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# UNIFORM SYSTEM OF ACCOUNTING

GENERAL ACCOUNTING POLICY AND PROCEDURES FOR  
GEORGIAN REGULATED GAS SECTOR COMPANIES  
CONCEPT AND PRINCIPLES

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21 May 2019

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# DATA

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## ACRONYMS

<b>CoA</b>	Chart of Accounts
<b>GNERC</b>	Georgian National Energy and Water Supply Regulatory Commission
<b>HIPP</b>	Hydropower Investment Promotion Program
<b>HPP</b>	Hydro Power Plant
<b>IFRS</b>	International Financial Reporting Standards
<b>MPa</b>	Megapascal Pressure Unit
<b>USAID</b>	United States Agency for International Development
<b>USoA</b>	Unified System of Accounting

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## BACKGROUND

According to the international best practice, regulatory financial information must be relevant, reliable, comparable, verifiable, transparent and comprehensive. To ensure the coherence of data, to avoid double counting and to detect anti-competitive effects its common practice in United States, Canada, Asia and Some European Union countries to develop and implement the regulatory accounting – unified accounting system for rate regulated entities so called Uniform System of Accounting (USoA).

USAID through its Hydropower Investment Promotion Project (HIPP March 2010-August 2013) and its Hydro Power and Energy Planning Project (HPEP starting September 2013) provided guidance to Georgia National Energy and Water Supply Regulatory Commission (GNERC) in reforming the regulatory framework including development of the USoA for the electricity sector of Georgia. It was developed Regulatory Chart of Accounts (CoA) for the electricity sector, instructions to the CoA and performed capacity building of GNERC and the electricity sector generation, transmission, dispatch and distribution licensees. Later in December 2016 USoA and its constituent parts were approved by GNERC through its administrative procedures. USoA for rate regulated electric utilities would become mandatory from January 2019. The period between the approval of USoA and its mandatory application were allocated for the preparatory works for the transition to the regulatory accounting mandatory rules.

Considering the success in the past, in 2018 GNERC has applied USAID Energy Program with the request to support development of USoA for rate regulated utilities performing licensed activities in gas sector of Georgia.

As for electricity sector, Gas USoA proposed to provide a sound basis for recording of expenses and facilities of rate regulated gas utilities. Similarly, to the Electric USoA It includes a Regulatory CoA, Instructions to Regulatory CoA, General and Special Guidelines, Reports and Instructions to Reports that financial information can be properly recorded and traced for the purpose of sector regulation. This document was developed as the unbundled part of USoA for Georgian Gas Regulation with the purpose to be approved by the end of 2019 and applied for next year.

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

General Accounting Policy and Procedures was used to develop Uniform System of Accounting for Georgian Regulated Gas Sector. The document has a purpose to help Georgian Regulator to adopt USoA for Gas Sector as part of actual regulation of licensed companies. There is no duplication of statements if it is not a part of the amendment.

For the purpose of user-friendly application:

- The recommendations are given as part of Georgian text in English,
- The additions are presented in green
- The amendments are presented in red in English for new version and in ~~red-strikethrough style in Georgian~~ for old version.

General text style is used for the case, when the whole document is presenting new (separate) meaning.

# CONCEPTS

The presented concepts are the abstract ideas representing the fundamental characteristics of USoA for Georgian Rate Regulation.

These concepts arise as generalizations from experience and the result of a transformation of existing idea of USoA.

Concept of data presentation: Uniform System of Accounting, as Regulatory part of Accounting Information System, shall generate all the reports defined in the regulatory reporting requirements based on information extracted from the General Ledger and Subsidiary Ledgers directly.

Concept of diversified regulated activity in one company: One commercial entity, company, may have more than one activity regulated by GNERC.

Concept of a single Accounting Information System: Uniform System of Accounting shall support the approach of one (single) Accounting Information System applied in the Company.

Concept of an integration with existing accounting legislation and practice: Uniform System of Accounting for Gas Sector shall be coherent with the effective Uniform System of the Accounting adopted by GNERC on July 27, 2016.

The effective USoA meets the requirements of International Financial Reporting standards (IFRS) and financial regulation.

