



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

UNIFORM SYSTEM OF ACCOUNTING

ACCOUNTING GUIDELINES FOR GEORGIAN POWER
MARKET COMPANIES

REVENUES, COST CENTERS, AND EXPENSES

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USAID HYDRO POWER AND ENERGY PLANNING PROJECT
(HPEP)
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LIST OF ACRONYMS

Acronym	Term
AR	Account Receivable
EU	European Union
FA	Fixed Assets
CoA	Chart of Accounts
GEMM	Georgian Electricity Market Model
GNERC	Georgian National Energy Regulatory Commission
HIPP	Hydropower Investment Promotion Program
HPP	Hydro Power Plant
IFRS	International Financial Reporting Standards
LT	Long Term
kV, KV	Kilovolts
MoE	Ministry of Energy
PPE	Property, Plant and Equipment
ST	Short Term
USAID	United States Agency for International Development
USoA	Unified System of Accounting

BACKGROUND

In September, 2013, USAID initiated the Hydro Power and Energy Planning Project (HPEP) following on the three and a half year Hydropower Investment Promotion Project (HIPP) that supported market-based initiatives to stimulate investments into Georgia's hydropower sector.

HPEP will facilitate private sector development of Georgia's hydropower resources that are environmentally, socially and economically sound. The main purpose of this project is also to support the Government of Georgia (GOG) in adopting and implementing the Georgia Electricity Market Model of 2015 (GEMM 2015) developed under HIPP to facilitate establishment of an electricity trading mechanism in Georgia. The general goals and principles of GEMM 2015 were agreed upon by USAID and GOG.

The Georgian electricity sector has made remarkable progress over the last twenty years, advancing from huge losses and blackouts in the 1990s, to collection rates over 90%, generally reliable service and near self-sufficiency today. In spite of the improvements, Georgia still experiences a shortfall of domestic supply in winter and, therefore, the GOG must secure private investment to develop the estimated 20 TWh of untapped hydropower resources the country possesses and promote cross border electricity trading to Turkey and Europe to realize Georgia's electricity export potential.

While investors and developers are willing to sign initial investment commitments, investor access to project financing needed to turn these commitments into reality requires fundamental changes to Georgia's energy governance, regulatory, operating and legislative enabling environments.

Over the last decade the retail electricity rates in Georgia were set at government specified levels with the government providing large subsidies for power plants rehabilitation and operations while on the other hand mandating retail tariffs levels without considering the real of cost of service. That approach led to unanticipated and unwanted consequences. The electricity sector regulatory framework is in dire need of reform, now seeing:

1. Lack of transparency in rate setting process;
2. Poor record on investment into the aging distribution networks
3. Lack of incentive to invest into new generation facilities with too low of a tariff for generation production aimed for sales in the local market
4. No incentives in rates for better utility performance; and,
5. Uncertainty about long term rate stability.

USAID through its Hydropower Investment Promotion Project (March 2010-August 2013) and its Hydro Power and Energy Planning Project (starting September 2013) provides guidance to GNERC in reforming the regulatory framework including development of the USoA for the electricity sector of Georgia. USAID assistance has included development of a regulatory chart of accounts for the electricity sector, instructions to the chart of accounts and capacity building of GNERC and the electricity sector licensees.

In October 2013 Georgia's energy regulator (GNERC) endorsed introducing Regulatory Accounting as a new task. This is a major step forward for Georgia in energy rate stability, transparency, fair allocation of costs to consumers, and elimination of hidden costs in tariffs.

Regulatory accounting or as it is known in the industry, Uniform System of Accounts (USoA), provides a sound basis for recording of expenses and assets in the regulated energy utilities. It includes a detailed chart of accounts and instructions on how to use the chart of accounts so that all expenses can be properly accounted for, audited and used as the basis for setting tariffs.

The USoA has proven to be a good tool for financial management of the utilities and without exception, the increased level of information provided by the USoA to utility management allows for better cost control and insights on the efficiency of their companies. It is a win-win success story as both consumers and investors reap benefits from this proven approach to regulatory oversight.

INTRODUCTION

These Accounting Guidelines regulates the accounting of revenues, cost centers, and expenses of companies operating in Georgian regulated power market. Power market regulated companies shall follow the rules and procedures, use the same approaches stated in this document. These Accounting Guidelines is the essential part of USoA for Georgian regulated power market that supports tariff development, monitoring, benchmarking and other regulatory information needs.

