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

ACCOUNTING GUIDELINE PROPERTY PLANT AND EQUIPMENT

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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

Initial and subsequent costs

Measurement at recognition

Elements of cost

Measurement of cost

Cost and Revaluation Model

Depreciation

Lease

Borrowing Cost

Impairment of asset

Investment Property



IAS 16

IAS 17

IAS 23

IAS 36

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

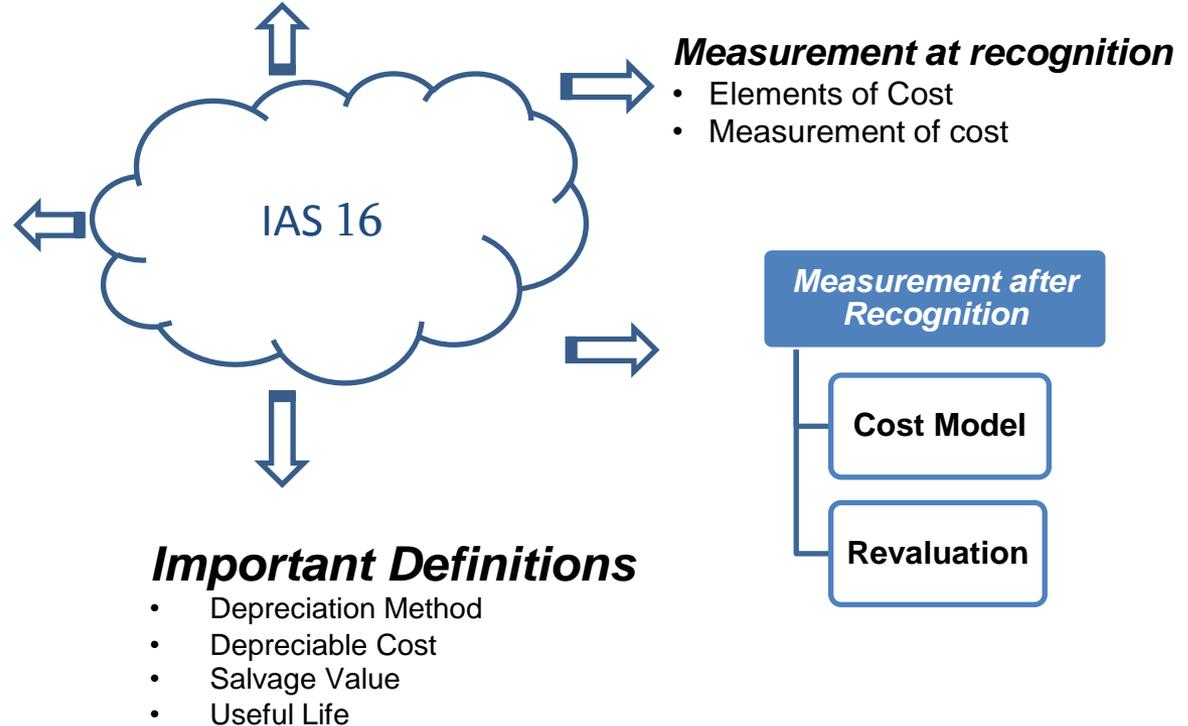
Attribution to PP&E

- 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.





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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.**



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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.”



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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)



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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



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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



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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.



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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 



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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.



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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).



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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.**



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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

