

Prishtina, 21.06.2007

In accordance to the competences given in the Law on Energy Regulator, Energy Regulatory Office issues following:

## **Temporary Instruction I\_04\_2007 on Regulatory Reporting of District Heating Enterprises**

### **Chapter 1**

#### **General Provisions**

##### Article 1

##### Scope and Purpose

- 1.1 This Instruction is issued by Energy Regulatory Office (ERO) in order to establish a mechanism for the collection by ERO from district heating enterprises of financial, technical, and customer information for regulatory purposes, most importantly for defining allowed revenues recovered from regulated tariffs charged by licensees.
- 1.2 Article 13 of the Law on Energy Regulator provides for ERO the right to require from any energy enterprise or public authority information, data and documents, including confidential information, necessary for the fulfilment of its functions duties and powers.
- 1.3 This power is enforced through license conditions and, specifically, the requirement on licensees to prepare and maintain separate accounts, as well as other technical and customer data for separate businesses.
- 1.4 The district heating enterprises, on yearly basis, shall perform regulatory reporting in accordance with this Instruction issued by ERO; it is mandatory request that besides statutory financial statements and the regulatory financial statements should be audited by an independent external auditor.
- 1.5 The Instruction on regulatory reporting shall:
  - a) set out the process for completing and submitting of regulatory reporting by district heating enterprises;
  - b) detail the information that should be contained in the regulatory reporting;
  - c) explanation and guidance for licensees on how to prepare and complete their regulatory reporting, particularly the principles that should govern allocation of revenues, costs, assets and liabilities.

- 1.6 The instruction on regulatory reporting shall specify:
- a) The form of statements containing regulatory reporting, including but not limited to, profit and loss (income) statement, balance sheet, cash flow statement, and the statements of revenues and costs, assets, billing and payment collection, and investment expenditures as well as technical statement;
  - b) The nature and content of the regulatory statements, including information on specified types of revenue, cost, asset or liability and information on the revenues, costs, assets and liabilities attributable to specified activities as well as specific technical and customers information;
  - c) The accounting principles (including the basis for allocation of costs), and the details for formulation of required technical information.
- 1.7 The information provided to ERO in accordance with this Instruction will be used for the following purposes:
- a) to ensure correct allocation of the revenues, costs and assets between regulated and non-regulated activities;
  - b) to enable ERO in determining the allowed revenues for licensees and the review by ERO of regulated tariffs proposed by licensees;
  - c) to measure actual financial and technical performance of the energy enterprise against forecast;
  - d) such other purposes as may be required for the fulfilment of ERO's functions, duties and powers.

## **Chapter 2**

### **District Heating Regulatory Reporting Procedures and Content of Financial and Technical Data**

#### Article 2

##### Obligation for Submission of Regulatory Reporting

- 2.1 District heating enterprises are obliged to prepare and submit regulatory reporting in accordance with this Instruction; this obligation particularly is imposed to:
- a) district heating enterprises who are required to propose regulated tariffs to ERO for approval, and
  - b) district heating enterprises who, irrespective of whether the tariffs charged are regulated or unregulated, hold a dominant position in one or more energy activities in the respective territories that cover.

#### Article 3

##### Timing and Form of Submission

- 3.1 Regulatory statements shall, unless notified otherwise by ERO, be prepared for the period of 15 October 2006 until 14 April 2007, which includes the entire heating season 2006 / 2007.

- 3.2 Regulatory reporting shall be submitted within deadlines stated in the Implementation Plan & Timetable – Price Review of District Heating Enterprises (by 29 June); the submission shall be in electronic form and a hard copy signed by an authorized person of the district heating enterprise and by the auditors in accordance with Article 1.4. Pro-forma regulatory statements in electronic form are available from ERO official website [www.ero-ks.org](http://www.ero-ks.org).
- 3.3 Statements containing regulatory reporting shall be prepared in accordance with Kosovo Accounting Standards, Regulation 2001/30 on the Regime of Financial Reporting of Businesses and with this Instruction.
- 3.4 Information presented in regulatory reporting shall be understandable, reliable and relevant; when applicable, statements shall be supported by breakdown of certain items and / or by accompanying documentation as to justify and clarify stated information.
- 3.5 In case where submitted regulatory reporting and accompanying documentation are not in compliance with provision of this Instruction and / or incomplete, ERO shall reject and return for completion and re-submission. The period for resubmission shall be not less than 7 calendar days from the date ERO has send written notification in a form of comments.