These guidelines consist of following parts:

Part I. Revenue

Part II. Cost of Electricity and Electricity Services

Part III. Expenses

Part I. Revenue regulates the definition, measurement, and recognition of revenue for regulated companies.

Part II. Cost of Electricity and Electricity Services regulates the definition, measurement, and recognition of cost and cost centers for regulated companies.

Part III. Expenses regulate the definition, measurement, and recognition of expenses for regulated companies.

These Accounting Guidelines shall be applied for recording, maintaining and reporting of financial data using Unified Regulatory Chart of Accounts set by Georgian National Energy Regulatory Commission.

1.0 PART I. REVENUE

1.1 GENERAL REGULATION

The *Revenue* under Unified System of Accounting for Power Market Regulated Companies shall be treated in accordance with the IAS 18 'Revenues'.

1.2 GENERAL REGULATORY TREATMENT

The *Regulated Revenue* under USoA shall be consistent with the Tariff Methodology and other rules adopted by GNERC.

1.3 REGULATED REVENUE

DEFINITION

Regulated Revenue for Power Market Company is the gross inflow of economic benefits during the tariff regulatory period arising in the course of the regulated ordinary power market activities when those inflows result in increases in equity, other than increases relating to contributions from equity participants.

Regulatory Value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing Power Market parties in accordance with the regulation set by Power Sector Regulator.

Regulated Revenue includes only the gross inflows of economic benefits received and receivable by the Power Market entity on its own account. Sales taxes, goods and services taxes, value added taxes, and amounts collected on behalf of principal or any other third parties shall be excluded from Regulated Revenue.

MEASUREMENT

Regulated Revenue shall be measured at the regulatory value of the consideration received or receivable taking into account the tariff methodology approved by Power Sector Regulator.

The amount of regulated revenue arising on a transaction is usually determined by the agreement between the Power Market Entity and the buyer or user of the electricity.

The swap of electricity is not considered as revenue.

1.4 REGULATORY TREATMENT OF REVENUES FOR GENERATION AND SERVICES OF ELECTRICITY

POWER MARKET ACTIVITY

USoA identifies the following Revenue centers as Power Market Activity as follows:

- Dispatch
- Transmission
- Distribution (Network)
- Distribution (Supply)
- Generation

There is separate type of Power Market activity as:

- Other

The *Dispatch Activity* as the Regulated Revenue Center is the amount of revenue arising on a transaction is usually determined by the agreement between the Electricity Dispatch Company and the other Power Market Entity as buyer or user of the regulated dispatch services. It is measured at the Regulated Value of the consideration received or receivable taking into account the tariff methodology approved by Power Sector Regulator.

The *Transmission Activity* as the Regulated Revenue Center is the amount of revenue arising on a transaction is usually determined by the agreement between the Electricity Transmission Company and the other Power Market Entity as buyer or user of the regulated transmission services. It is measured at the Regulated Value of the consideration received or receivable taking into account the tariff methodology approved by Power Sector Regulator.

The *Distribution (Network) Activity* as the Regulated Revenue Center is the amount of revenue arising on a transaction is usually determined by the agreement between the Electricity Distribution (Network) Company and the other Power Market Entity as buyer or user of the regulated distribution (network) services. It is measured at the Regulated Value of the consideration received or receivable taking into account the tariff methodology approved by Power Sector Regulator.

The *Distribution (Supply) Activity* as the Regulated Revenue Center is the amount of revenue arising on a transaction is usually determined by the agreement between the Electricity Distribution (Supply) Company and the other Power Market Entity as buyer or user of the regulated distribution (supply) services. It is measured at the Regulated Value of the consideration received or receivable taking into account the tariff methodology approved by Power Sector Regulator.

The *Generation Activity* as the Regulated Revenue Center is the amount of revenue arising on a transaction is usually determined by the agreement between the Electricity Generation Company and the other Power Market Entity as buyer or user of the regulated electricity. It is measured at the Regulated Value of the consideration received or receivable taking into account the tariff methodology approved by Power Sector Regulator.

The *Other Activity* as the Regulated Revenue Center is the amount of revenue arising on a transaction is usually determined by the agreement between the any other then stated above type of Power Market Company and the other Power Market Entity as buyer or user of the regulated electricity. It is measured at the Regulated Value of the consideration received or receivable taking into account the tariff methodology approved by Power Sector Regulator.

REVENUE TYPE

Each Activity as the Regulatory Revenue Center is the aggregation of embedded subgroups of revenue type.