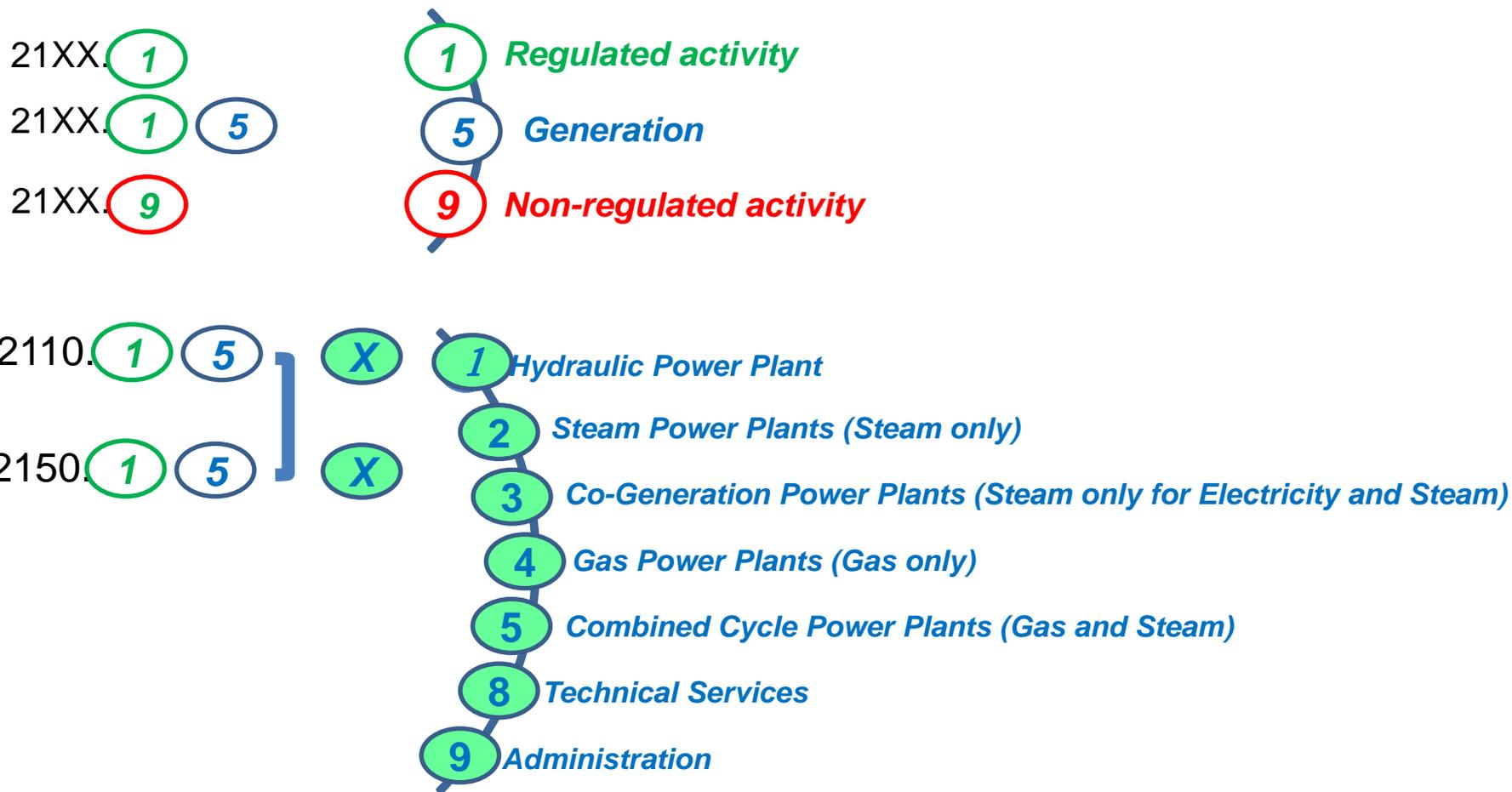
- Gas pipelines, gas conduits
- Mains for petrochemicals
- Mains and conduits of heat network
- Interplant piping
- Intra shop technological piping
- Sewage gravity network.
- Water-supply pipeline network
- Slime conduits.
- Industrial fire line

