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Energy Regulatory Office of Kosovo

Regulatory Accounting Guidelines

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1 General provisions

1.1 Scope and purpose

1.1.1 These Regulatory Accounting Guidelines are issued by the Energy Regulatory Office (ERO) in order to establish a mechanism for the collection by ERO from licensees of financial and other information required for regulatory purposes, most importantly for defining the allowed revenues recovered from regulated tariffs charged by licensees.

1.1.2 Article 13 of the Law on the Energy Regulator provides for ERO to have:

the right to require from any energy enterprise or public authority information, data and documents, including confidential information, necessary for the fulfillment of its functions, duties and powers.

1.1.3 This power is enforced through licence conditions and, specifically, the requirements on licensees to prepare and maintain separate accounts for separate businesses as follows:

2. The Licensee shall prepare annual accounts in accordance with Regulatory Accounting Guidelines issued by ERO and shall deliver to ERO a copy of the annual audited accounts so prepared as soon as reasonably practicable, and in any event no later than three months after the end of the period to which the accounts relate.

3. Without prejudice to paragraph 2, the Licensee shall, in its internal accounting, keep or cause to be kept accounts for the [Licensee's] business as a whole which when requested from time to time by ERO, must be delivered to ERO in the form and at the times specified by ERO. The accounts shall be in accordance with such Regulatory Accounting Guidelines as may be issued by ERO from time to time.

4. The regulatory accounting guidelines or directions notified by ERO to the Licensee under paragraph 2 may, inter alia:

(a) specify the form of the accounting statements/records, including but not limited to, profit and loss accounts, balance sheets, recognised gains and losses statements, cash flow statements and statements of the amounts of any revenues, costs, assets, liabilities, reserves or provisions which have been either charged from or to any other business or determined by allocation or apportionment between the consolidated [Licensee's] business and any other business.

(b) specify the nature and content of the accounting statements/records, including information on specified types of revenue, cost, asset or liability and information on the revenues, costs, assets and liabilities attributable to specified activities.

(c) specify the accounting principles (including the basis for the allocation of costs and regulatory depreciation)..

1.1.4 These **guidelines**:

- set out the process for completing and submitting **regulatory accounts** by licensees in accordance with these **guidelines**;
- detail the information that should be contained in **regulatory accounts**;
- explain how licensees should prepare their **regulatory accounts** and, in particular, the principles that should govern the allocation of revenues, costs, assets and liabilities between businesses, activities and functions of licensees.

1.1.5 The information provided to ERO in accordance with this requirement and these RAGs will be used for the following purposes:

- to ensure the correct allocation of revenues, costs and assets between regulated and non-regulated activities;
- to define and exclude non-controllable costs
- to give relevant information to ERO for the determination of allowed revenues for licensees and the review by ERO of regulated tariffs proposed by licensees;
- to measure actual financial performance of energy enterprises against forecast;
- to obtain and publish information on the financial performance of licensees; and
- such other purposes as may be required for the fulfillment of ERO's functions, duties and powers.

1.2 Amendments

1.2.1 ERO will amend these **guidelines** from time to time to meet changing needs. When making such amendments, ERO will provide appropriate opportunities for consultation with licensees and other interested parties including, in general:

- the publication of a notification of ERO's intent to amend these **guidelines**;
- inviting input, including in the form of written comments and consultations with licensees and other interested parties, and allowing a reasonable time period for the provision of these inputs;
- preparing and publishing for comments a draft of the proposed amendments, taking into account inputs received; and
- taking into account comments received in finalizing the amendments.

