distribution (supply)  
7100.15 - Generation

- Sixth figure denotes licensed activity



The 7-th, 8-tj and 9-th figures in regulated PPE accounts carry different coding meaning in different sectors and within those sectors

- **Dispatch PPE accounts apart form** 2157, 2160 and 2180 do not have 7-th figure;
- **Transmission PPE accounts** 7-th figure differentiates ppe items by voltage level, technical services and ppe for administrative purposes.
- **Distribution (network) accounts** - 7-th figure differentiates ppe items by voltage level, dispatch for distribution purposes, technical services and ppe for administrative purposes.
- **Dispatch (supply) accounts apart form** 2157, 2160 and 2180 do not have 7-th figure;
- **In the Generation PPE accounts** 7-th figure divides ppe items by power plant type, technical services and ppe for administrative purposes..
- There are individual coding in accounts \_ 2157, 2160 and 2180 – on the basis of their meaning
- When there are 8-th figure in accounts it serves to subdivide PPE items in a more detailed manner



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## Part 2

### Revenues, costs and expenses



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- USOA differs regulated services according to tariffs approved by GNERC.
- USOA – introduces “regulated costs” and “regulated expenses” meaning



## Coding of regulated revenue accounts

In 6100.1 accounts 7-th figure denotes Tariff Type.

Licensee opens as much subaccounts in that register as many tariffs it has.

Matching expenses of 6100.1 revenue accounts are recorded on 7500.1 -accounts

Usage of 8-th figures in 6100.1 accounts is optional for regulator



## Coding of regulatory expense accounts (continue)

In 7100 accounts

- 7<sup>th</sup> figure differentiates categories
- The coding of 8<sup>th</sup> figure is functional breakdown
- The coding of 9<sup>th</sup> figure is breakdown by elements (nature)

In 7400 accounts

- 7<sup>th</sup> figure denotes a) administrative and b) general expenses
  - The coding of 8<sup>th</sup> figure is breakdown by elements (nature)

In 7500 accounts

- 7<sup>th</sup> figure denotes tariff type
- The coding of 8<sup>th</sup> figure is functional breakdown
- The coding of 9<sup>th</sup> figure is breakdown by elements (nature)



### Coding of regulated cost accounts

Depending on association of cost with the Power Market Activity, USoA identifies: Regulatory Cost of Electricity Generation (Services) that is directly associated with the activity (Account 7100.1), and Regulatory Cost of General & Administration Expenses for Electricity Regulated Activities that is not directly associated with the activity (Account 7400.1)

Main Account	Activity	Category	Function	Element
7100.1	A	C	F	E

Main Account	Activity	Function	Element
7400.1	A	F	E



### „Category“ - In Generation regulated accounts

USoA identifies Regulated Cost Category for generation activity as

- Hydraulic Power Plant
- Steam Power Plant
- Co-generation Power Plant
- Gas Power Plant
- Combined Cycle Power Plant
- General (common) Technical Services
- Other

In which cost category expenditure will fall depends on Energy Source which is used for Turbine Operation



„function“ – in **Generation regulated accounts**

For Regulatory Cost of Electricity Generated, USoA identifies following Regulated Cost Functions:

- Direct Cost of Electricity
  - Operation Cost
  - Maintenance Cost
  - Other



Direct cost of electricity and operating Cost  
„functions“ – in **Generation regulated accounts**

Examples of **Direct Cost of Electricity** are:

- Cost of Water, fuel, gas etc.

**Operating cost includes** the cost of labor, materials used and expenses incurred in operating prime movers, generators and electric equipment in other power generating stations, to the point where electricity leaves for conversion for transmission or distribution...



## Maintenance Cost „functions“ – in **Generation regulated accounts**

- *Maintenance Cost* as Generation Cost Function is the group of costs that incur on or refer to the maintenance of generation property in accordance with the Tariff methodology.

In practice it might be difficult for accountant to clearly differentiate between operating and maintenance costs – therefore professional technical consultations and informative work order keeping is strongly encouraged



## Other Cost functions – in **Generation regulated accounts**

examples

**In Other Cost functions are included costs which are unpractical to allocate to other functions.**

### **Examples**

- **Consulting Services**
- **Research and development costs**
- **Security, Patrolling...**



„Category“ – in Dispatch regulated accounts

USoA identifies Regulated Cost Category for dispatch activity as:

Dispatch of the Electricity System.