USoA distinguishes the revenue type by the tariff set by Power Market Regulator.

Company shall maintain the breakdown of revenue by type and disclose it in the accounting policy individually if no other regulation for revenue accounting set by Power Market Regulator.

DISCLOSURE

A Regulated Power Market Company shall report in accordance with the reporting forms adopted by the Regulator.

A Regulated Power Market Company shall disclose:

- (a) The accounting policies adopted for the recognition of regulated revenue, including the methods adopted for metering and billing if it is not set by the Regulator;
- (b) The amount of each significant category of revenue recognized during Regulatory reporting period if it is not set by the Regulator.
- (c) The amount of Regulated Revenue included in each disclosed category.

2.0 PART II. COST OF ELECTRICITY AND ELECTRICITY SERVICES

The Cost is a fair value of the usage of the owned or leased assets or incurrence of liabilities either for creation of new asset or generation of revenue. It is the value of the expenditure or combination of expenditures incurred or going to be incurred that shall either be capitalized as an asset or be written off as an expense.

2.1 GENERAL REGULATORY TREATMENT OF COST FOR REGULATED ACCOUNTING (UNIFIED SYSTEM OF ACCOUNTING)

The *Regulatory Cost* is the Regulatory Value of the usage of the owned or leased assets or incurrence of liabilities either for creation of new asset or generation of revenue that is consistent with the Power Market Tariff Methodology and other rules adopted by the Power Market Regulator [GNERC].

Regulatory Value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing Power Market parties in accordance with the rules set by the Power Market Regulator.

Regulatory Cost is consistent with IAS and IFRS, if no special treatment is given by the Tariff Methodology and other rules adopted by the Regulator.

2.2 REGULATORY TREATMENT, GENERATION AND SERVICES OF ELECTRICITY

ASSOCIATION

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).

POWER MARKET ACTIVITY

USoA identifies the following Cost centers as Power Market Activity as follows:

- Dispatch
- Transmission
- Distribution (Network)
- Distribution (Supply)
- Generation

There is separate type of Power Market activity as:

- Other

The *Dispatch Activity* as the Regulated Cost is the group of costs that incur on or refer to particular property qualified for provision of dispatch services to Power Market in accordance with the Tariff methodology.

The *Transmission Activity* as the Regulated Cost is the group of costs that incur on or refers to particular property qualified for provision of transmission services to Power Market in accordance with the Tariff methodology.

The *Distribution (Network) Activity* as the Regulated Cost is the group of costs that incur on or refers to particular property qualified for provision of distribution network services to Power Market in accordance with the Tariff methodology.

The *Distribution (Supply) Activity* as the Regulated Cost is the group of costs that incur on or refers to particular property qualified for provision of distribution supply services to Power Market in accordance with the Tariff methodology.

The *Generation Activity* as the Regulated Cost is the group of costs that incurred on or refer to particular property qualified for generation of electricity to Power Market in accordance with the Tariff methodology.

The *Other Activity* as the Regulated Cost is the group of costs that incur on or refers to particular property qualified for any other than stated above Power Market activity in accordance with the Tariff methodology.

Each Activity as the Regulatory Cost of Electricity Generation or Services is the aggregation of embedded subgroups of cost categories, cost functions, and cost elements.

Main Account	Activity	Category	Function	Element
7100.1	A	C	F	E

Each Activity as the Regulatory Cost of General & Administration Expenses for Electricity Regulated Activities is the aggregation of embedded subgroups of cost functions, and cost elements.

Main Account	Activity	Function	Element
7400.1	A	F	E

2.3 REGULATED COST CATEGORIES

REGULATED COST CATEGORIES FOR DISPATCH

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.

The *Dispatch of the Electricity System* as the Dispatch Regulated Cost Category is the group of costs that incur on or refers to particular power market property qualified for provision of dispatch services to Power Market System in accordance with the Tariff methodology.

REGULATED COST CATEGORIES FOR TRANSMISSION

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

The *500 kV* as the Transmission Cost Category is the group of costs that incur on or refers to particular transmission property qualified by transmission using 500 kV line in accordance with the Tariff methodology.

The *400 kV* as the Transmission Cost Category is the group of costs that incur on or refers to particular transmission property qualified by transmission using 400 kV line in accordance with the Tariff methodology.

The *330 kV* as the Transmission Cost Category is the group of costs that incur on or refers to particular transmission property qualified by transmission using 330 kV line in accordance with the Tariff methodology.