1.3 Definitions and interpretations

1.3.1 The following terms used in these **guidelines** shall have the following meanings:

- “**auditor’s regulatory report**” means the report prepared in accordance with sub-section 2.3.3 of these guidelines;
- “**excluded activities**” has the meaning set out in subsection 4.2.3 of these guidelines;
- “**guidelines**” means these Regulatory Accounting Guidelines;
- “**load-related operational assets**” has the meaning set out in subsection 4.4.4 of these guidelines;
- “**major capital expenditure projects**” has the meaning set out in subsection 4.6.1 of these guidelines;
- “**non load-related operational assets**” has the meaning set out in subsection 4.4.4 of these guidelines;
- “**non-operational assets**” has the meaning set out in subsection 4.4.3 of these guidelines;
- “**operational assets**” has the meaning set out in subsection 4.4.3 of these guidelines;
- “**pro-forma regulatory accounting statements**” are the templates contained in Appendix 4.11 of these guidelines;
- “**regulated activities**” has the meaning set out in subsection 4.2.2 of these guidelines;
- “**regulatory accounting principles and policies**” means the principles and policies set out in part 4 of these guidelines;
- “**regulatory accounts**” means the financial statements and accompanying documentation of the licensee prepared and submitted in accordance with subsection 2.2.5 of these guidelines;
- “**related party/ies**” has the meaning set out in subsection 4.10.1 of these guidelines;
- “**significant allocated item**” has the meaning set out in subsection 4.9.5 of these guidelines;
- “**significant related party transaction**” has the meaning set out in subsection 4.10.6 of these guidelines;
- “**statutory accounting principles and policies**” means the principles and policies applied in the preparation of statutory accounts; and

- “**statutory accounts**” means the financial accounts of the licensee prepared and submitted in accordance with Kosovan law¹;

1.3.2 The following terms used in these **guidelines** shall have the meanings specified in the Rule on Principles of Calculation of Tariffs in the Electricity Sector and Tariff Methodology for the Electricity Sector and decisions issued by ERO under this Rule and in accordance with this methodology:

- “inflation index”;
- “maximum allowed revenues”;
- “price control”;
- “price control period”; and
- “regulatory asset base”.

1.3.3 The other terms in these **guidelines** shall have the meanings specified in the Law on the Energy Regulator, in the Law on Energy or in the Law on Electricity.

¹ Existing Kosovan Accounting Standards are based on International Accounting Standards. Under UNMIK Regulation 2001/30, International Standards of Auditing are applied in Kosovo for statutory audits.

2 Preparation and submission of regulatory accounts

2.1 Obligation to submit regulatory accounts

2.1.1 Licensees are obliged to prepare and submit **regulatory accounts** in accordance with the applicable conditions of their licence and these **guidelines**.

2.1.2 Where ERO considers that a requirement on a licensee to submit **regulatory accounts** will

- impose unreasonable costs on the licensee concerned; or
- not significantly enhance ERO's ability to fulfil its functions and duties;

then ERO may, by notification, exempt the licensee concerned from this obligation for either a defined or indefinite period, as stated in the notification.

2.1.3 Notwithstanding the period contained in any notification issued in accordance with subsection 2.1.2, ERO may, at its own discretion, remove this exemption at any time by notification.

2.1.4 In general, licensees falling within the following categories will not be exempted from the obligation to submit regulated accounts:

- licensees who are required to propose regulated tariffs to ERO for approval; and
- licensees who, irrespective of whether the tariffs charged are regulated or unregulated, hold a dominant position in one or more energy activities.

2.2 Timing and form of submission

2.2.1 **Regulatory accounts** shall, unless notified otherwise by ERO, be prepared on a calendar year basis.

2.2.2 Where a licensee commences operations or otherwise becomes obliged to prepare **regulatory accounts** at a date other than 1 January, then the initial **regulatory accounts** shall cover the period from the date of obligation to 31 December of the same calendar year. Subsequent **regulatory accounts** shall run from 1 January to 31 December of each calendar year.

2.2.3 **Regulatory accounts** shall be submitted no later than [three] months after the completion of the calendar year to which they apply in electronic form and a hard copy signed by an authorized representative of the licensee and by the licensee's auditor, appointed in accordance with sub-section 2.3.2, below.

2.2.4 The **regulatory accounts** shall be prepared in accordance with the accounting principles and policies used to prepare the licensee's **statutory accounts** and the **regulatory accounting principles and policies** set out in these **guidelines**.