#### Article 4

##### Verification and Auditing

- 4.1 ERO shall have the right to verify, on its own initiative, information provided in regulatory reporting, by accessing the District Heating Enterprises' accounts and other technical and customer records.
- 4.2 District Heating Enterprises are obliged to disclose any information requested by ERO staff or representative, including confidential financial information.
- 4.3 The information provided in regulatory reporting must be adequately audited by an independent external auditor accepted / approved by ERO. District heating Enterprise is responsible to obtain such approval prior to preparation and submission of regulatory reporting.

#### Article 5

##### Disaggregating Activities

In performing regulatory reporting District Heating Enterprises are required to disaggregate information and data for the activities of Heat Production (Generation), and Distribution and Supply of heat, as applicable.

#### Article 6

##### Content of Regulatory Reporting

Regulatory reporting submitted by District Heating Enterprises shall consist of statutory financial statements, and regulatory statements; detail description of which is given below:

- 6.1 Statutory financial statement are the financial statements prepared and submitted in accordance with Kosovo legislation; statutory financial statements including annexes with

detail breakdown of main items, and the accompanying independent auditor's report, for the past calendar year, are listed below:

- a) Balance Sheet,
- b) Profit & Loss (Income) Statement,
- c) Cash Flow Statement,
- d) Independent Auditor's Report, and
- e) Annexes with breakdown of main items consisting statutory financial statements.

6.2 Regulatory statements, which shall be completed in accordance with this Instruction and using the pro-forma regulatory statements in Annex 1, are listed below:

- a) Statement of Operating Assets,
- b) Statement of Cost and Revenues,
- c) Statement of Billing and Cash collection,
- d) Statement of Investment Expenditures,
- e) Technical Statement, and
- f) Support Statements.

### **Chapter 3**

#### **Guidelines for Completion of Regulatory Statements**

##### Article 7

Guidelines for completion of Regulatory Statements set forth the methods for data recording and preparation of the statements sought by the Energy Regulatory Office from the District Heating Enterprises. The District Heating Enterprises while preparing regulatory statements must follow these guidelines.

##### Article 8

Regulatory statements are prepared for the following district heating activities divided in groups:

- a) G1 - Generation of heat,
- b) G2 – Distribution and supply of heat.

##### Article 9

Regulatory Statements are structured into the following categories:

- a) Operating Assets Statement – A-G1,G2;
- b) Cost and Revenue Statement – B-G1,G2;
- c) Billing and Cash Collection Statement – C-G2;
- d) Investment Expenditures Statement – D-G1,G2;
- e) Technical Statement – E-G1,G2; and
- f) Support Statements.

## Article 10

### Guidelines for Completion of Operating Assets Statement – Statement A-G1, G2

- 10.1 The Operating Assets Statement are understood to comprise assets used to perform a given district heating activity - fixed assets and intangible assets (patents etc), and are divided in the following categories:
- a) Directly Assignable Assets – which directly participate in the implementation of particular district heating activity (G1 or G2), and can be unambiguously assigned as the assets of certain district heating activity,
  - b) Supporting Assets – assets which serve to perform more than one activity, and which cannot be unambiguously assigned to one district heating activity, and
  - c) Common Assets – the assets which serves to perform district heating activities (groups G1 and G2), and other activities not related to district heating.
- 10.2 Operating assets do not include:
- a) Intangible investment projects in process,
  - b) Advances paid towards intangible long-term assets,
  - c) Tangible investment projects in process,
  - d) Advances paid towards tangible long-term assets
  - e) Adjustment to property acquisitions,
  - f) Financial investment, and
  - g) The value of items purchased on financial lease, which is not kept in the bookkeeping records.
- 10.3 Operating assets are stated using the following values:
- a) Acquisition price at historical cost,
  - b) Accumulated depreciation,
  - c) Book value, and
  - d) Replacement cost at market value.
- 10.4 Detailed explanation for completion of the Operating Assets Statement
- a) Directly Assignable Assets
    - a.1) Generation of heat
      - Delimitation:
        - Beginning: systems used for reception of fuel,
        - End: the point of delivery of the heating water to the heat distribution network.
      - Main items to be included:
        - Heating-plant boilers (heavy fuel oil and light fuel oil boilers),
        - Stack,
        - Plant heat exchangers,
        - Circulation pumps in the heat plant,
        - Fuel handling systems,
        - Water management systems, including chemical water treatment,
        - Environmental systems for boilers,