The category was identified for the reason of unification with other activities.“



„Function“ - in Dispatch regulated accounts

For Regulatory Cost of Electricity Dispatch Service, USoA identifies following Regulated Cost Functions:

- 1 - Operation and Maintenance Cost
- 2 - Cost of Electricity Losses
- 9 - Other



## Function 1-Operation and Maintenance- Dispatch regulated accounts

Example

„Operation and Maintenance Cost“ include salary, material and other expenses related to dispatch activities of the network.

- Example of wages: Directing switching, Arranging and controlling clearances for construction, maintenance, test and emergency purposes, Controlling system voltages, Obtaining reports on the weather and special events, Preparing operating reports and data for billing and budget purposes.
- **Other cost examples:** Communication service provided for system control purposes, System record and report forms, Meals, traveling and incidental expenses, Obtaining weather and special events reports.



## „Function 2“ - Cost of Electricity Losses in Dispatch regulated accounts (continue)

*Cost of Energy Losses* as Dispatch Cost Function is the Regulatory Value of electricity losses liable on Dispatch services in accordance with the Tariff methodology.



## **„Function 9“ Other expenditures in Dispatch activity regulated accounts**

**In this function are recorder all Dispatch activity related regulated expenditures which are not directly related to previous two functions**



## **„Category“ - in Transmission regulated accounts**

**USoA identifies Regulated Cost Category for transmission activity as:**

- 500 kV
- 400 kV
- 330 kV
- 220 kV
- 110 kV
- 35 kV
- 6/10 kV and below
- General Technical Services
- Other



**„Category“ – in Distribution (Network) regulated accounts**

**REGULATED COST CATEGORIES for DISTRIBUTION NETWORK**

USoA identifies Regulated Cost Category for distribution network activity as :

- 1 110 kV
- 2 35 kV
- 3 10 kV
- 4 6 kV
- 5 220/380 V
- 7 Distribution Dispatch
- 8 Technical Services
- 9 Other



**„Function“ – in Transmission & Distribution (Network) regulated accounts**

**For Regulatory Cost of Electricity Transmission and Distribution Network Service, USoA identifies following Regulated Cost Functions:**

- Operation Cost
- Maintenance Cost
- Cost of Electricity Losses
- Other



„Category“ - in Distribution (supply) regulated accounts

USoA identifies Regulated Cost Category for distribution supply activity as:

- 1 Cost of Supply of Active Electricity



„Functions“ - in Distribution (supply) regulated accounts

For Regulatory Cost of Electricity Distribution Supply Service, USoA identifies following Regulated Cost Functions:

- Cost of Active Electricity Purchased for Sale
- Operation & Maintenance Cost
- Cost of Electricity Losses
- Other



Element items in 7100 accounts

USoA identifies following cost elements for operation and maintenance:

- Personnel
- Materials
- Outsource
- Electricity Consumed and Other Utilities
- Operating Lease
- Depreciation Cost
- Other



„Function“ – in regulated accounts- **General and Administrative Expenses (7400 -Accounts)**

Example

For the Regulated Cost of General and Administrative Expenses for Electricity Regulated Activity USOA identifies:

- **Administrative** as Cost Function of General and Administrative Expense is the group of costs that incur on or refer to the administration and management of the company in accordance with the Tariff methodology.
- **General** as Cost Function of General and Administrative Expense is the group of costs that incur on or refer to the general needs of the company in accordance with the Tariff methodology



„elements“ in 7400 regulated accounts

USoA identifies following elements for general expenses

- 1 Payroll Cost of Administration
- 2 Operating Lease
- 3 Office Supply
- 4 Communication
- 5 Utilities
- 6 Repair
- 7 Representative Expenses
- 8 Depreciation
- 9 Other Electricity Regulated Administration Expenses