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

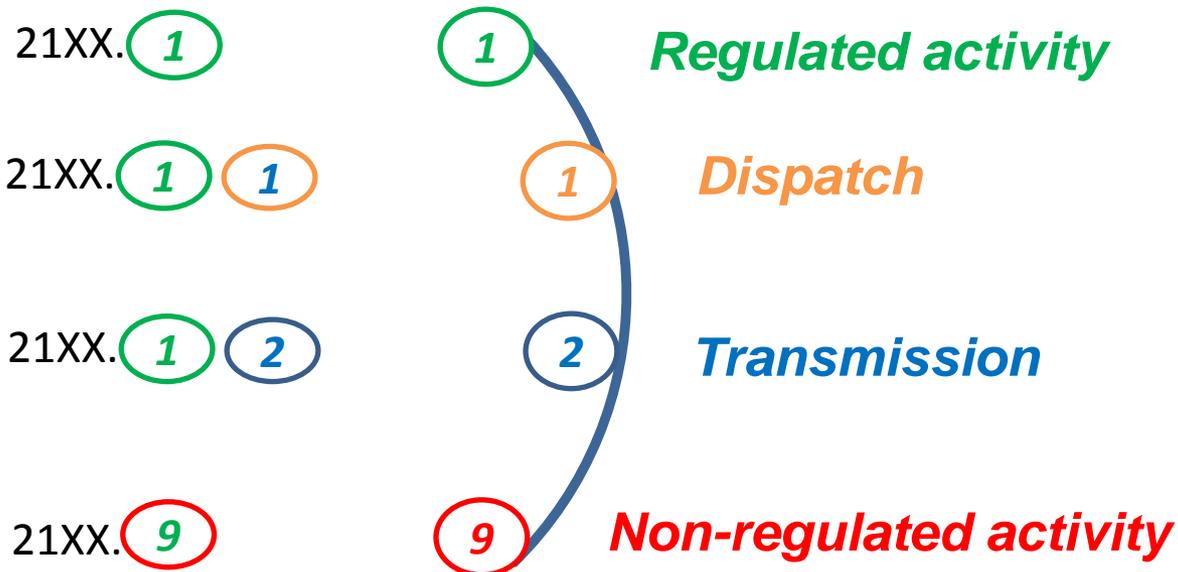
Steam Power Plant

- ***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

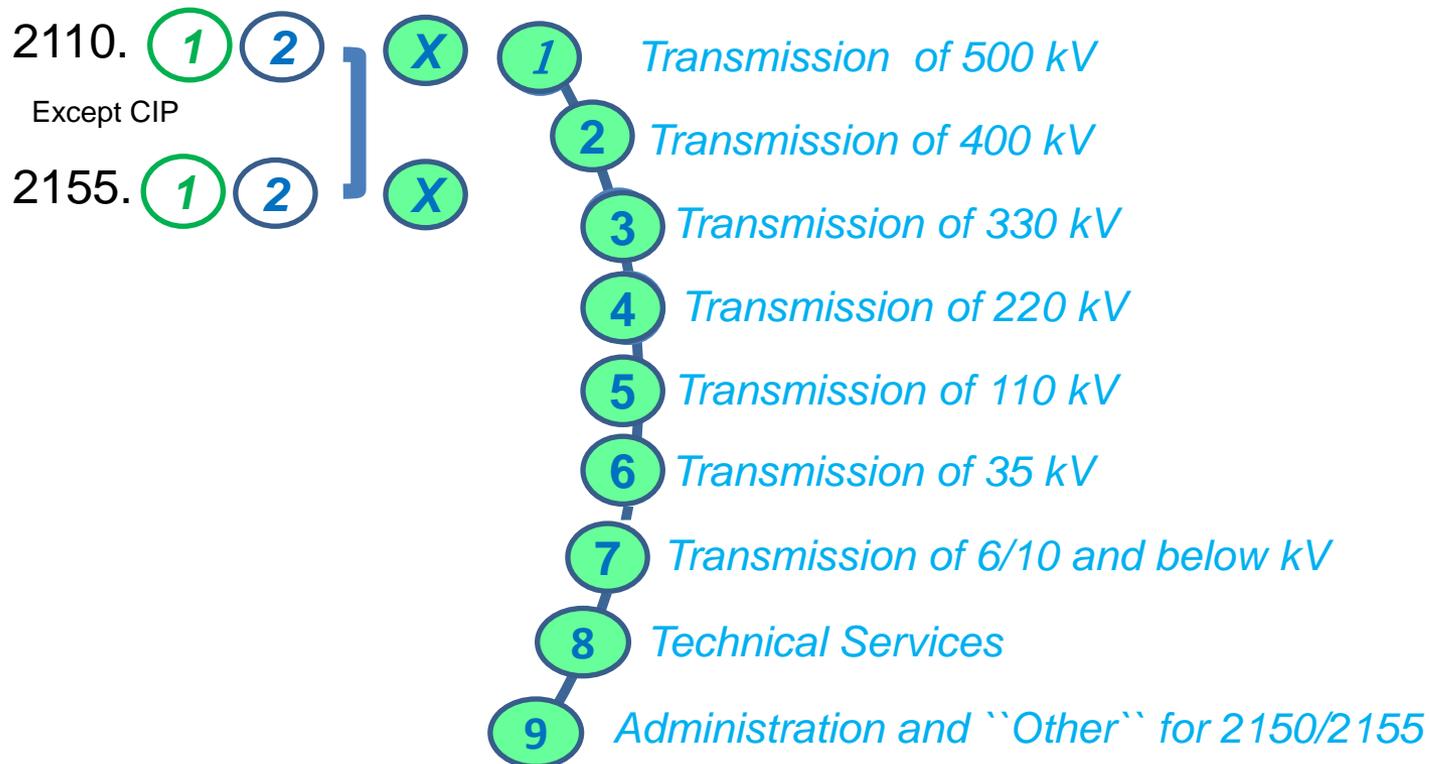
- ***PRIME MOVERS***
 - Air-filtering system.
 - Belting, shafting, pulleys, reduction gearing, etc.
 - Cooling system, including towers, pumps, tanks, and piping.
 - Cranes, hoists, etc.,
 - Engines, natural gas, or other internal combustion
 - Water Supply System
 - Foundations and settings Steelwork
 - 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