- Systems for electricity generation for own consumption by the heat plant (e.g. power generators).

a.2) Distribution and supply of heat

- Delimitation:
  - Beginning: the point of passage of the heating water from heat plant into the heat distribution system,
  - End: the point of passage of the heating water into the customer system or the metering point.
- Main items to be included:
  - Heating water branching pipelines of primary distribution network,
  - Heat supply mains (main pipelines in the primary network),
  - Transfer stations - Substations,
  - Metering and control systems,
  - Other sites, facilities and equipment related to distribution network.

b) Supporting Assets

Supporting assets are the property used for generation, and distribution and supply of heat.

- Main items to be included under the supporting property:
  - Buildings and engineering structures (such as the generating units),
  - Software,
  - Hardware,
  - Geographic information systems,
  - Equipment, inventory,
  - Studies, projects, advisory and consulting services.

c) Common Assets

Common assets comprised of the property that is used for performing district heating related activities and for performing other activities non-related to district heating.

- Main items to be included:
  - Land,
  - Common office buildings,
  - Garages,
  - Company information systems,
  - Other property items.

## Article 11

### Guidelines for Completion of Cost and Revenue Statement – Statement B-G1,G2

- 11.1 Cost and Revenue Statement is comprised of allowable revenues and costs that are structured by the revenue and cost item, and by the type of the district heating activities (groups G1, G2).
- 11.2 Allowable costs are understood as costs necessary to carry out district heating activity and do include:

- a) Cost of the primary energy sources (fuels),
- b) Cost of the energy consumed (electricity, water),
- c) Personnel costs - Wages plus pension contribution and other taxes payable by the company,
- d) Cost of system repairs and maintenance,
- e) Fixed assets book depreciation,
- f) Interest on loans taken, and bank fees and charges,
- g) Other costs which are directly related to the district heating activity, such as purchase of sundry external services from external contractors etc., and
- h) Justified financial and extraordinary costs.

11.3 Allowable costs do not include:

- a) Subsidies,
- b) Costs rejected by tax authorities,
- c) Lease margins,
- d) Costs of setting aside and releasing reserves,
- e) Lease payments for the value of items which are not kept in the bookkeeping record, and
- f) Other financial and extraordinary costs.

11.4 Basic cost structure is comprised of:

- a) Operational costs
  - Variable part
  - Fixed part
- b) Depreciation of the fixed assets

11.5 Cost division by the level participation in carrying out the specific district heating activity:

- a) Directly Assignable costs – which are directly incurred for performing particular district heating activity (G1 or G2), and can be unambiguously assigned as the costs of certain DH activity,
- b) Supporting Costs – which incurred for performing more than one district heating activity, and are related to direct management of the main activities of heat generation, and distribution and supply of heat; these costs cannot be unambiguously assigned to a particular district heating activity, and
- c) Common Costs – these costs represent the common costs related to the business administration and management of the company as a whole; costs incurred for performing district heating activities and non-district heating activities.

11.6 Allowable revenues include: sales for the given district heating activity e.g. sales of heat and rendered services, and other revenues resulting from a given activity.

11.7 Allowable revenues do not include revenues from non-district heating activities, revenues from the sale of long-term tangible and intangible assets and inventory, and the revenues from the leases of property.

## Article 12

In the Billing and Cash Collection Statement – Statement C-G2 are stated billing and cash collection data for the heat supplied to customers for the respective heating season.

## Article 13

### Guidelines for Completion of Investment Expenditures Statement – Statement D-G1,G2

- 13.1 In this statement are entered actual and planned investment expenditures of district heating enterprise for actual year and four (4) forthcoming years.
- 13.2 The statement consists of the investment directly assignable to the district heating activity – generation, and distribution and supply of heat.
- 13.3 The statement also contain, under the item “other” the investment expenditures pertaining to the supporting and common property, and to non-district heating activities; Detail breakdown of this item should be given as supplementary information of the statement.
- 14.4 Investment expenditures contain, among other things, expenses for advance payments and/or for construction in process. On the other hand expenses for financial investments are not included.