USoA identifies following elements for administrative expenses

- 1 Insurance
- 2 Consultation and Audit
- 3 Training
- 4 Bank charges and Fees
- 5 Business Trip
- 6 Bad dept
- 7 Other Taxes and Duties
- 8 Penalties and Charges
- 9 Other Electricity Regulated General Expenses



Clearance of 7100 and 7400 accounts by 7500 accounts

- Usosa uses 7500 accounts for aggregation of regulated accounts
- On 7500 accounts are collected expenses eligible for tariff calculation purposes
- There are not made any direct transactions on 7500 accounts. At the end of the reporting period 7100 and 7400 accounts are cleared on 7500 accounts

Main Account	Activity	Tariff Type	Direct (G&A)	Element
7500.1	A	T	D	E



Table for clearance of 7100 accounts on 7500 accounts for distribution (*network*), transmission and dispatch activities

Debit		Credit	
Direct Electricity Cost	7500.1AT11	Direct Cost of Generation	NA
Payroll Cost	7500.1AT12	Payroll Cost	7100.1AX11 7100.1AX21
Materials	7500.1AT13	Materials	7100.1AX12 7100.1AX22
Outsource	7500.1AT14	Outsource	7100.1AX23 7100.1AX13
Utilities	7500.1AT15	Utilities	7100.1AX14 7100.1AX24
Operation lease (rent)	7500.1AT16	Operation Lease	7100.1AX15 7100.1AX25
Electricity Losses	7500.1AT17	Electricity Losses	7100.1AX3
Depreciation	7500.1AT18	Depreciation	7100.1AX18 7100.1AX28
Other	7500.1AT19	Other	7100.1AX19 7100.1AX29 7100.1AX9



Table for clearance of 7100 accounts on 7500 accounts for distribution (*supply*) activities

Debit		Credit	
Direct Electricity Cost	7500.14T11	Direct Cost of Generation	7100.1411
Payroll Cost	7500.14T12	Payroll Cost	7100.14121
Materials	7500.14T13	Materials	7100.14122
Outsource	7500.14T14	Outsource	7100.14123
Utilities	7500.14T15	Utilities	7100.14124
Operation lease (rent)	7500.14T16	Operation Lease	7100.14125
Electricity Losses	7500.14T17	Electricity Consumption	7100.1413
Depreciation	7500.14T18	Depreciation	7100.14128
Other	7500.14T19	Other	7100.14129 7100.14X9



Table for clearance of 7100 accounts on 7500 accounts for Generation

Debit		Credit	
Direct Electricity Cost	7500.15T11	Direct Cost of Generation	7100.15X1
Payroll Cost	7500.15T12	Payroll Cost	7100.15X21 7100.15X31
Materials	7500.15T13	Materials	7100.15X22 7100.15X32
Outsource	7500.15T14	Outsource	7100.15X23 7100.15X33
Utilities	7500.15T15	Utilities	7100.15X24 7100.15X34
Operation lease (rent)	7500.15T16	Operation Lease	7100.15X25 7100.15X35
Electricity Losses	7500.15T17	Electricity Consumption	7100.15X26 7100.15X36
Depreciation	7500.15T18	Depreciation	7100.15X28 7100.15X38
Other	7500.15T19	Other	7100.15X29 7100.15X39 7100.15X9



Table for clearance of 7400 accounts on 7500 accounts (general)

Debit		Credit	
Payroll Cost	7500.1AT21	Payroll Cost	7400.1A11
Supply, Communication & Utilities	7500.1AT22	Office Supply	7400.1A13
Business Trips, Trainings, Rep. Expenses	7500.1AT23	Communication	7400.1A14
		Utilities	7400.1A15
		Trainings	7400.1A23
Depreciation, Repair, and Rent	7500.1AT24	Business Trips	7400.1A25
		Represent. Exp.	7400.1A17
		Operating Lease	7400.1A12
Insurance, Consulting & Audit	7500.1AT25	Repair	7400.1A16
		Depreciation	7400.1A18
Bank Charges	7500.1AT26	Insurance	7400.1A21
Other Taxes & Duties, Penalties & Charges	7500.1AT27	Consulting & Audit	7400.1A22
		Bank Charges	7400.1A24
Bad Debt	7500.1AT28	Other Taxes & Duties	7400.1A27
Other	7500.1AT29	Penalties & Charges	7400.1A28
		Bad Debt	7400.1526 7400.1A19
		Other	7400.1A29



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## ASSIGNMENT APPROACH

- The cost shall be directly assigned to Regulated Expense.
- When the cost cannot be assigned directly to any of regulated expense then it should be allocated using specified method of allocation.
- Method of allocation for Regulated Expense should be determined by the Power Market Regulator.
- In case when stated method of allocation is not determined by the Power Market Regulator, Company shall apply own judgment, get approval from the Power Market Regulator, and declare it in the Accounting Policy.