2110. (1) (2) (1) }
 Except CIP
 2150. (1) (2) (7) }

X
X
X



500 kV
 400 kV
 330 kV
 220 kV
 110 kV
 35 kV
 6/10 and below kV

- (1) XXX kV Transmission Substation Equipment
- (2) XXX kV Transmission Automation and Relay Protection
- (3) XXX kV Transmission Metering
- (4) XXX kV Transmission Optic Communication
- (5) XXX kV Transmission Other Communication
- (9) XXX kV Transmission Other

“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

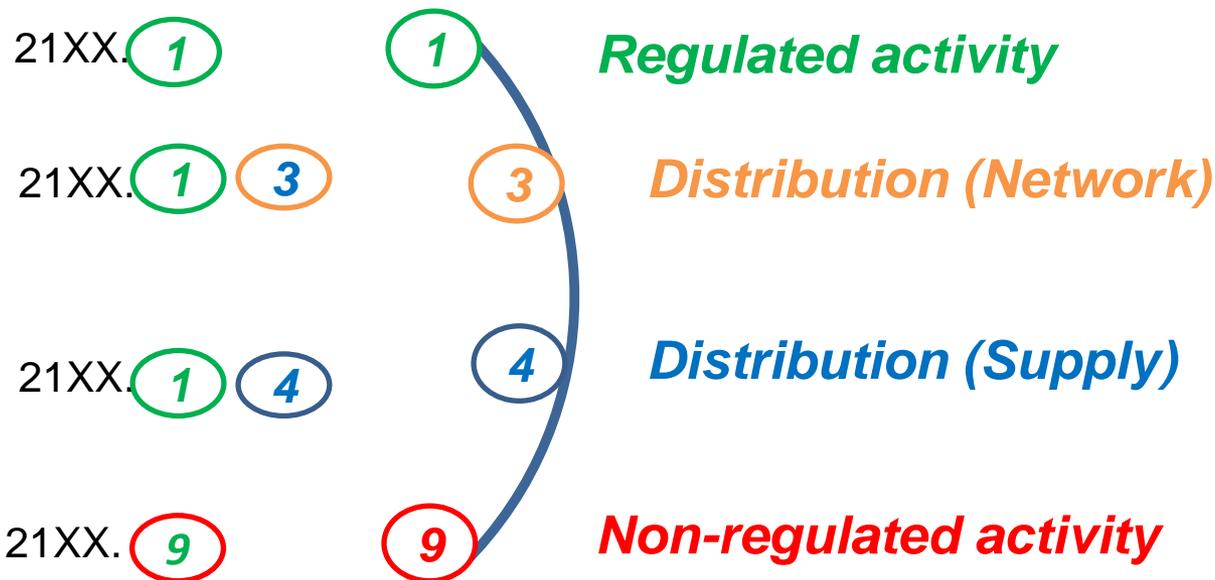
Transmission Overhead Lines, including supporting structure and fixtures and overhead conductors and devices which are primary used for transmission of electricity (capacity).

