

**Regulatory Reporting and
Accounting Systems
Workshop:
South East Europe**

17 – 18 May 2007

Sofia

Energy Regulatory Office - Kosovo

Data

(With the regulator comments, please indicate the types of data, within the categories offered below, that you feel will be useful to the regulator; please also note any areas that may be problematic)

- The applicable law or other legislation that set forth provisions regarding regulatory accounting. Please note any and all legislation that may apply.
- What data is needed for obtaining and monitoring licensees.
- Internal controls at the licensees
- Financial Data - Financial and regulatory accounting statements. The financial statement provides information about the general financial status of the company, and the regulatory statements apply only to regulated activities.
- Bill collection data
- Asset data
- Organization of the utility
- Employment (i.e., numbers of staff, or type of positions, length of positions, expense level)
- Expenses of the licensees
- Calculation of the cost of capital

Data Collection & Analysis

On the following slides, please indicate the status of the rules and procedures that regulate licensing, license monitoring and tariff development.

- Primary Legislation for the Regulated Sector (s)

Ero was established on 30-th June 2004 by assembly, based on Law on energy regulator, Law on energy and law on electricity

Primary legislation has been promulgated.

- Secondary Legislation:

- Ordinances/Procedures: License and Tariff

Procedure for licence and tariff were promulgated also we have established tariff methodology Market Rules

Interim Market Rules are in effect. Full Market Rules are being developed

- Business Plans/Investment Plans (note that different regulators may use different terminology – generally, investment plans are a subset of business plans, but some regulators may only require investment plans)

Some progress on developing business / investment plans has been made, but these lack detail, are not regularly updated and need to be assessed for consistency with Government budgetary plans and ongoing investments

- Reporting Forms and Procedures

Regulatory accounting and licence compliance reporting forms are in place

- Regulatory Accounting Manual

Templates have been developed but no accompanying manual exists as yet

- Financial Accounting Manual

No manual exists as yet

Legislation

General categories of legislation that may be the basis for national accounting standards	Identification by the regulator of the specific relevant legislation (name, date and brief description/comment)
<ul style="list-style-type: none"> ■ International Accounting Standards - Our Country ■ Accountancy Act We have 	<ul style="list-style-type: none"> ■ Accounting Standarts in our country are conform intr. St.
<ul style="list-style-type: none"> ■ Commercial Act 	<ul style="list-style-type: none"> ■ Regulation No. 2001/30 on the establishment of the Kosovo Board on Standards for Financial Reporting and a Regime for Financial Reporting of business organizations
<ul style="list-style-type: none"> ■ Energy Law 	<ul style="list-style-type: none"> ■ Commercial Regulations of Kosova
<ul style="list-style-type: none"> ■ Accounting polices 	<ul style="list-style-type: none"> ■ Law No. 2004/8 on Energy
<ul style="list-style-type: none"> ■ Tax Legislation We have 	<ul style="list-style-type: none"> ■ Law No. 2004/9 on Electricity
<ul style="list-style-type: none"> ■ Contracts ■ Other 	<ul style="list-style-type: none"> ■ Law No. 2004/10 on Energy Regulator ■ Law No. 2004/48 on Tax Administration and Procedures

Regulatory Accounting Policies

General description of accounting policies that the regulator may have developed	Identification by the regulator of the specific accounting policies applicable in its jurisdiction (description/comment)
Depreciation schedules for types of assets, For depreciation of assets we use	<ul style="list-style-type: none">■ <i>Straight-line depreciation using lives consistent with Kosovar FRS. For pre-2006 assets (donor-funded), no depreciation allowance is included but provision is made for replacement investment</i>
<ul style="list-style-type: none">■ Revaluation of assets,■ Working capital allowance,	<ul style="list-style-type: none">■ <i>Revaluation requires approval by ERO</i>■ <i>Working capital allowances may not include provision for bad debts</i>
<ul style="list-style-type: none">■ Used and useful test,	<ul style="list-style-type: none">■ <i>General principle is that approved investment allowance is established upfront, with 'clawback'</i>
<ul style="list-style-type: none">■ Work-in-progress,	<ul style="list-style-type: none">■ <i>Included into RAB</i>
<ul style="list-style-type: none">■ Intangible asset recognition	<ul style="list-style-type: none">■ <i>No specific policy</i>

Utility Policies and Procedures

Data Description

Please provide a copy of the energy companies accounting policies and procedures.

For accounting policies and procedure

Regulator Comments

New accounting policies are under development. Existing policies are inconsistent with Kosovar FRS

Reporting Forms

Data Description

Please provide the existing licensee reporting forms templates and the most recent reports from the licensees.