## Article 15

### Guideline for Completion of Technical Statement – Statement E-G1,G2

- 15.1 This statement contains the following parts: General Technical Data; Energy (Heat Production) Balance; Heat (Supply) Balance; Customer Data; and Fuel(s) Consumption.
- 15.2 General Technical Data consist of the following:
  - a) Heat capacity installed – it means the total heat capacity installed in the heating plant despite of present technical condition,
  - b) Heat capacity available – the total heat capacity in the working conditions (ready for operation),
  - c) Length of distribution network – the length of the primary network (pipeline),
  - d) Number of substations – total number of the substations installed in the district heating / distribution system, and
  - e) Number of active substations – total number of the substations through which the actually customers are supplied.
- 15.3 Energy (Heat Production) Balance consists of the following:
  - a) Energy input in fuel – understood the total fuel energy in MWh used for generation of heat,
  - b) Gross heat production – the total heat produced by the generation unit(s).
  - c) Net heat production – the amount of heat delivered to distribution network, measured at the split up point between heat production and distribution network,
  - d) Self consumption – the amount of heat used for own consumption in the heating plant such as heat used for auxiliary systems, space heating of premises etc.,
  - e) Total heat plant efficiency – as the ratio between net heat production and fuel input;  
**Formula: Heat plant efficiency = (Net heat production / Fuel input) \* 100,**
  - f) Water consumption – total amount of raw water used for preparation of make up water (treated water for (re)filling the system), and

- g) Electricity consumption – electricity consumed in heat generation plant and distribution network such as electricity to preheat the fuel oil, electricity for running boilers, electricity for running main circulation pumps for primary network, etc.

15.4 Heat Supply Balance consists of the following:

- a) Heat input to distribution network – the amount of heat measured at the split up point between heat production and distribution network; it corresponds with net heat production,
- b) Heat supply to customers – the amount of heat delivered to customer substation measured at metering point, split up point between the primary and secondary network,
- c) Distribution losses [MWh]– as the difference between heat input to the distribution network and the heat supply to customers; **Formula: Distribution losses = Heat input – Heat supply**, and
- d) Distribution Losses [%] – **Formula: Distribution Losses = [(Heat Input – Heat Supply) / Heat Input] \* 100.**

15.5 Customer Data consist of the following:

- a) Contracted heat capacity – sum of agreed capacity for every customer substation (defined as maximum load demand for designed out-door temperature),
- b) Total heated area – total heated area actually supplied with heat for every customer group (at present: household, and commercial & institutional),
- c) Specific heat capacity demand – estimated heat capacity demand per square meter (defined as maximum load demand per square meter for designed out-door temperature) for every customer group (at present: household, and commercial & institutional),
- d) Nominal Full load hours – calculated as the ratio between annual heat supplied to customers and contracted heat capacity for every customer group, and
- e) Heat demand – calculated heat demand for every customer group; **Formula: Heat demand = (Specific heat capacity demand \* Total heating area \* Nominal full load hours) / 10<sup>6</sup>.**

15.6 Fuel(s) Consumption consists of the following:

- a) Amount of fuel consumed (in tons),
- b) Lower Heating Value – the amount of useful heat obtained by firing one ton of fuel, and
- c) Energy in Fuel – **Formula: Energy in Fuel = Amount of Fuel \* Lower Heating Value.**

## Article 16

Support Statements shall include:

- a) Daily and monthly heat production reports,
- b) Monthly reports on records and analysis of measured heat supply in substations,
- c) Updated customer database, and
- d) Any other attached document needed to support and clarify presented regulatory statements.

Article 17

Official Language of the Instruction

This Instruction is issued in Albanian, Serbian and English language. In the case of any dispute, the Albanian version shall prevail.

Article 18

Entry into Force

This Instruction shall enter into force on the date of adoption by the Board of ERO and the date of publication on the web site of ERO.

Board of ERO

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Dr. Ali Hamiti, Chairman,

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Mr. Theranda Beqiri, member

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Dr. Nysret Avdiu, member

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Naim Bejtullahu, member