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## Part 3

Grants and third party contributions



### General Approach

- Assets created by grants and third party contributions
  - Are not included in RAB for WACC calculation purposes
  - Are not included in RAB for depreciation calculation purposes
- Company shall maintain the accounting by clear partition of initial cost by sources of finance maintaining the requirements of IFRS
- Company shall recognize and then depreciate the amount granted by aid for the asset as Deferred Income for the period in accordance with IAS 20 “Accounting for Government Grants and Disclosure of Government Assistance”
- Company shall recognize and then depreciate the price paid by the customer for connection as Deferred Revenue for the period in accordance with IAS 18 ‘Revenue’ and IFRIC 18 ‘Transfers of Assets from Customers’.



### 2157 account

- Assets constructed/created by grants and third party contributions are recorded on 2157 accounts

Account	Regulated	Activity	Grant / Contribution	Partitions
2157	1 Electricity	1 Dispatch 2 Transmission 3 Distribution network 4 Distribution supply 5 Generation	1 Financed by third parties	1 Initial value paid by third parties 2 Initial value paid by customers 3 Initial value paid by company 4 Additional value paid by company (Overhaul, Renovation, and other upgrades)
			2 Financed by customers	1 Initial value paid by customers 2 Initial value paid by company 3 Additional value paid by company (Overhaul, Renovation, and other upgrades)



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## Part 4

### Reporting



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#### Instructions on Reporting Forms

- At the end of reporting period licensed company submits reporting forms to regulator;
- Instructions on reporting forms explains rules for filling each reporting form, periodicity of submitting, applicability of report for each licensed activity, etc.



## Financial Reporting

<a href="#">Table 1</a>	Income statement for regulatory purposes
<a href="#">Table 2</a>	Statement of financial position for regulatory purposes
<a href="#">Table 3</a>	PPE movement
<a href="#">Table 4</a>	Regulatory Expense breakdown by nature
<a href="#">Table 5</a>	Property plant and equipment breakdown by Plant assignments
<a href="#">Table 6</a>	Trial Balance
<a href="#">Table 7</a>	CAPEX Form



## Non-financial Reporting

<a href="#">Table 8</a>	Transmission System Data
<a href="#">Table 9</a>	Electricity production info - Not Applicable to Transmission
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- 2.2.2 Presentation 2 on a) COA and instructions on COA, b) Revenues, expenditure and expenses c) grants and third party contributions d) Reporting and reporting instructions

## Part 1

### COA and Instructions on COA

#### Structure of Regulated COA

- USOA COA structure in general is in compliance with COA approved by resolution #1 of THE COMMISSION ON ACCOUNTING STANDARDS ON AUGUST 12, 1999.
- On the level of first two digits there are introduced two new accounts:
  - 7500 – Total operating expenses of regulated activity
  - 7700 – expenditures on long term assets- usage of those accounts is optional



## Structure of Regulated COA

There are added following accounts on the level of four digits:

1485	Prepayments to custom-house
1635	Interim account
<b>2155</b>	Transferring assets
<b>2157</b>	Contribution and Grants
<b>2185</b>	Instruments and Other Long Term Tangible Assets in Operation
<b>2195</b>	Long Term Tangible Assets Not in Operation (in warehouse)
<b>2255</b>	Accumulated Depreciation of Transferring assets
<b>2257</b>	Accumulated Depreciation of Contribution and Grants



## Regulated and non regulated accounts

There are two types of accounts in COA:

regulated

- Regulated are accounts, where first four digits are followed by symbol “.” (dot) and then figures, which bear certain code value.