Note also whether the regulator requests general information such as:

- Company address and contact information
- Board of Directors – names and contact information
- Locations of company offices & service centers
- Organization chart with number of employees in each department
- Energy Balance
- Description of facilities used to provide regulated services
- System map

Regulator Comments

- ***Copies of the Compliance Manual containing these forms are available from ERO's website (www.ero-ks.org).***
- ***Reports are submitted on a monthly basis. They have not been attached as they are only available in Albanian.***
- ***ERO requires all the general information identified such us..***
- ***Copies of regulatory accounting templates are attached. These only come into effect from 2007 and are submitted annually. No reports are, therefore, available as yet.***

Reporting Forms

Data Description

For annual reports ..., note whether the regulator requests detailed information such as:

- Monthly Purchase Power
- Fixed and Current Assets
- Utility Assessment Service
- Utility Assets held for future use
- Inventories (materials & supplies)
- Capital Structure and Liabilities
- Operating Expenses by Month
- Revenues, Energy Sales and Number of Customers
- Meters and number of Customers by Classification, non-metered customers
- Number of New Connections

Regulator Comments

- ***ERO requires the identified financial information at aggregate level (eg, breakdowns of inventories are not provided)***
- ***Data on energy purchases, sales and customer is provided in disaggregated format***

Chart of Accounts

Data Description

Regulator Comments

Please provide a copy of the accounting chart of accounts used by the energy companies.

Include:

- All synthetic and analytical accounts numbers and their descriptions.
- Allocation approach and methodologies
- Consumer groups/levels, if applicable

■ *The existing chart of accounts for KEK (the mining, generating, distribution and supply company) and KOSTT (the transmission company and system operator) is attached. (doc. 1)*

■ *At present, KEK allocates costs and revenues between its individual divisions and a separate HQ function. No allocation methodology for common and joint costs between divisions has been developed. The most recent price review used staff numbers in each division as a proxy for cost allocation purposes.*

■ *Similarly, no allocation method between customer groups is in place within KEK. The most recent price review allocated costs, as appropriate, in proportion to the share of coincident peak demand at each voltage level / share of 'grossed up' energy / share of total customer numbers for each group.*

Business Plans

Data Description

Regulator Comments

Please provide a copy of the most recently developed business plan(s) for the energy companies.

Please note whether the regulator provides a template for the utilities to fill out?

- *No template for business plans has yet been developed.*
- *KEK has not updated its business plan since early-2005 and this plan, in turn, was largely based on a 2001 TA study. The plan is also not co-ordinated with Government planning and with information on available allocations from donor funds and the state budget. This was a major weakness at the most recent price review.*
- *KOSTT has a more up-to-date business plan as a result of its recent separation from KEK.*

Financial Statements

Data Description

Please provide **A... copy of the 2006 income statement, balance sheet, and cash flow statement for the energy companies.**

Regulator Comments

These are attached. (doc 2 a), b), c)

Licensing Data Requirements

Data Description

Regulator Comments

Please provide a copy of the licensing regulations and licenses for the energy companies.

Ero has lajsens 20 Companies ,two of them are refused and two of them are in proces of being lincensed (lajsensed

A list of licensees is attached. (doc 3) The licensing regulations and licences can be downloaded from ERO's website (www.ero-ks.org).

License Monitoring Data

Data Description

Please provide any rules/procedures or other information related to license monitoring activities.

ERO has Reporting Manual...

Please provide a copy of any license monitoring reports for the last two years.

Regulator Comments

- ***Copies of the Compliance Manual containing these forms are available from ERO's website (www.ero-ks.org).***
- ***Reports are submitted on a monthly basis. They have not been attached as they are only available in Albanian.***

Tariff Regulation

Data Description

Regulator Comments

Please provide a copy of:

- The existing tariff regulations,
- Background information and data used for determining revenue requirements for the latest energy tariffs,
- Existing tariff structure,
- Tariff levels,
- Decision by the regulator on the existing tariffs.

Please note the basis for tariff calculations – e.g., historical accounting information, projected costs in a future rate year, a combination of both or another calculation?

- *A copy of the existing tariffs is attached. (doc 4). Copies of ERO's decisions with respect to the determination of allowed revenues and approval of new tariffs are available from ERO's website (www.ero-ks.org). The recently approved tariffs are currently the subject of reconsideration following the submission of new information by KEK with respect to its inability to undertake the approved investment programme.*
- *The decisions on allowed revenues were supported by analysis undertaken by consultants to ERO (under World Bank funding). Copies of their reports are attached. (doc 4 a)*
- *Allowed revenues (and tariffs) are based on projected costs for the coming year (for mining, generation, system operation and supply activities) and for the coming three-year period (for transmission and distribution networks*

Cost Allocations

Data Description

Regulator Comments

Please provide:

- A list of all services/activities provided on a regulated basis,
- A list of all non-regulated activities,
- Details of the process for not including non-regulated activities within regulated energy rates,
- Process used for allocation of functional costs for tariff purposes (generation, transmission, etc.)

