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USAID ENERGY PROGRAM

UNIFORM SYSTEM OF ACCOUNTING

ACCOUNTING GUIDELINES FOR GEORGIAN GAS MARKET
COMPANIESE

REVENUES, COST CENTERS AND EXPENSES

USAID ENERGY PROGRAM

21 May 2019

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DATA

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ACRONYMS

CoA	Chart of Accounts
FA	Fixed Assets
GNERC	Georgian National Energy and Water Supply Regulatory Commission
HIPP	Hydropower Investment Promotion Project
HPEP	Hydro Power and Energy Planning
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
kV, KV	Kilovolts
MPa	Megapascal Pressure Unit
USAID	United States Agency for International Development
USoA	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 of America, 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 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

These Accounting Guidelines regulates the accounting of revenues, cost centers, and expenses of companies operating in Georgian regulated gas market. Gas 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 gas 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 Gas and Gas Services

Part III. Expenses

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

Part II. Cost of Gas and Gas 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 Gas Market Regulated Companies shall be treated in accordance with correspondent IFRS, the IFRS 15 'Revenue from Contracts with Customers'.

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 Gas Market Company is the gross inflow of economic benefits during the tariff regulatory period arising in the course of the regulated ordinary gas 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 Gas Market parties in accordance with the regulation set by Gas Sector Regulator.

Regulated Revenue includes only the gross inflows of economic benefits received and receivable by the Gas 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 considering the tariff methodology approved by Gas Sector Regulator.

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

The swap of gas is not considered as revenue.

1.4 REGULATORY TREATMENT OF REVENUES FOR STORAGE AND SERVICES OF GAS

GAS MARKET ACTIVITY

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

- [Reserve]
- Transmission / transportation
- Distribution
- Supply
- Storage

There is a separate type of Gas Market activity as:

- Other

The *Transmission / Transportation Activity* as the Regulated Revenue Center is the amount of revenue arising on a transaction is usually determined by the agreement between the Gas Transmission / Transportation Company and the other Gas Market Entity as buyer or user of the regulated transmission / transportation services. It is measured at the Regulated Value of the

consideration received or receivable considering the tariff methodology approved by Gas Sector Regulator.

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

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

The *Storage Activity* as the Regulated Revenue Center is the amount of revenue arising on a transaction is usually determined by the agreement between the Gas Storage Company and the other Gas Market Entity as buyer or user of the regulated gas. It is measured at the Regulated Value of the consideration received or receivable considering the tariff methodology approved by Gas 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 Gas Market Company and the other Gas Market

Entity as buyer or user of the regulated gas. It is measured at the Regulated Value of the consideration received or receivable considering the tariff methodology approved by Gas 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 Gas 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 Gas Market Regulator.

DISCLOSURE

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

A Regulated Gas 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 GAS AND GAS 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 storage 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 storage of revenue that is consistent with the Gas Market Tariff Methodology and other rules adopted by the Gas Market Regulator [GNERC].

Regulatory Value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing Gas Market parties in accordance with the rules set by the Gas 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, STORAGE AND SERVICES OF GAS ASSOCIATION

- Depending on association of cost with the Gas Market Activity, USoA identifies:
- Regulatory Cost of Gas Storage (Services) that is directly associated with the activity (Account 7100.2), and
- Regulatory Cost of General & Administration Expenses for Gas Regulated Activities that is not directly associated with the activity (Account 7400.2).

GAS MARKET ACTIVITY

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

- [Reserve]
- Transmission / transportation
- Distribution
- Supply
- Storage

There is separate type of Gas Market activity as:

- Other

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

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

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

The *Storage Activity* as the Regulated Cost is the group of costs that incurred on or refer to particular property qualified for storage of gas to Gas 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 Gas Market activity in accordance with the Tariff methodology.

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

Main Account	Activity	Category	Function	Element
7100.2	A	C	F	E

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

Main Account	Activity	Function	Element
7400.2	A	F	E

2.3 REGULATED COST CATEGORIES

REGULATED COST CATEGORIES FOR TRANSMISSION / TRANSPORTATION

USoA identifies Regulated Cost Category for transmission / transportation activity as:

- More than 2.5 MPa
- 1.2 – 2.5 MPa
- Less than 1.2 MPa
- General Technical Services
- Other

The *more than 2.5 MPa* as the Transmission / transportation Cost Category is the group of costs that incur on or refers to transmission / transportation mains property of 2.5 and more MPa in accordance with the Tariff methodology.

The *1.2 – 2.5 MPa* as the Transmission / transportation Cost Category is the group of costs that incur on or refers to transmission / transportation mains property of 1.2 and more and to less than 2.5 MPa in accordance with the Tariff methodology.

The *less than 1.2 MPa* as the Transmission / transportation Cost Category is the group of costs that incur on or refers to transmission / transportation mains property of less than 1.2 MPa in accordance with the Tariff methodology.