2.2.5 The **regulatory accounts** submitted shall include:

- completed **pro-forma regulatory accounting statements**, using the format contained in Appendix 4.11
- a statement of significant **regulatory accounting principles and policies** used to prepare the **regulatory accounts** that may be additional to or in place of the accounting principles and policies used to prepare the licensee's **statutory accounts** and the **regulatory accounting principles and policies** set out in these **guidelines**;
- a copy of the licensee's most recent **statutory accounts** and accompanying auditor's report; and
- an **auditor's regulatory report** on the **regulatory accounts**, as described in sub-section 2.3.3, below.

2.2.6 Information shall be presented in the **regulatory accounts** and accompanying material in the most understandable manner that can be achieved without sacrificing relevancy or reliability.

2.2.7 Where submitted **regulatory accounts** and accompanying material are incomplete, these will be rejected and returned to the licensee for completion and resubmission. ERO shall allow a reasonable period for completion, of not less than [20] days.

2.2.8 ERO may require the preparation and submission of **regulatory accounts** at such other times and covering such periods as it considers necessary to support the fulfillment of its functions, duties and powers. In doing so, ERO shall allow a reasonable period for the preparation of these accounts and shall not require that they be audited or accompanied by **statutory accounts** and an **auditor's regulatory report**.

2.3 Verification and auditing

2.3.1 A licensee must maintain accounting and reporting arrangements which:

- enable **regulatory accounts** to be prepared; and
- allow information in the **regulatory accounts** to be verified by reference to the **statutory accounts**.

2.3.2 The information provided in the **regulatory accounts** must be adequately and independently audited by an auditor acceptable to and approved by ERO. It will be the responsibility of the licensee to ensure that such approval is obtained prior to the preparation and submission of **regulatory accounts**.

2.3.3 The auditor must prepare an **auditor's regulatory report** to be submitted to ERO with the **regulatory accounts**, as provided in subsection 2.2.5. This report must give the auditor's opinion as to whether the **regulatory accounts** give a true and fair view of the costs, revenues, assets and liabilities of the licensee's **regulated activities** in accordance with the principles set out in these **guidelines** and, in particular, drawing the attention of ERO to:

- any deficiencies in the licensee's accounting records that may make the information contained in the **regulatory accounts** of uncertain reliability;
- any significant deviations applied in the preparation of the **regulatory accounts** from the **regulatory accounting principles and policies** set out in these Guidelines; and
- any other matter that may mean that the **regulatory accounts** do not give a true and fair view of the costs, revenues, assets and liabilities of the licensee's **regulated activities**.

2.3.4 The provision of the **auditor's regulatory report** does not remove the obligation of the licensees to responsible for the preparation and submission of **regulatory accounts**. It does not require the auditor rather than the licensee to assume liability in any form for any errors or omissions in the **regulatory accounts**, other than where such errors or omissions might reasonably have been expected to be identified in the course of an audit conducted to the same standards as for the audit of **statutory accounts**.

2.3.5 A template for the **auditor's regulatory report** is provided in Appendix A.1.

2.3.6 This **auditor's regulatory report** is in addition to any report or opinion required to be submitted with the **statutory accounts** of the licensee.

2.3.7 The licensee must make appropriate provision for ERO to require from the auditor further explanation or clarification of the **auditor's regulatory report** and further information on the matters covered by the **auditor's regulatory report**. Such requirements are subject to the requirement that they must not impose unreasonable obligations on the auditor.

2.4 Publication

2.4.1 The **regulatory accounts** of licensees shall be published by ERO on its official website, with the exception of:

- details of transactions between the licensee and **related parties**;
- details of the principles and calculations applied in the allocation of the licensee's costs, revenues, assets and liabilities between its activities;
- other material identified as being commercially confidential by the submitting licensee and accepted as such by ERO.



2.4.2 Licensees shall draw the attention of customers to the availability of published **regulatory accounts** in a manner appropriate to ensure this awareness.