- *Regulated activities are defined in the Law on Electricity and the Law on the Energy Regulator:*
 - *The sale of electricity by public generators to the public supplier.*
 - *The sale of electricity by the public supplier to non-eligible customers.*
 - *The transport of electricity by the transmission and distribution networks and through interconnectors, including the provision of the necessary assets for this purpose and the operation of these networks.*
 - *The connection of customers, whether eligible or non-eligible, to the transmission or distribution network, as applicable.*
- *All other activities are considered non-regulated.*
- *ERO has powers to exempt activities from regulation where effective competition exists.*
- *Eligible customers are defined by the Ministry of Energy and Mining. There is currently one eligible customer.*
- *Required revenues collected from tariffs are allocated between eligible and non-eligible customers on the basis of their forecast share of system coincident peak demand and forecast purchases of energy entering the transmission*

Future Tariff Data Requirements

Data Description

Regulator Comments

Please provide any proposed tariff reform proposals for the energy companies.

***ERO in his tariff reform has made some proposals for energy Companies which are.....**

Please include:

- Performance indicators for improvements in operational efficiency, and improvements in service quality, energy quality and reliability
- Price cap or revenue cap proposals including data requirements
- Benchmarking data
- Rate design including changes in rate determinants and the further separation of services into individual rates rather than bundled tariffs.

■ *Targets for reductions in losses are already established. Transmission and distribution network companies are regulated under three-year revenue / price-caps respectively.*

■ *ERO intends to move towards the application of benchmarking and establishment of efficiency targets prior to the next price review.*

■ *At present, service quality is extremely poor due to aging infrastructure which needs major investments and inadequate funds to purchase imported supplies. Until these problems are addressed, it is not realistic to establish targets for quality to be met by licensees.*

■ *ERO has already introduced unbundled transmission charges and provisional unbundling of other charges. These will be further developed and mechanisms to increase customer awareness of individual charges introduced.*

Future Reporting Requirements

Data Description

Regulator Comments

Please provide any proposed revisions to the licensing conditions including reporting requirements by the licensees.

Before Revisions can be considered we need.....

Please note the type of information that the regulator will require of the utilities to provide, for example, once the networks are unbundled or as a result of unbundling?

More experience with the operation of the existing compliance monitoring reports and regulatory accounting reports is required before revisions can be considered.

External Auditor Reports

Data Description

Regulator Comments

Please provide a copy of the latest external auditors' reports for the utilities.

The latest reports by the external auditors are attached. (doc 5 a), b), and c)) & (doc 6).

Are there any follow-up documents developed by the licensees to cure/resolve any findings by the external auditors?

No follow-up documents are currently developed.

Utility Internal Control Procedures

Data Description

Please provide a copy of the internal controls procedures for the energy companies.

For the internal Controls Companies are

Please provide a copy of the most recent internal audit reports, if available.

Please identify any issues identified within the most recent internal audits and any documents concerning their resolution.

Regulator Comments

The companies are not required to make copies of internal audit reports available to ERO.

Accounting Organizations

Data Description

Regulator Comments

Please describe the organization of accounting staff within the utilities –

- staffing level
- qualifications
- re-education practices
- recent training

Please describe the staff that handles accounting issues within the regulator

- staffing level
- qualifications
- re-education practices
- recent training

■ *Within KEK, the Finance Department consists of 8 staff members. No detailed information on qualifications or training practices is available.*

■ *Within KOSTT, the Finance Department consists of three staff members.*

■ *Within ERO, accounting issues are the responsibility of the Department of Price and Tariffs. The Department has four staff at full complement, but none are specifically tasked with handling accounting issues. Instead, these are addressed as part of more general responsibilities for tariff regulation. All staff members hold degrees or more advanced qualification, but not in accounting or finance. Basic training in accounting and budgeting has been provided and training for achievement of a Certified Accounting qualification is underway.*

Software

Data Description

Regulator Comments

Please describe the accounting software, used by the licensees

■ ***Both KEK and KOSTT use CAS software for accounting purposes and CCP - Comtel for billing purposes.***

What software, if any, is used by the energy regulator to analyze the financial reports from the licensees?

■ ***ERO has no specific accounting software in place at present. Reports are submitted in Excel and analysis by ERO uses Excel.***