The *220 kV* as the Transmission Cost Category is the group of costs that incur on or refers to particular transmission property qualified by transmission using 220 kV line in accordance with the Tariff methodology.

The *110 kV* as the Transmission Cost Category is the group of costs that incur on or refers to particular transmission property qualified by transmission using 110 kV line in accordance with the Tariff methodology.

The *35 kV* as the Transmission Cost Category is the group of costs that incur on or refers to particular transmission property qualified by transmission using 35 kV line in accordance with the Tariff methodology.

The *6/10 kV* and below as the Transmission Cost Category is the group of costs that incur on or refer to particular transmission property qualified by transmission using 6/10 and below kV line in accordance with the Tariff methodology.

General (common) Technical Services as the Transmission Cost Category are the group of costs that incur on or refer to the property of the general (centralized) technical support that are not specified on any of nominal voltage category.

Other as the Transmission Cost Category is the group of costs that incur on or refer to all other than stated above transmission property.

REGULATED COST CATEGORIES FOR DISTRIBUTION NETWORK

USoA identifies Regulated Cost Category for distribution network activity as:

- 110 kV
- 35 kV
- 10 kV
- 6 kV
- 220/380 V
- Distribution Dispatch
- Technical Services
- Other

The *110 kV voltage* as the Distribution (Network) Cost Category is the group of costs that incur on or refer to particular distribution network property qualified by distribution using 110 kV lines in accordance with the Tariff methodology.

The *35 kV voltage* as the Distribution (Network) Cost Category is the group of costs that incur on or refer to particular distribution network property qualified by distribution using 35 kV lines in accordance with the Tariff methodology.

The *10 kV voltage* as the Distribution (Network) Cost Category is the group of costs that incur on or refer to particular distribution network property qualified by distribution using 10 kV lines in accordance with the Tariff methodology.

The *6 kV voltage* as the Distribution (Network) Cost Category is the group of costs that incur on or refer to particular distribution network property qualified by distribution using 60 kV lines in accordance with the Tariff methodology.

The *220/330 kV voltage* as the Distribution (Network) Cost Category is the group of costs that incur on or refer to particular distribution network property qualified by distribution using 220/330 kV lines in accordance with the Tariff methodology.

Distribution (Network) Dispatch Services as the Distribution (Network) Cost Category is the group of costs that incur on or refer to the distribution network dispatch property.

General (common) Technical Services as the Distribution (Network) Cost Category are the group of costs that incur on or refer to the property of the general (centralized) technical support that are not specified on any of nominal voltage category or distribution network dispatch.

Other as the Distribution (Network) Cost Category is the group of costs that incur on or refer to all other than stated above distribution network property.

REGULATED COST CATEGORIES FOR DISTRIBUTION SUPPLY

USoA identifies Regulated Cost Category for distribution supply activity as:

- Cost of Supply of Active Electricity

The category was identified taking into account further tariff development.

The *Cost of Supply of Active Electricity* as the Distribution (Supply) Regulated Cost Category is the group of costs that incur on or refers to particular power market property qualified for provision of distribution supply services to Power Market System in accordance with the Tariff methodology.

REGULATED COST CATEGORIES FOR GENERATION

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

The *Hydraulic Power Plant* as the Generation Cost Category is the group of costs that incur on or refer to particular generation property qualified by the type of power plant that uses hydraulic power to spin the turbine for electricity generation in accordance with the Tariff methodology.

The *Steam Power Plant* as the Generation Cost Category is the group of costs that incur on or refer to particular generation property qualified by the type of power plant that uses the steam to spin the turbine for electricity generation in accordance with the Tariff methodology.

The *Co-generation Power Plant* as the Generation Cost Category is the group of costs that incur on or refer to particular generation property qualified by the type of power plant that uses the steam to spin the turbine for both electricity and heat generation in accordance with the Tariff methodology.

The *Gas Power Plant* as the Generation Cost Category is the group of costs that incur on or refer to particular generation property qualified by the type of power plant

that uses the gas to spin the turbine for electricity generation in accordance with the Tariff methodology.

The *Combined Cycle Power Plant* as the Generation Cost Category is the group of costs that incur on or refer to particular generation property qualified by the type of power plant that uses gas and steam to spin the turbine for both electricity and heat generation in accordance with the Tariff methodology.

The *Other Power Plant* as the Generation Cost Category is the group of costs that incur on or refer to particular generation property qualified by any other type of power plant for electricity and any other energy generation in accordance with the Tariff methodology.