3 Format of regulatory accounts

3.1.1 The **regulatory accounts** are intended to allow ERO to obtain financial information in a format suitable for, in particular:

- reviewing the conformity of revenues earned by licensees from **regulated activities** with any revenue control set by ERO and with any regulated tariffs approved by ERO;
- ensuring that the licensee is not inappropriately allocating costs, revenues, assets and liabilities between their **regulated activities** and **excluded activities** and within their regulated activities in a way that results in charges for **regulated activities** that are not cost-reflective or that introduce cross-subsidies between customer classes; and
- comparing, on a consistent basis, the costs to licensees of providing **regulated activities** with the costs of providing these activities in other years and the costs to other licensees of providing the same **regulated activities**.

3.1.2 The **regulatory accounts** are therefore required to present financial information in a format that allows:

- the costs, revenues, assets and liabilities of the licensee's **regulated activities** and **excluded activities** to be separately distinguished;
- any charges or transfer prices between the licensee's **regulated activities** and **excluded activities** or applied under transactions between the licensee and associated companies to be reviewed against the costs incurred in providing the services to which the charges or prices apply; and
- the allocation of costs, revenues, assets and liabilities between categories to be ascertained and the basis of this allocation to be identified.

3.1.3 The **regulatory accounts** are also required to provide a reconciliation to the **statutory accounts** of the licensee, showing the value of adjustments required for the **regulatory accounts** and **statutory accounts** to conform.

3.1.4 The format of the **pro-forma regulatory accounting statements** to be submitted by licensees as part of their **regulatory accounts** is provided in Appendix 4.11.

4 Regulatory accounting principles and policies

4.1 General principles

- 4.1.1 It is ERO's intention that licensees should be able to prepare **regulatory accounts** alongside the preparation of their **statutory accounts** at minimum additional cost.
- 4.1.2 Consistent with this, wherever possible, subject to the requirements of these **guidelines**, the **regulatory accounting principles and policies** applied by licensees shall conform to Kosovan Accounting Standards.
- 4.1.3 In preparing **regulatory accounts**, licensees shall report the substance of transactions, rather than the legal form, in the event that these differ. In determining the substance, the licensee shall consider the expectation of and motivation for a transaction. Individual transactions that achieve or are designed to achieve a common commercial effect shall be treated in aggregate.

4.2 Disaggregation of activities

- 4.2.1 In accordance with the purposes for which regulatory accounts are prepared, licensees are required to disaggregate revenues, costs and assets reported in their **regulatory accounts** between **regulated activities** and **excluded activities**.
- 4.2.2 **Regulated activities** are those provided as a public service under regulated tariffs, as defined in the Law on Electricity and the Law on the Energy Regulator. Subject to those laws, these activities are defined, for the purpose of these **regulatory accounts**, as:
- The sale of electricity by public generators (as defined under Article 8 of the Law on Electricity) 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.
 - The operation of the wholesale energy market.
- 4.2.3 All other activities are considered, unless otherwise notified by ERO, to be **excluded activities** for the purpose of these **regulatory accounts**.
- 4.2.4 Where revenues, costs, assets and liabilities cannot be exclusively attributed to either **regulated activities** or **excluded activities** then they should be allocated in accordance with the principles set out in section 4.9.

- 4.2.5 For operating costs, only, licensees are required to identify those costs which are directly associated with the licensed activity and those which represent a share of joint or common costs of **related parties** which are allocated to the licensee.

4.3 Valuation and revaluation of assets

- 4.3.1 ERO intends to determine maximum allowed revenues under each price control period in real terms, and to adjust these within the price control period by reference to an inflation index. In accordance with this, ERO will reestablish the regulatory asset base at the commencement of each price control period, taking account of inflation during the preceding price control period as well as allowed depreciation, additions and disposals during that period.
- 4.3.2 In accordance with this, for the purposes of the **regulatory accounts**, licensees shall reestablish the opening value of the regulatory asset base at the commencement of each price control period, using the regulatory asset base approved by ERO as the opening value for that period.
- 4.3.3 Within each price control period, licensees shall determine the opening regulatory asset base in each year as the closing regulatory asset base from the previous year, updated by an inflation adjustment using the index notified by ERO for this purpose. This inflation adjustment and the value of the index used shall be identified in the **regulatory accounts**.
- 4.3.4 Impairment charges included in the **regulatory accounts** may be allowed where the carrying value of an asset in the regulatory asset base significantly differs from its value in use. Licensees shall propose any impairment charges to ERO for its approval, prior to their inclusion in **regulatory accounts**.
- 4.3.5 Subject to these requirements, no revaluation of the regulatory asset base shall be undertaken by licensees without the permission of ERO or at the direction of ERO.