The Uniform System of Accounting for Gas Sector shall be presented with:

- separate, unbundled part of effective Regulatory Chart of Accounts;
- sector specific part of effective Instructions to the Regulatory Chart of Accounts
- Accounting Guidelines specific to Gas Sector
- Reporting Forms specific to Gas Sector
- Instructions for Reporting Forms specific to Gas Sector
- Regulatory auditing procedures and manuals shall be applicable for any Regulatory activity.



# PRINCIPLES

Presented Principles are the rules based on concepts forming the basis for Uniform System of Accounting for Gas Sector.

Regulatory Chart of Accounts is an integrated part of effective Uniform System of the Accounting adopted by GNERC on July 27, 2016.

First four digits of the effective Regulatory Chart of Accounts stay the same as General Accounts:

Accounts 1000 – 1999	Current Facilities
Accounts 2000 – 2999	Non-current Facilities
Accounts 3000 – 3999	Current Liabilities
Accounts 4000 – 4999	Long Term Liabilities
Accounts 5000 – 5999	Equity
Accounts 6000 – 6999	Operating Income
Accounts 7000 – 7999	Operating Expenses
Accounts 8000 – 8999	Non-operating Income and Expenses
Accounts 9000 – 9999	Extraordinary Gains (Losses)

**No changes needed in effective Uniform System of the Accounting adopted by GNERC on July 27, 2016.**

## Regulatory (Specific) Accounts

The regulatory account code is specifically defined and consists of two parts general and special.

General and special parts are separated by the following characters: "."

Specific Accounts consist of digits with no limits in number. Each digit is the code of the subaccount for the previous (left) digit account. It describes the specific purpose of regulation.

A regulated (specific), Regulatory Value, account value is the part of value measured in accordance with IFRS.

$$Value_{Book} = \min_{same\ event} (Value_{Regulatory}; Value_{IFRS})$$

**Following changes needed in effective Uniform System of the Accounting adopted by GNERC on July 27, 2016.**

იგი გამოხატავს რეგულირების სპეციალურ მიზანს.

If not specially specified as 'Non-regulatory' account, all specific accounts are for recording of Values determined or accepted by the Regulator, Regulatory Value.

Company shall apply Value measured in accordance with IFRS as a book value for regulated account when:

- (a) The IFRS-Value is less than the Regulatory Value, or
- (b) There is no special rule determined or accepted by Regulator.

კომპანიისთვის ყველა რეგულირებადი ანგარიში სავალდებულოა, მან უნდა შეასრულოს ეს ინსტრუქციები საქართველოს კანონმდებლობის შესაბამისად.

## Non-Regulatory Accounts

The account is not regulated, it is a non-regulatory account, if it:

- (a) is not specially stated as regulatory account,
- (b) is not a subaccount of the regulatory account, or
- (c) is specially stated as non-regulatory account of a regulated activity.

Specially stated Non-regulatory account of a regulated activity (c) is providing the consistency of book-values measured in accordance with IFRS. Such Non-regulatory account has a book-value for

the cases when the Value measured in accordance with IFRS is more than the Value measured in accordance with the Regulatory rules.

$$Value_{Book} = \max_{same\ event} (Value_{IFRS} - Value_{Regulatory}; 0)$$

Except for Case (c), Non-regulatory accounts are not mandatory for the purpose of regulation.

For Cases (a) and (b) Company is free to set (or use the codes of) any account. For Case (c) Company shall set the subaccounts in order to match the related Regulatory account.

**Following changes needed in effective Uniform System of the Accounting adopted by GNERC on July 27, 2016:**

ანგარიში არ ექვემდებარება რეგულირებას თუ:

ა) არ არის განსაზღვრული რომ იგი არის რეგულირებადი ანგარიში;

ბ) არ არის რეგულირებად ანგარიშს დაქვემდებარებული ქვეანგარიში;

c) is specially stated as 'Non-regulated' sub-account of Regulated Activity.

Non-regulated account is for the recording of Values of the non-regulated part of a regulated activity. It shows the positive difference between Book-Values measured in accordance with IFRS and Value accepted by the Regulator (Regulatory Value). In case of negative difference, the Book-Value of Non-regulated account of regulated activity is equal to 0.