General (common) Technical Services as the Generation Cost Category is the group of costs that incur on or refer to the property of the general (centralized) technical support that are not specified on any type of generation property stated above.

Other as the Generation Cost Category is the group of costs that incur on or refer to all other than stated above generation property.

2.4 REGULATED COST FUNCTIONS

FUNCTIONS OF REGULATORY COST OF ELECTRICITY DISPATCH SERVICES

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

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

Operating and Maintenance Cost as Dispatch Cost Function is the group of costs that incur on or refer to the operation and maintenance of dispatch property in accordance with the Tariff methodology.

Operation is an activity or the set of activities performed for targeted use of the dispatch property.

Maintenance is an activity or the set of activities performed for keeping of dispatch property in operable and serviceable conditions in accordance with the Tariff methodology.

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.

Other as Dispatch Cost Function is the group of costs that cannot be referred to other than stated above functions in accordance with the Tariff methodology.

FUNCTIONS OF REGULATORY COST OF ELECTRICITY TRANSMISSION AND DISTRIBUTION NETWORK SERVICES

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

Operating Cost as Transmission or Distribution (Network) Cost Function is the group of costs that incur on or refer to the operation of transmission or distribution network property in accordance with the Tariff methodology.

Operation is an activity or the set of activities performed for targeted use of the transmission or distribution property.

Maintenance Cost as Transmission or Distribution (Network) Cost Function is the group of costs that incur on or refer to the maintenance of transmission or distribution network property in accordance with the Tariff methodology.

Maintenance is an activity or the set of activities performed for keeping of transmission or distribution network property in operable and serviceable conditions.

Cost of Energy Losses as Transmission or Distribution Network Cost Function is the Regulatory Value of Electricity losses liable on Transmission or Distribution Network relatively in accordance with the Tariff methodology.

Other as Transmission or Distribution Network Cost Function is the group of costs that cannot be referred to other than stated above functions in accordance with the Tariff methodology.

FUNCTIONS OF REGULATORY COST OF ELECTRICITY DISTRIBUTION SUPPLY SERVICES

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

Active Electricity Purchased for Sale as Distribution Supply Cost Function is the group of costs that directly incur on or refer to the electricity purchased in accordance with the Tariff methodology.

Operating and Maintenance Cost as Distribution (Supply) Cost Function is the group of costs that incur on or refer to the operation and maintenance of distribution supply property in accordance with the Tariff methodology.

Operation is an activity or the set of activities performed for targeted use of the distribution supply property.

Maintenance is an activity or the set of activities performed for keeping of distribution supply property in operable and serviceable conditions.

Cost of Energy Losses as Distribution (Supply) Cost Function is the Regulatory Value of Electricity losses liable on distribution supply in accordance with the Tariff methodology.

Other as Distribution (Supply) Cost Function is the group of costs that cannot be referred to other than stated above functions in accordance with the Tariff methodology.

FUNCTIONS OF REGULATORY COST OF ELECTRICITY GENERATED

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 as Generation Cost Function is the group of costs that directly incur on or refer to the electricity generated in accordance with the Tariff methodology.

Operating Cost as Generation Cost Function is the group of costs that incur on or refer to the operation of generation property in accordance with the Tariff methodology.

Operation is an activity or the set of activities performed for targeted use of the generation property.

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.

Maintenance is an activity or the set of activities performed for keeping of generation property in operable and serviceable conditions.

Cost of Energy Losses as Generation Cost Function is the Regulatory Value of Electricity losses liable on generation in accordance with the Tariff methodology.

Other as Generation Cost Function is the group of costs that cannot be referred to other than stated above functions in accordance with the Tariff methodology.

FUNCTIONS OF REGULATED COST OF GENERAL AND ADMINISTRATIVE EXPENSES FOR ELECTRICITY REGULATED ACTIVITY

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

- Administrative
- General

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.

2.5 REGULATED COST ELEMENTS

ELEMENTS OF REGULATORY COST OF ELECTRICITY GENERATION (SERVICES)

USoA identifies following cost elements for operation and maintenance:

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

Personnel as the Cost Element is the regulated value of expenditures associated with the compensation of employees for their services. It includes the payroll, wages, bonuses and similar expenditures including all taxes and obligatory charges applied directly to such compensations in accordance with the Tariff methodology.

Materials as the Cost Element is the regulated value of expenditures associated with the use, consumption of inventory or similar tangible materials in accordance with the Tariff methodology.