4.4 Disaggregation of assets

- 4.4.1 ERO intends, in determining maximum allowed revenues to be recovered by licensees and in approving regulated tariffs, to distinguish between assets purchased prior to 1 January 2006 (“pre-2006 assets”), for which no associated liabilities exist, and those purchased on or after 1 January 2006 (“post-2006 assets”). For this purpose, licensees are required to distinguish between these categories of assets in preparing their **regulatory accounts** with respect to the regulatory asset base, depreciation and disposals.
- 4.4.2 Licensees are also required to allocate maintenance expenditures between those associated with pre-2006 assets and post-2006 assets. This is to facilitate the possible adoption by ERO of an infrastructure renewals charge with respect to pre-2006 assets in place of a depreciation allowance. In making such allocations, licensees shall, where a more appropriate allocation is not possible, relate this to the undepreciated inflation-adjusted value of the assets concerned, as recorded for the purposes of the **statutory accounts**.

4.4.3 In order to assist ERO in monitoring the extent to which capital expenditures by licensees is justified, the **regulatory accounts** also require licensees to allocate capital expenditures, depreciation, additions and disposals of assets between:

- **Operational assets**, comprising those assets directly required for the provision of services by the licensee.
- **Non-operational assets**, comprising those assets supporting the provision of services by the licensee.

4.4.4 **Operational assets** are further categorized by purpose:

- **Load-related operational assets** are those associated with the connection of new demand or generation to the existing system.
- **Non load-related operational assets** are those associated with enhancing the reliability or quality of supply on the existing system, independent of whether new demand or generation is connected. These assets are further distinguished by their primary function, whether generation, network-related, system control and operation or other assets.

4.4.5 ERO may, at its discretion, not require this categorization to be initially applied where it considers that existing accounting records are unable to provide the necessary information.

4.4.6 **Non-operational assets** are distinguished by their primary type, whether IT, the provision of land and buildings for administrative purposes, vehicles or other

4.5 Grants and concessionary-financed assets

4.5.1 ERO intends to determine a cost of capital for licensees, under the assumption that new assets are financed on commercial terms. However, ERO also recognizes that a proportion of assets can be expected to be financed from grants or on concessionary terms with funds provided from the state budget and donors at much lower financing costs.

4.5.2 Without any adjustment, this difference will lead to licensees earning an excessive return relative to their actual cost of financing, for reasons which are outside the control of management. ERO will, therefore, where assets are financed from concessionary sources, adjust the regulatory asset base downwards so that the return earned is not excessive.

4.5.3 These adjustments will be reported in the **regulatory accounts**. ERO will notify licensees of the appropriate adjustment to be made in each instance.

4.6 Capital expenditures and additions

- 4.6.1 Licensees are required to provide a breakdown of **major capital expenditure projects**. These are defined as projects on which aggregate capital expenditure exceeds €[3,000,000] or [5]% of the regulatory asset base, whichever is greater.
- 4.6.2 Capital expenditures on **major capital expenditure projects** are accumulated over the period of construction at the actual cost incurred, and include capitalized interest during construction charged at the applicable weighted average cost of capital applied by ERO in determining maximum allowed revenues for the licensee or equivalent licensees. These capital expenditures are added to the regulatory asset base in the year in which the associated asset is commissioned.
- 4.6.3 Capital expenditures on other projects are added to the regulatory asset base in the year in which they are incurred.
- 4.6.4 Any third party revenue or contribution, such as customer contributions, shall be offset against the value of capital expenditures added to the regulatory asset base.
- 4.6.5 At subsequent price reviews or such other intervals as may be determined by ERO, ERO may require adjustments to the value of additions to the regulatory asset base to better align actual and allowed capital expenditures. Any increases or reductions in the value of the regulatory asset base resulting from such adjustments shall be treated as an impairment charge.