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

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

REGULATED COST CATEGORIES FOR DISTRIBUTION

USoA identifies Regulated Cost Category for distribution network activity as:

- 0.3 – 1.2 MPa
- 0.005 – 0.3 MPa
- Less than 0.005 MPa
- Connection
- General Technical Services
- Other

The *0.3 – 1.2 MPa* as the Distribution Cost Category is the group of costs that incur on or refer to distribution mains property of 0.3 and more to less than 1.2 MPa in accordance with the Tariff methodology.

The *0.005 – 0.3 MPa* as the Distribution Cost Category is the group of costs that incur on or refer to distribution mains property of 0.005 and more to less than 0.3 MPa in accordance with the Tariff methodology.

The *less than 0.005 MPa* as the Distribution Cost Category is the group of costs that incur on or refer to distribution mains property of less than 0.005 MPa in accordance with the Tariff methodology.

The *Connection* as the Distribution Cost Category is the group of costs that incur on or refer to distribution connection property in accordance with the Tariff methodology.

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

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

REGULATED COST CATEGORIES FOR SUPPLY

There is no special cost category for gas supply service.

REGULATED COST CATEGORIES FOR GAS STORAGE

There is no special cost category for gas supply service.

2.4 REGULATED COST FUNCTIONS

FUNCTIONS OF REGULATORY COST FOR REGULATED ACTIVITIES OF ALL GAS SERVICES

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

- Operation Cost
- Maintenance Cost
- Cost of Gas Losses
- Other

Operating Cost as Regulated Gas Service Cost Function is the group of costs that incur on or refer to the operation of a gas service property in accordance with the Tariff methodology.

Operation is an activity, or a set of activities performed for targeted use of a gas service property.

Maintenance Cost as Regulated Gas Service Cost Function is the group of costs that incur on or refer to the maintenance of a gas service property in accordance with the Tariff methodology.

Maintenance is an activity, or a set of activities performed for keeping of a gas service property in operable and serviceable conditions.

Cost of Gas Losses as Regulated Gas Service Cost Function is the Regulatory Value of Gas losses liable on a gas service in accordance with the Tariff methodology.

Other as Regulated Gas Service 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 GAS REGULATED ACTIVITY

For the Regulated Cost of General and Administrative Expenses for Gas 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 OF REGULATORY COST OF GAS SERVICES

USoA identifies following cost elements for operation and maintenance:

- Personnel
- Materials

- Outsource
- 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 project.

Utilities as the Cost Element is the regulated value of the expenditures associated with the internal use 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, IFRS 16) in accordance with the Tariff methodology. (Regulatory treatment for Lease is give in special Guideline, Lease.

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 Gas Cost:

- Cost of Gas Purchased

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

ELEMENTS OF REGULATED COST OF GENERAL AND ADMINISTRATIVE EXPENSES FOR GAS 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, IFRS 16) 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 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 nonpayment for generated gas 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 Gas Market Regulator.

In case when stated method of allocation is not determined by the Gas Market Regulator, Company shall apply own judgment, get approval from the Gas 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 Gas 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 Gas Market Company shall report in accordance with the reporting forms adopted by the Regulator.

A Regulated Gas 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 / transportation reports on use of human resources, materials, and a service company for the current repair of both 1.2 – 2.5 MPa and less than 1.2 MPa.

1. There are three Cost Elements: personnel, materials, and outsource.
2. Cost Elements shall be directly applied on Transmission / transportation activity
3. Cost Elements shall be directly applied on Maintenance Cost Function
4. Cost Elements shall be allocated using method of allocation among 1.2-2.5 MPa and less than 1.2 MPa Cost Categories.

3.0 PART III. EXPENSES

3.1 GENERAL REGULATION

The Expenses under Unified System of Accounting for Gas 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, 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 Gas Market Company is the gross outflow of economic benefits during the tariff regulatory period arising in the course of the regulated ordinary gas 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 incurrence of liabilities for storage of revenue that is consistent with the Gas Market Tariff Methodology and other rules adopted by the Gas Market Regulator [GNERC].

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

Regulated Expenses includes only the gross outflows of economic benefits received and receivable by the Gas 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 considering the tariff methodology approved by Gas Sector Regulator.

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

The swap of gas is not considered as expenses.

3.4 REGULATORY TREATMENT OF EXPENSERS FOR GAS SERVICES

GAS MARKET ACTIVITY

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

- [Reserve]

- Transmission / Transportation
- Distribution
- Supply
- Storage

There is separate type of Gas Market activity as:

- Other

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

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

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

The *Storage Activity* as the Operating Expense group for Gas Regulated Activity is the amount of expenses arising on a transaction is usually determined by the agreement between the Gas Storage Company and the other Gas Market Entity as buyer or user of the regulated gas. It is measured at the Regulated Value of the consideration paid or payable considering the tariff methodology approved by Gas Sector Regulator.