Outsource as the Cost Element is the regulated value of expenditures associated with the payment of third parties for their services in accordance with the Tariff methodology.

Company shall not treat as outsource the supply of inventory as well as compensations paid to employees for particular project.

Electricity consumed and other utilities as the Cost Element is the regulated value of the expenditures associated with the internal use of electricity and other utilities in accordance with the Tariff methodology.

Operating Lease as the Cost Element is the regulated value of compensation paid for the use of asset that is not owned by a Company (IAS 17) in accordance with the Tariff methodology.

Depreciation as the Cost Element is the regulated value of use of the assets owned by a Company (IAS 16) in accordance with the Tariff methodology.

Other as the Cost Element is the regulated value of expenditures that are not associated with any stated above cases in accordance with the Tariff methodology.

USoA identifies following elements for direct electricity cost:

- Fuel for Generation
- Water for Generation
- Cost of Electricity Purchased

Fuel for Generation as Cost Element is the group of costs that directly incur on or refer to fuel consumed for electricity generation in accordance with the Tariff methodology.

Water for Generation as Cost Element is the group of costs that directly incur on or refer to water used to spin the turbine for electricity generation in accordance with the Tariff methodology.

Cost of Electricity Purchased as Cost Element is the group of costs that directly incur on or refer to purchased electricity for sale in accordance with the Tariff methodology.

ELEMENTS OF REGULATED COST OF GENERAL AND ADMINISTRATIVE EXPENSES FOR ELECTRICITY REGULATED ACTIVITY

USoA identifies following elements for general and administrative expenses:

- Personnel [Payroll Cost] of Administration
- Operating Lease
- Office supply
- Communication
- Utilities
- Repair
- Representative Expenses
- Depreciation
- Insurance
- Consultation and Audit
- Training
- Bank charges and fees
- Business Trip
- Bad debt
- Other Taxes and Duties
- Penalties and Charges
- Other

Personnel as the General and Administration Cost Element is the regulated value of expenditures associated with the compensation of administration employees for their services. It includes the payroll, wages, bonuses and similar expenditures including all taxes and obligatory charges applied directly to such compensations in accordance with the Tariff methodology.

Operating Lease as the General and Administration Cost Element is the regulated value of compensation paid for the use of administration asset that is not owned by a Company (IAS 17) in accordance with the Tariff methodology.

Office supply as the Cost Element is the regulated value of expenditures associated with the use, consumption of inventory or similar tangible materials for administration office needs in accordance with the Tariff methodology.

Communication as the Cost Element is the regulated value of expenditures associated with the use of communication services for administration needs in accordance with the Tariff methodology.

Utilities as the Cost Element is the regulated value of expenditures associated with the administrative use of electricity and other utilities in accordance with the Tariff methodology.

Repair as the Cost Element is the regulated value of expenditures associated with the repair of administration assets in accordance with the Tariff methodology.

Representative Expenses as the Cost Element are the regulated value of expenditures associated with representation of the Company to other parties in accordance with the Tariff methodology.

Depreciation as the Cost Element is the regulated value of use of the administrative assets owned by a Company (IAS 16) in accordance with the Tariff methodology.

Insurance as the Cost Element is the regulated value of expenditures associated with the insurance services in accordance with the Tariff methodology.

Consultation and Audit as the Cost Element is the regulated value of expenditures associated with consultation and audit services in accordance with the Tariff methodology.

Training as the Cost Element is the regulated value of expenditures associated with training of personnel in accordance with the Tariff methodology.

Bank charges and fees as the Cost Element is the regulated value of expenditures associated with bank services in accordance with the Tariff methodology.

Business Trip as the Cost Element is the regulated value of expenditures associated with business trips in accordance with the Tariff methodology.

Bad debt as the Cost Element is the regulated value of expenditures associated with non payment for generated electricity or services in accordance with the Tariff methodology.

Other Taxes and Duties as the Cost Element is the regulated value of expenditures associated with taxes and state duties excluding VAT and Corporate (Profit) Tax in accordance with the Tariff methodology.

Penalties and Charges as the Cost Element is the regulated value of expenditures associated with any penalties and court charges in accordance with the Tariff methodology.

Other as the Cost Element is the regulated value of expenditures associated with any other case that is not stated above in accordance with the Tariff methodology.

ASSIGNMENT APPROACH

The expenditure shall be directly assigned to Regulated Cost.