4.7 Capitalisation

- 4.7.1 Expenditures on existing assets should be capitalized where they appreciably extend the life, increase the earning capacity or improve the efficiency of the assets concerned.
- 4.7.2 In general, the following principles should be applied for capitalization purposes:
- All expenditures on the replacement or repair of overhead lines and underground cables should be capitalized.
 - All purchases of tools and equipment with a value greater than €3,000 should be capitalized.
 - All expenditures on wayleaves and easements should be capitalized as incurred.
- 4.7.3 Licensees may deviate from these principles, where they consider this will better conform with the general principles regarding capitalization as set out in subsection 4.7.1. In such cases, the deviation and justification for this must be identified in the statement of significant **regulatory accounting principles and policies** submitted by the licensee.

4.8 Depreciation

- 4.8.1 Licensees shall show the average asset age, weighted according to the share of each asset by value, applied in determining depreciation. The asset ages used shall be those approved by ERO for regulatory purposes.
- 4.8.2 If and where ERO has adopted an infrastructure renewals charge with respect to pre-2006 assets, the calculation of the weighted average asset age used for depreciation purposes shall exclude these assets, and shall related to post-2006 assets only.
- 4.8.3 Further principles relating to regulatory depreciation may be issued by ERO.

4.9 Cost, revenue, assets and liabilities allocation

- 4.9.1 Costs, revenues, assets and liabilities that cannot be directly attributed to a licensee or between the **regulated activities** and **excluded activities** of a licensee should be allocated in accordance with the principles contained in this section.
- 4.9.2 This includes joint or common costs associated with licensees forming part of an integrated entity, including but not limited to the costs of centrally-provided administrative, logistics and support services.
- 4.9.3 The allocation applied should conform with the following principles:
- Causality. The allocation base should be the share of or use made by the licensee of the activities which cause the costs or liabilities concerned to be incurred, the revenues to be earned or the assets to be acquired.
 - Objectivity. The basis of allocation should not unduly favour the licensee or any other company or organization.
 - Consistency. Where practicable, the basis of allocation should be consistent from year to year.
 - Transparency. The basis of allocation should be clear and understandable.
- 4.9.4 For non-**significant allocated items** or where the costs of allocating costs, revenues, assets or liabilities on the basis of causality are excessive relative to the value of the items concerned, allocation may take place on any other appropriate basis, with the exception of the use of avoidable cost methods.
- 4.9.5 For this purpose, a **significant allocated item** is defined as one with a value in excess of €[100,000] or of [0.5]% of the licensee's turnover in the year to which the **regulatory accounts** concerned relate, whichever is greater.
- 4.9.6 Where a licensee selects not to use causality as the basis for allocation for an item that is considered significant within the meaning of this section, they are required to record the item concerned, the basis of allocation used and the reasons for using this allocation. These records shall be made available to ERO on its request.

4.10 Related party transactions

- 4.10.1 For the purpose of these **regulatory accounts**, **related parties** are defined as:
- subsidiaries of the licensee;
 - ultimate and intermediate parent undertaking of the licensee, and their other subsidiaries;
 - associates and joint ventures in which the licensee participates and other investors or participations in these associations and joint ventures;
 - other entities which share key management individuals with the licensee;
 - other entities which are controlled by persons or entities which separately or together also control the licensee; and
 - entities which manage or are managed by the licensee under a management contract or similar arrangement.
- 4.10.2 For this purpose, an individual or entity is considered to have control of another entity where they exercise more than 20% of that entity's voting rights.
- 4.10.3 Where a licensee purchases goods or services from a **related party**, it is required to demonstrate that:
- the prices paid for these goods or services are reasonable;
 - no cross-subsidy exists between the licensee's regulated and excluded activities and the related party; and
 - the goods or services are provided at no extra cost than if they were provided from within the licensee's business.
- 4.10.4 At a minimum, this will require:
- the contract for the supply of goods or services to be awarded through a fair and non-discriminatory competitive tendering process in which three or more bids were received; or
 - the price paid for the supply of goods and services should be based on actual costs of supply plus and appropriate rate of return on the capital employed.
- 4.10.5 It will be the responsibility of the licensee to demonstrate that these requirements are complied with.
- 4.10.6 Licensees are required to record all **significant related party transactions** in their submitted **regulatory accounts**. For this purpose, a **significant related party transaction** is defined as one where the annual value of payments for the supply of goods or services exceeds €250,000.