- 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.

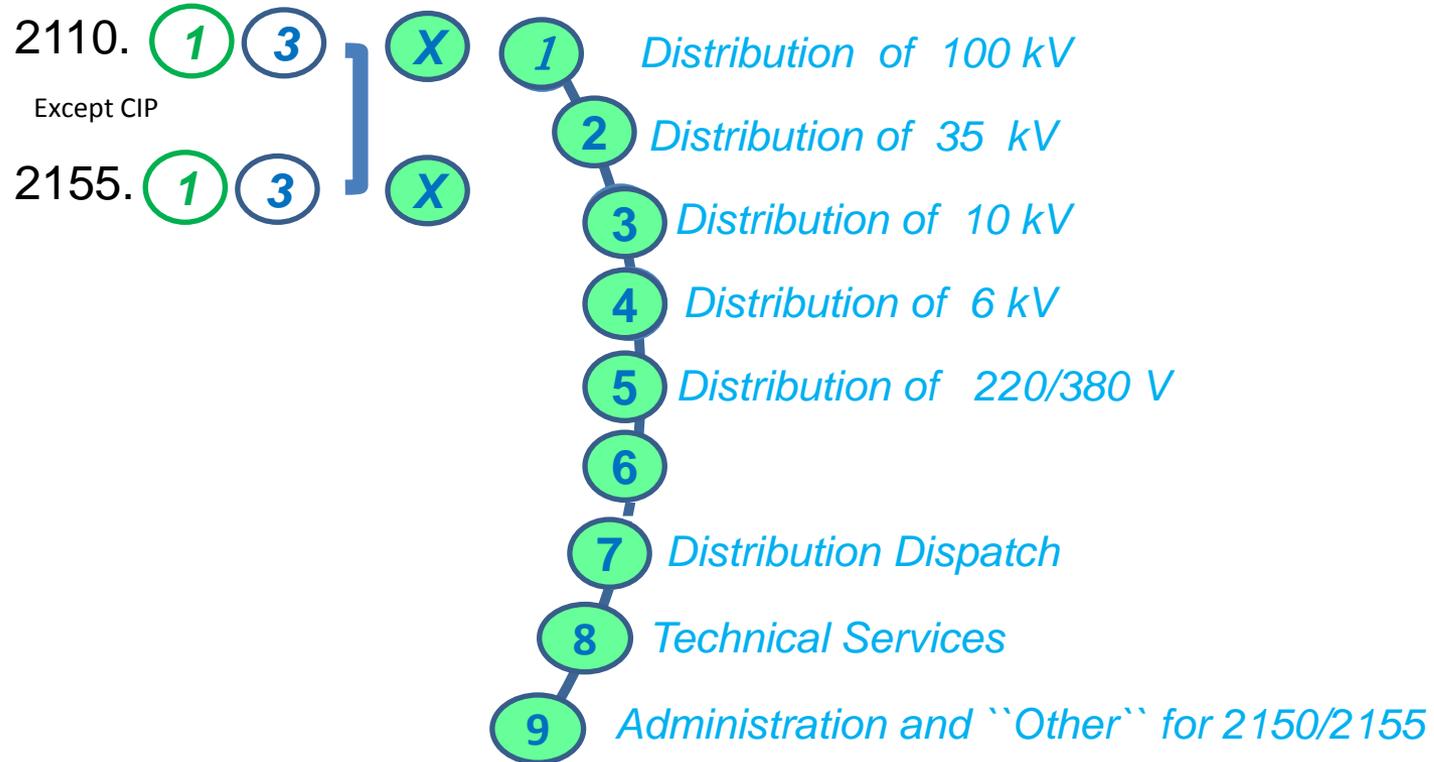
- Foundations and settings specially constructed for and not expected to outlast the apparatus for which constructed
- Cables, cable racks and hangers etc., permanently attached to manholes
- Sumps, including pumps.
- Underground conductors and devices.
- Fireproofing, in connection with any items listed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