Non-regulated

- Non-regulated are all the rest four digit accounts



### Main groups of regulated accounts are:

1410	• Accounts receivable - trade	6100	• Operating Income <sup>1</sup>
1910	• Other Current Assets	7100	• Cost of products sold (goods-producing and services industries)
21 XY	• Fixed Assets	7400	• General and administrative expenses
22 XY	• Depreciation of Fixed Assets	7500	• Total Operating Expenses for Regulated Activities <sup>o</sup>
25 XY	• Intangible Assets	8100	• Non-Operating income
26 XY	• Accumulated Amortization of Intangible Assets	8200	• Non-Operating Expenses/Losses



### Transaction recording rules on regulated accounts

According to instructions:

- On regulated accounts which have lower levels direct entries are not made;
  - entries are made on the accounts which are lowest level in their sub-groups
  - In the case of regulated accounts licensees
    - Can open sub accounts to the lowest level of regulated account.
    - On the upper levels of accounts regulated entities can open subaccounts with permission of commissioner
- Licensees can open non-regulated accounts, sub-accounts to them on their own discretion



## Coding of regulated activity

The Code of a Regulated Account is specially stated and has two parts: general and specific. General and Specific parts are separated with the point symbol, “.”.

7100.1 – regulated electricity  
7100.9 – non-regulated

- Fifth figure denotes whether account is regulated or not

7100.11 - dispatch  
7100.12 - Transmission  
7100.13 – Distribution (network)  
7100.14 – distribution (supply)  
7100.15 - Generation

- Sixth figure denotes licensed activity



The 7-th, 8-th and 9-th figures in regulated PPE accounts carry different coding meaning in different sectors and within those sectors

- **Dispatch PPE accounts apart from 2157, 2160 and 2180** do not have 7-th figure;
- **Transmission PPE accounts** 7-th figure differentiates ppe items by voltage level, technical services and ppe for administrative purposes.
- **Distribution (network) accounts** - 7-th figure differentiates ppe items by voltage level, dispatch for distribution purposes, technical services and ppe for administrative purposes.
- **Dispatch (supply) accounts apart from 2157, 2160 and 2180** do not have 7-th figure;
- **In the Generation PPE accounts 7-th figure divides ppe items by power plant type,** technical services and ppe for administrative purposes..
- There are individual coding in accounts \_ **2157, 2160 and 2180** – **on the basis of their meaning**
- When there are 8-th figure in accounts it serves to subdivide PPE items in a more detailed manner



## Part 2

### Revenues, costs and expenses



- USOA differs regulated services according to tariffs approved by GNERC.
- USOA – introduces “regulated costs” and “regulated expenses” meaning



## Coding of regulated revenue accounts

In 6100.1 accounts 7-th figure denotes Tariff Type.

Licensee opens as much subaccounts in that register as many tariffs it has.

Matching expenses of 6100.1 revenue accounts are recorded on 7500.1 -accounts

Usage of 8-th figures in 6100.1 accounts is optional for regulator



## Coding of regulatory expense accounts (continue)

In 7100 accounts

- 7<sup>th</sup> figure differentiates categories
- The coding of 8<sup>th</sup> figure is functional breakdown
- The coding of 9<sup>th</sup> figure is breakdown by elements (nature)

In 7400 accounts

- 7<sup>th</sup> figure denotes a) administrative and b) general expenses
  - The coding of 8<sup>th</sup> figure is breakdown by elements (nature)

In 7500 accounts

- 7<sup>th</sup> figure denotes tariff type
- The coding of 8<sup>th</sup> figure is functional breakdown
- The coding of 9<sup>th</sup> figure is breakdown by elements (nature)



### Coding of regulated cost accounts

Depending on association of cost with the Power Market Activity, USoA identifies: Regulatory Cost of Electricity Generation (Services) that is directly associated with the activity (Account 7100.1), and Regulatory Cost of General & Administration Expenses for Electricity Regulated Activities that is not directly associated with the activity (Account 7400.1