When the expenditure cannot be assigned directly to any of regulated cost then it should be allocated using the specified method of allocation.

Method of allocation for Regulated Cost 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.

2.6 RECOGNITION

Recognition of the cost is based on core (basic) financial (book-keeping) documents of the Company.

The process of recognition of the cost goes from element to function and, then, to the category of the cost associated with specified Power Market activity of the Company using stated allocation approach.

Company should maintain the financial documentation in clear and audible way.

Company shall issue the internal financial document where the method of allocation and outcome should be described when method of allocation is used.

2.7 DISCLOSURE

A Regulated Power Market Company shall report in accordance with the reporting forms adopted by the Regulator.

A Regulated Power Market Company shall disclose:

- (a) The accounting policies adopted for the recognition of regulated revenue, including the methods adopted for metering and billing if it is not set by the Regulator;
- (b) The amount of each significant category of revenue recognized during Regulatory reporting period if it is not set by the Regulator.
- (c) The amount of Regulated Revenue included in each disclosed category.

2.8 SAMPLE PROCESS OF COSTING

Sample 1. Maintenance group of transmission reports on use of human resources, materials, and a service company for the current repair of both 400 kV and 330 kV.

1. There are three Cost Elements: personnel, materials, and outsource.
2. Cost Elements shall be directly applied on Transmission activity
3. Cost Elements shall be directly applied on Maintenance Cost Function
4. Cost Elements shall be allocated using method of allocation among 400 kV and 330 kV Cost Categories.

3.0 PART III. EXPENSES

3.1 GENERAL REGULATION

The Expenses under Unified System of Accounting for Power Market Regulated Companies shall be treated in accordance with decisions of the IASB.

3.2 GENERAL REGULATORY TREATMENT

The Regulated Expenses under USoA shall be consistent with the Tariff Methodology and other rules adopted by GNERC.

3.3 REGULATED EXPENSES

PURPOSE

USoA separates Regulated Expenses from Regulated Cost to match the expenses for the tariff period with the relative revenues.

In general for Power Market activities, Expense and Cost have similar nature. However, the break-down of expenses is different than the costs. It is important to have both types for information for tariff, benchmarking, and other monitoring tools.

Company shall maintain the accounting to have clear understanding for assignment (direct or allocation) of expenses to one or other type of revenue.

DEFINITION

Regulated Expenses for Power Market Company is the gross outflow of economic benefits during the tariff regulatory period arising in the course of the regulated ordinary power market activities when those outflows result in decreases in equity, other than decreases relating to contributions from equity participants.

The *Regulatory Expense* is the Regulatory Value of the usage of the owned or leased assets or incurrance of liabilities for generation of revenue that is consistent with the Power Market Tariff Methodology and other rules adopted by the Power Market Regulator [GNERC].

Regulatory Value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing Power Market parties in accordance with the regulation set by Power Sector Regulator.

Regulated Expenses includes only the gross outflows of economic benefits received and receivable by the Power Market entity on its own account. Sales taxes, goods and services taxes, value added taxes, and amounts paid on behalf of principal or any other third parties shall be excluded from Regulated Expenses.

MEASUREMENT

Regulated Expenses shall be measured at the regulatory value of the consideration received or receivable taking into account the tariff methodology approved by Power Sector Regulator.

The amount of regulated expenses arising on a transaction is usually determined by the agreement between the Power Market Entity and the buyer or user of the electricity.

The swap of electricity is not considered as expenses.

3.4 REGULATORY TREATMENT OF EXPENSERS FOR GENERATION AND SERVICES OF ELECTRICITY

POWER MARKET ACTIVITY

USoA identifies the following Expense groups as Power Market Activity as follows:

- Dispatch
- Transmission
- Distribution (Network)
- Distribution (Supply)
- Generation

There is separate type of Power Market activity as:

- Other

The *Dispatch Activity* as the Operating Expense group for Electricity Regulated Activity is the amount of expenses arising on a transaction is usually determined by the agreement between the Electricity Dispatch Company and the other Power Market Entity as buyer or user of the regulated dispatch services. It is measured at the Regulated Value of the consideration paid or payable taking into account the tariff methodology approved by Power Sector Regulator.

The *Transmission Activity* as the Operating Expense group for Electricity Regulated Activity is the amount of expenses arising on a transaction is usually determined by the agreement between the Electricity Transmission Company and the other Power Market Entity as buyer or user of the regulated transmission services. It is measured at the Regulated Value of the consideration paid or payable taking into account the tariff methodology approved by Power Sector Regulator.