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

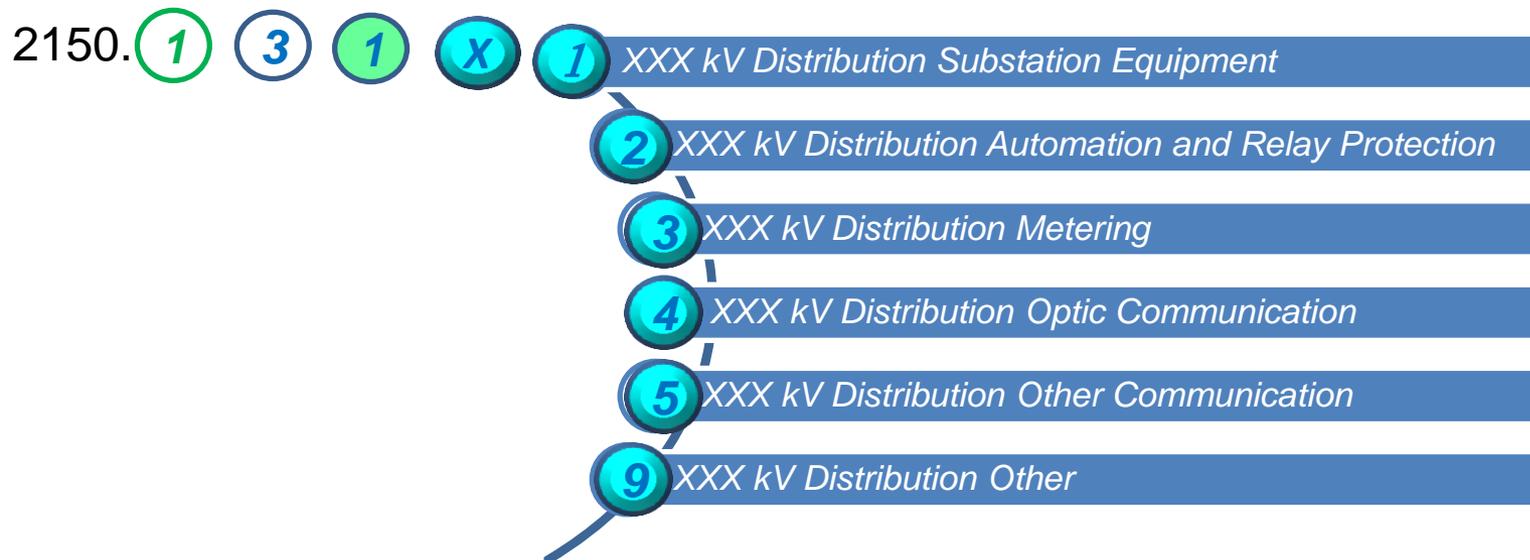




Coding in COA PP&E Section –Distribution (Network)



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;
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- Grounding.
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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
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- Underground conductors and devices.
- Fireproofing, in connection with any items listed herein.
- Insulators, potheads, etc.
- Lightning arresters.
- Switches.
- Other line devices.



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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 :



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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



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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 $12000 \times 1,75 + 50 + 200 + 200 \times 1,75 = 21600$ 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 Sq.* $(21600/600) = 10800$ GEL, The cost of remaining portion of land parcel after commission approval might be included in account 2195.13



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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 = $335000 \times \text{no. of years (7)} = 234500$.

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).



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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, "



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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*



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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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Thank You!

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