The *Other Activity* as the Operating Expense group for Gas 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 Gas Market Company and the other Gas Market Entity as buyer or user of the regulated gas. It is measured at the Regulated Value of the consideration paid or payable considering the tariff methodology approved by Gas Sector Regulator.

EXPENSE MATCHING WITH REVENUE TYPE

Each Activity as the Operating Expense group for Gas 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 Gas 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 Gas 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 storage costs of gas or cost of gas services assigned to generate revenue by specific tariff.

General & Administrative Expenses are the combination General & Administration Expenses for Gas 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
7500.2	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 Gas / Regulated Activities (Account group 7100.2)

USoA breaks Direct Operating Expenses down to:

- Direct Gas Cost
- Payroll Cost
- Materials
- Outsource
- Utilities
- Operation lease (rent)
- Gas 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 transmission / transportation, Distribution gas services shall make following entries:

Debit		Credit	
Direct Gas Cost	7500.2AT11	Liability to gas supplier	3110
Payroll Cost	7500.2AT12	Payroll Cost	7100.2AX11 7100.2AX21
Materials	7500.2AT13	Materials	7100.2AX12 7100.2AX22
Outsource	7500.2AT14	Outsource	7100.2AX13 7100.2AX23
Utilities	7500.2AT15	Utilities	7100.2AX14 7100.2AX24
Operation lease (rent)	7500.2AT16	Operation Lease	7100.2AX15 7100.2AX25
Gas Losses	7500.2AT17	Gas Losses	7100.2AX3
Depreciation	7500.2AT18	Depreciation	7100.2AX18 7100.2AX28
Other	7500.2AT19	Other	7100.2AX19 7100.2AX29 7100.2AX9

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

Debit		Credit	
Direct Gas Cost	7500.24T11	Liability to gas supplier	3110
Payroll	7500.24T12	Payroll Cost	7100.240121
Materials	7500.24T13	Materials	7100.240122
Outsource	7500.24T14	Outsource	7100.240123
Utilities	7500.24T15	Utilities	7100.240124
Operation lease (rent)	7500.24T16	Operation Lease	7100.240125
Gas Losses	7500.24T17	Gas Consumption	7100.24013
Depreciation	7500.24T18	Depreciation	7100.240128
Other	7500.24T19	Other	7100.240129 7100.240X9

Based on issued document Company gas storage shall make following entries:

Debit		Credit	
Direct Gas Cost	7500.25T11	Liability to gas supplier	3110
Payroll	7500.25T12	Payroll Cost	7100.250X21 7100.250X31
Materials	7500.25T13	Materials	7100.250X22 7100.250X32
Outsource	7500.25T14	Outsource	7100.250X23 7100.250X33
Utilities	7500.25T15	Utilities	7100.250X24 7100.250X34
Operation lease (rent)	7500.25T16	Operation Lease	7100.250X25 7100.250X35
Gas Losses	7500.25T17	Gas Consumption	7100.250X26 7100.250X36
Depreciation	7500.25T18	Depreciation	7100.250X28 7100.250X38
Other	7500.25T19	Other	7100.250X29 7100.250X39 7100.250X9

GENERAL & ADMINISTRATIVE EXPENSES

Accounts of General & Administrative Expenses credits the corresponding cost account in General & Administration Expenses for Gas Regulated Activities (Account group 7400.2)

USoA breaks General & Administrative Expenses down to:

- Payroll
- 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	7500.2AT21	Payroll Cost	7400.2A11
Supply, Communication & Utilities	7500.2AT22	Office Supply Communication Utilities	7400.2A13 7400.2A14 7400.2A15
Business Trips, Trainings, Rep. Expenses	7500.2AT23	Trainings Business Trips Represent. Exp.	7400.2A23 7400.2A25 7400.2A17
Depreciation, Repair, and Rent	7500.2AT24	Operating Lease Repair Depreciation	7400.2A12 7400.2A16 7400.2A18
Insurance, Consulting & Audit	7500.2AT25	Insurance Consulting & Audit	7400.2A21 7400.2A22
Bank Charges	7500.2AT26	Bank Charges	7400.2A24
Other Taxes & Duties, Penalties & Charges	7500.2AT27	Other Taxes & Duties Penalties & Charges	7400.2A27 7400.2A28
Bad Debt	7500.2AT28	Bad Debt	7400.2526
Other	7500.2AT29	Other	7400.2A19 7400.2A29

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 Gas Market Regulator.

In case when stated method of allocation is not determined by the Gas Market Regulator, Company shall apply own judgment, get approval from the Gas Market Regulator, and declare it in the Accounting Policy.

3.5 DISCLOSURE

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

A Regulated Gas Market Company shall disclose:

- (a) The accounting policies adopted for the recognition of regulated expenses, including the methods adopted for metering and billing if it is not set by the Regulator;
- (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.

USAID Energy Program

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