The *Distribution (Network) Activity* as the Operating Expense group for Electricity Regulated Activity is the amount of expenses arising on a transaction is usually determined by the agreement between the Electricity Distribution (Network) Company and the other Power Market Entity as buyer or user of the regulated distribution (network) services. It is measured at the Regulated Value of the consideration paid or payable taking into account the tariff methodology approved by Power Sector Regulator.

The *Distribution (Supply) Activity* as the Operating Expense group for Electricity Regulated Activity is the amount of expenses arising on a transaction is usually determined by the agreement between the Electricity Distribution (Supply) Company and the other Power Market Entity as buyer or user of the regulated distribution (supply) services. It is measured at the Regulated Value of the consideration paid or payable taking into account the tariff methodology approved by Power Sector Regulator.

The *Generation Activity* as the Operating Expense group for Electricity Regulated Activity is the amount of expenses arising on a transaction is usually determined by the agreement between the Electricity Generation Company and the other Power Market Entity as buyer or user of the regulated electricity. It is measured at the

Regulated Value of the consideration paid or payable taking into account the tariff methodology approved by Power Sector Regulator.

The *Other Activity* as the Operating Expense group for Electricity Regulated Activity is the amount of expenses arising on a transaction is usually determined by the agreement between the any other then stated above type of Power Market Company and the other Power Market Entity as buyer or user of the regulated electricity. It is measured at the Regulated Value of the consideration paid or payable taking into account the tariff methodology approved by Power Sector Regulator.

EXPENSE MATCHING WITH REVENUE TYPE

Each Activity as the Operating Expense group for Electricity Regulated Activity is the aggregation of embedded subgroups of expense matching with revenue type.

USoA distinguishes the revenue type, thus the expenses, by the sales tariff set by Power Market Regulator.

Company shall maintain the breakdown of expenses by revenue type and disclose it in the accounting policy individually if no other regulation for revenue accounting set by Power Market Regulator.

EXPENSE MATCHING WITH REVENUE TYPE

USoA associates each expense of regulated activity with:

- Production / Service Cost,
- General & Administrative Expenses

Production / Service Cost are the combination of generation costs of electricity or cost of electricity services assigned to generate revenue by specific tariff.

General & Administrative Expenses are the combination General & Administration Expenses for Electricity Regulated Activities assigned to generate revenue by specific tariff.

CODING OF ACCOUTS

Each Account of Expenses consists of following digits.

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

ACCOUNTING OF DIRECT OPERATING EXPENSES

Accounts of Direct Operating Expenses credits the corresponding cost account in Cost of Production (Services) of Electricity / Regulated Activities (Account group 7100.1)

USoA breaks Direct Operating Expenses down to:

- Direct Electricity Cost
- Payroll Cost
- Materials
- Outsource
- Utilities

- Operation lease (rent)
- Electricity Losses
- Depreciation
- Other

Company shall maintain the financial documentation in clear and audible way.

By the end of reporting period Company shall issue the internal document that describes the assignment of costs of production or services to individual expenses associated with the revenue type.

Based on issued document Company that provides dispatch, transmission, distribution (network) electricity services shall make following entries:

Debit		Credit	
Direct Electricity Cost	7500.1AT11	Direct Cost of Generation	?
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

Based on issued document Company that buys electricity for sale (Distribution Supply) shall make following entries:

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

Based on issued document Company generating electricity shall make following entries:

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

GENERAL & ADMINISTRATIVE EXPENSES

Accounts of General & Administrative Expenses credits the corresponding cost account in General & Administration Expenses for Electricity Regulated Activities (Account group 7400.1)

USoA breaks General & Administrative Expenses down to:

- Payroll Cost
- Supply, Communication & Utilities
- Business Trips, Trainings, Representative Expenses
- Depreciation, Repair & Rent
- Insurance, Consulting & Audit
- Bank Charges
- Other Taxes & Duties, Penalties & Charges
- Bad Debt
- Other

By the end of reporting period Company shall make issue internal document that describes the assignment of general and administrative expenses to individual expenses associated with the revenue type.

Based on issued document Company shall make following entries:

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

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.

3.5 DISCLOSURE

A Regulated Power Market Company shall report in accordance with the reporting forms adopted by the Regulator.

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- (b) The amount of each significant category of expenses recognized during Regulatory reporting period if it is not set by the Regulator.
- (c) The amount of Regulated Expenses included in each disclosed category.

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