Main Account	Activity	Category	Function	Element
7100.1	A	C	F	E

Main Account	Activity	Function	Element
7400.1	A	F	E



### „Category“ - In Generation regulated accounts

USoA identifies Regulated Cost Category for generation activity as

- Hydraulic Power Plant
- Steam Power Plant
- Co-generation Power Plant
- Gas Power Plant
- Combined Cycle Power Plant
- General (common) Technical Services
- Other

In which cost category expenditure will fall depends on Energy Source which is used for Turbine Operation



„function“ – in Generation regulated accounts

For Regulatory Cost of Electricity Generated, USoA identifies following Regulated Cost Functions:

- Direct Cost of Electricity
  - Operation Cost
  - Maintenance Cost
  - Other



Direct cost of electricity and operating Cost  
„functions“ – in Generation regulated accounts

Examples of Direct Cost of Electricity are:

- Cost of Water, fuel, gas etc.

**Operating cost includes** the cost of labor, materials used and expenses incurred in operating prime movers, generators and electric equipment in other power generating stations, to the point where electricity leaves for conversion for transmission or distribution...



## Maintenance Cost „functions“ – in Generation regulated accounts

- *Maintenance Cost* as Generation Cost Function is the group of costs that incur on or refer to the maintenance of generation property in accordance with the Tariff methodology.

In practice it might be difficult for accountant to clearly differentiate between operating and maintenance costs – therefore professional technical consultations and informative work order keeping is strongly encouraged



## Other Cost functions – in Generation regulated accounts

examples

In Other Cost functions are included costs which are unpractical to allocate to other functions.

### Examples

- Consulting Services
- Research and development costs
- Security, Patrolling...



„Category“ – in Dispatch regulated accounts

USoA identifies Regulated Cost Category for dispatch activity as:

Dispatch of the Electricity System.

The category was identified for the reason of unification with other activities.“



„Function“ - in Dispatch regulated accounts

For Regulatory Cost of Electricity Dispatch Service, USoA identifies following Regulated Cost Functions:

- 1 - Operation and Maintenance Cost
- 2 - Cost of Electricity Losses
- 9 - Other



**Function 1-Operation and Maintenance- Dispatch regulated accounts**

Example

**„Operation and Maintenance Cost“ include salary, material and other expenses related to dispatch activities of the network.**

- Example of wages: Directing switching, Arranging and controlling clearances for construction, maintenance, test and emergency purposes, Controlling system voltages, Obtaining reports on the weather and special events, Preparing operating reports and data for billing and budget purposes.
- **Other cost examples:** Communication service provided for system control purposes, System record and report forms, Meals, traveling and incidental expenses, Obtaining weather and special events reports.



**„Function 2“ - Cost of Electricity Losses in Dispatch regulated accounts (continue)**

*Cost of Energy Losses* as Dispatch Cost Function is the Regulatory Value of electricity losses liable on Dispatch services in accordance with the Tariff methodology.



## „Function 9“ Other expenditures in Dispatch activity regulated accounts

In this function are recorder all Dispatch activity related regulated expenditures which are not directly related to previous two functions



## „Category“ - in Transmission regulated accounts

USoA identifies Regulated Cost Category for transmission activity as:

- 500 kV
- 400 kV
- 330 kV
- 220 kV
- 110 kV
- 35 kV
- 6/10 kV and below
- General Technical Services
- Other



**„Category“ - in Distribution (Network) regulated accounts**

**REGULATED COST CATEGORIES for DISTRIBUTION NETWORK**

USoA identifies Regulated Cost Category for distribution network activity as :

- 1 110 kV
- 2 35 kV
- 3 10 kV
- 4 6 kV
- 5 220/380 V
- 7 Distribution Dispatch
- 8 Technical Services
- 9 Other



**„Function“ – in Transmission & Distribution (Network) regulated accounts**

For Regulatory Cost of Electricity Transmission and Distribution Network Service, USoA identifies following Regulated Cost Functions:

- Operation Cost
- Maintenance Cost
- Cost of Electricity Losses
- Other



„Category“ - **in Distribution (supply) regulated accounts**

USoA identifies Regulated Cost Category for distribution supply activity as:

- 1 Cost of Supply of Active Electricity



„Functions“ - **in Distribution (supply) regulated accounts**

For Regulatory Cost of Electricity Distribution Supply Service, USoA identifies following Regulated Cost Functions:

- Cost of Active Electricity Purchased for Sale
- Operation & Maintenance Cost
- Cost of Electricity Losses
- Other



Element items in 7100 accounts

USoA identifies following cost elements for operation and maintenance:

- Personnel
- Materials
- Outsource
- Electricity Consumed and Other Utilities
- Operating Lease
- Depreciation Cost
- Other



„Function“ – in regulated accounts- **General and Administrative Expenses (7400 -Accounts)**

Example

For the Regulated Cost of General and Administrative Expenses for Electricity Regulated Activity USOA identifies:

- **Administrative** as Cost Function of General and Administrative Expense is the group of costs that incur on or refer to the administration and management of the company in accordance with the Tariff methodology.
- **General** as Cost Function of General and Administrative Expense is the group of costs that incur on or refer to the general needs of the company in accordance with the Tariff methodology



„elements“ in 7400 regulated accounts

USoA identifies following elements for general expenses

- 1 Payroll Cost of Administration
- 2 Operating Lease
- 3 Office Supply
- 4 Communication
- 5 Utilities
- 6 Repair
- 7 Representative Expenses
- 8 Depreciation
- 9 Other Electricity Regulated Administration Expenses

USoA identifies following elements for administrative expenses

- 1 Insurance
- 2 Consultation and Audit
- 3 Training
- 4 Bank charges and Fees
- 5 Business Trip
- 6 Bad dept
- 7 Other Taxes and Duties
- 8 Penalties and Charges
- 9 Other Electricity Regulated General Expenses



Clearance of 7100 and 7400 accounts by 7500 accounts

- USoA uses 7500 accounts for aggregation of regulated accounts
- On 7500 accounts are collected expenses eligible for tariff calculation purposes
- There are not made any direct transactions on 7500 accounts. At the end of the reporting period 7100 and 7400 accounts are cleared on 7500 accounts

Main Account	Activity	Tariff Type	Direct (G&A)	Element
7500.1	A	T	D	E



Table for clearance of 7100 accounts on 7500 accounts for distribution (*network*), transmission and dispatch activities

Debit		Credit	
Direct Electricity Cost	7500.1AT11	Direct Cost of Generation	NA
Payroll Cost	7500.1AT12	Payroll Cost	7100.1AX11 7100.1AX21
Materials	7500.1AT13	Materials	7100.1AX12 7100.1AX22
Outsource	7500.1AT14	Outsource	7100.1AX23 7100.1AX13
Utilities	7500.1AT15	Utilities	7100.1AX14 7100.1AX24
Operation lease (rent)	7500.1AT16	Operation Lease	7100.1AX15 7100.1AX25
Electricity Losses	7500.1AT17	Electricity Losses	7100.1AX3
Depreciation	7500.1AT18	Depreciation	7100.1AX18 7100.1AX28
Other	7500.1AT19	Other	7100.1AX19 7100.1AX29 7100.1AX9



Table for clearance of 7100 accounts on 7500 accounts for distribution (*supply*) activities

Debit		Credit	
Direct Electricity Cost	7500.14T11	Direct Cost of Generation	7100.1411
Payroll Cost	7500.14T12	Payroll Cost	7100.14121
Materials	7500.14T13	Materials	7100.14122
Outsource	7500.14T14	Outsource	7100.14123
Utilities	7500.14T15	Utilities	7100.14124
Operation lease (rent)	7500.14T16	Operation Lease	7100.14125
Electricity Losses	7500.14T17	Electricity Consumption	7100.1413
Depreciation	7500.14T18	Depreciation	7100.14128
Other	7500.14T19	Other	7100.14129 7100.14X9