შესაბამისად ეს ქვეანგარიშები წარმოადგენენ სავალდებულო ელემენტებს რეგულირების მიზნებიდან გამომდინარე. კომპანიას თავისუფლად შეუძლია დაადგინოს ნებისმიერი ანგარიში (ან გამოიყენოს კოდები), რომლებიც არ არის დაკავებული ~~specific რეგულირებადი~~ ანგარიშების მიერ for the cases (a) and (b). For Case (c) Company shall open the subaccounts in order to match the related Regulatory account, for the cases when the Book-Value of Non-regulated account is more than 0.

Grouping by Regulated Sectors

The Specific Accounts starting with "1" are reserved for registration of positions or performances related to Power Sector (Electricity) Regulated Activity.

The Specific Accounts starting with "2" are reserved for registration of positions or performances related to Gas Sector Regulated Activity.

The Specific Accounts starting with "9" are reserved for registration of positions or performances related to Non-Regulated Activity.

**The amendments and additions are presented in "USoA: Chart of Account" and "USoA: Instructions to Chart of Accounts".**

Unbundling of Gas Sector Activity by Gas Services

Gas Sector is unbundled to following regulated services:

- Transmission / Transportation
- Distribution
- Supply
- Storage

Company shall attribute records to specific Gas Service account in accordance with the terms of License gained from the Regulator.

**The amendments and additions are presented in "USoA: Chart of Account" and "USoA: Instructions to Chart of Accounts".**

Transmission / Transportation Services

Company shall attribute the records to "Transmission / Transportation" accounts for the financial events related to activity related to correspondent License for gas transmission / transportation services gained from the Regulator.

There are three main Service Centers recognized for transmission / transportation services:

- Gas Provision through more than 2.5 MPa transmission / transportation facilities
- Gas Provision through 1.2 – 2.5 MPa transmission / transportation facilities
- Gas Provision through less than 1.2 MPa transmission / transportation facilities

There are two supporting Service Centers recognized for transmission / transportation Services:

- General Technical Services for transmission / transportation facilities
- Other Services for transmission / transportation facilities

Other Services may include administration-related values (costs) supporting the transmission / transportation service.

***The amendments and additions are presented in “USoA: Chart of Account” and “USoA: Instructions to Chart of Accounts”.***

#### Distribution Services

Company shall attribute the records to “Distribution” accounts for the financial events related to activity related to correspondent License for gas distribution network services gained from the Regulator.

There are three main Service Centers recognized for distribution network services:

- Gas Provision through 0.3 – 1.2 MPa distribution network facilities
- Gas Provision through 0.005 – 0.3 MPa distribution network facilities
- Gas Provision through less than 0.005 MPa distribution network facilities

There are two supporting Service Centers recognized for distribution network Services:

- General Technical Services for distribution network facilities
- Other Services for distribution network facilities

Other Services may include administration-related values (costs) supporting the distribution network service.

***The amendments and additions are presented in “USoA: Chart of Account” and “USoA: Instructions to Chart of Accounts”.***

#### Supply Services

Company shall attribute the records to “Supply” accounts for the financial events related to activity related to correspondent License for gas distribution supply services gained from the Regulator.

There is no specific Service Center recognized for distribution supply services:

There maybe two supporting Service Centers recognized for distribution supply services:

- General Technical Services for distribution supply facilities
- Other Services for distribution supply facilities

Other Services may include administration-related values (costs) supporting the distribution supply service.

***The amendments and additions are presented in “USoA: Chart of Account” and “USoA: Instructions to Chart of Accounts”.***

#### Storage Services

Company shall attribute the records to “Storage” accounts for the financial events related to activity related to correspondent License for gas storage services gained from the Regulator.

There is no specific Service Center recognized for gas storage services:

There maybe two supporting Service Centers recognized for gas storage services:

- General Technical Services for gas storage facilities
- Other Services for gas storage facilities

Other Services may include administration-related values (costs) supporting the gas storage service.

***The amendments and additions are presented in “USoA: Chart of Account” and “USoA: Instructions to Chart of Accounts”.***

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