Table for clearance of 7100 accounts on 7500 accounts for Generation

Debit		Credit	
Direct Electricity Cost	7500.15T11	Direct Cost of Generation	7100.15X1
Payroll Cost	7500.15T12	Payroll Cost	7100.15X21
Materials	7500.15T13	Materials	7100.15X31
Outsource	7500.15T14	Outsource	7100.15X22
Utilities	7500.15T15	Utilities	7100.15X32
Operation lease (rent)	7500.15T16	Operation Lease	7100.15X23
Electricity Losses	7500.15T17	Electricity Consumption	7100.15X33
Depreciation	7500.15T18	Depreciation	7100.15X24
Other	7500.15T19	Other	7100.15X25
			7100.15X26
			7100.15X36
			7100.15X28
			7100.15X38
			7100.15X29
			7100.15X39
			7100.15X9



Table for clearance of 7400 accounts on 7500 accounts (general)

Debit		Credit	
Payroll Cost	7500.1AT21	Payroll Cost	7400.1A11
Supply, Communication & Utilities	7500.1AT22	Office Supply	7400.1A13
Business Trips, Trainings, Rep. Expenses	7500.1AT23	Communication	7400.1A14
Depreciation, Repair, and Rent	7500.1AT24	Utilities	7400.1A15
Insurance, Consulting & Audit	7500.1AT25	Trainings	7400.1A23
Bank Charges	7500.1AT26	Business Trips	7400.1A25
Other Taxes & Duties, Penalties & Charges	7500.1AT27	Represent. Exp.	7400.1A17
Bad Debt	7500.1AT28	Operating Lease	7400.1A12
Other	7500.1AT29	Repair	7400.1A16
		Depreciation	7400.1A18
		Insurance	7400.1A21
		Consulting & Audit	7400.1A22
		Bank Charges	7400.1A24
		Other Taxes & Duties	7400.1A27
		Penalties & Charges	7400.1A28
		Bad Debt	7400.1526
		Other	7400.1A19
			7400.1A29



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## ASSIGNMENT APPROACH

- The cost shall be directly assigned to Regulated Expense.
- When the cost cannot be assigned directly to any of regulated expense then it should be allocated using specified method of allocation.
- Method of allocation for Regulated Expense should be determined by the Power Market Regulator.
- In case when stated method of allocation is not determined by the Power Market Regulator, Company shall apply own judgment, get approval from the Power Market Regulator, and declare it in the Accounting Policy.



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## Part 3

Grants and third party contributions



### General Approach

- Assets created by grants and third party contributions
  - Are not included in RAB for WACC calculation purposes
  - Are not included in RAB for depreciation calculation purposes
- Company shall maintain the accounting by clear partition of initial cost by sources of finance maintaining the requirements of IFRS
- Company shall recognize and then depreciate the amount granted by aid for the asset as Deferred Income for the period in accordance with IAS 20 “Accounting for Government Grants and Disclosure of Government Assistance”
- Company shall recognize and then depreciate the price paid by the customer for connection as Deferred Revenue for the period in accordance with IAS 18 ‘Revenue’ and IFRIC 18 ‘Transfers of Assets from Customers’.



### 2157 account

- Assets constructed/created by grants and third party contributions are recorded on 2157 accounts

Account	Regulated	Activity	Grant / Contribution	Partitions
2157	1 Electricity	1 Dispatch 2 Transmission 3 Distribution network 4 Distribution supply 5 Generation	1 Financed by third parties	1 Initial value paid by third parties 2 Initial value paid by customers 3 Initial value paid by company 4 Additional value paid by company (Overhaul, Renovation, and other upgrades)
			2 Financed by customers	1 Initial value paid by customers 2 Initial value paid by company 3 Additional value paid by company (Overhaul, Renovation, and other upgrades)



## Part 4

### Reporting



#### Instructions on Reporting Forms

- At the end of reporting period licensed company submits reporting forms to regulator;
- Instructions on reporting forms explains rules for filling each reporting form, periodicity of submitting, applicability of report for each licensed activity, etc.



## Financial Reporting

<a href="#">Table 1</a>	Income statement for regulatory purposes
<a href="#">Table 2</a>	Statement of financial position for regulatory purposes
<a href="#">Table 3</a>	PPE movement
<a href="#">Table 4</a>	Regulatory Expense breakdown by nature
<a href="#">Table 5</a>	Property plant and equipment breakdown by Plant assignments
<a href="#">Table 6</a>	Trial Balance
<a href="#">Table 7</a>	CAPEX Form



## Non-financial Reporting

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