4.11 Pro-forma regulatory accounting statements

The **pro-forma regulatory accounting statements** are provided as a separate electronic file in MS Excel. This comprises the following worksheets.

- 1 Cover
- 2 Income statement
- 3 Balance sheet
- 4 Cashflow statement
- 5 Analysis of turnover
- 6 Analysis of operating and maintenance costs
- 7 Regulatory asset base (RAB)
- 8 Capital expenditure
- 9 Depreciation
- 10 Disposals
- 11 Additions
- 12 Major projects summary
- 13 Provisions
- 14 Related party transactions
- 15 Allocation of joint and common costs
- 16 Key financial indicators

Licensees should print-out and complete one set of the **pro-forma regulatory accounting statements** to be included as part of the hard copy of the **regulatory accounts** submitted in accordance with subsection 2.2.3.

A.1 Template for auditor's regulatory report

[insert report date]

To the Chairman of the Board, Energy Regulatory Office

Regulatory Accounts for the period ended [insert period end date]

We have audited the Regulatory Accounts submitted by [insert name of licensee] ("Licensee") along with this Regulatory Report. These represent a special purpose financial report which is required to be prepared in accordance with condition [insert number] of the Licence held by the Licensee and issued by the Energy Regulatory Office ("the Office").

Respective responsibilities of Directors and auditors

The Licensee's Directors are responsible for the preparation of the Regulatory Accounts. It is our responsibility, to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

This report has been prepared solely for the purposes of fulfilling the requirements of the Office, as set out in the Regulatory Accounting Guidelines issued by the Office. It is prepared solely for the use of the Office and the Licensee and is not to be used for any other purpose than those specified herein. We disclaim any assumption of responsibility for any reliance on this report, or on the Regulatory Accounts, by any person or for any purpose other than those for whom and which it was prepared.

Basis of opinion

We conducted our audit in accordance with Kosovan Auditing Standards. An audit includes examination, on the test basis, of evidence relevant to the amounts and disclosures in the regulatory financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Regulatory Accounts, and of whether the accounting policies applied are appropriate to the Licensee's circumstances, consistently applied and adequately disclosed.

We have read the other information contained in the Annual Report and financial statements of the Licensee and considered the implications for our report of any apparent misstatements or material inconsistencies between these regulatory accounts and the statutory accounts of the Licensee.

Opinion

In our opinion, the Regulatory Accounts and other information contain the information for the period ended [insert period end date] required to be prepared and submitted to

you by the Licensee, to comply with condition *[insert number]* of the Licence held by the Licensee.

In respect of this information, we report that in our opinion:

- a) Proper accounting records have been/have not been *[delete as appropriate]* kept by the Licensee.
- b) The information is/is not *[delete as appropriate]* in agreement with the Licensee's accounting records and has/has not *[delete as appropriate]* been properly prepared in accordance with the Regulatory Accounting Guidelines issued by the Office.
- c) The Regulatory Accounts give *[subject to the qualifications listed below]* a true and fair view of the revenues, costs, assets and liabilities of the Licensee in accordance with the accounting principles and policies set out in the Regulatory Accounting Guidelines.

[Where the auditor is unable to give an unqualified opinion, then a statement should be provided listing qualifications regarding accounting records, the agreement between the accounting records and the Regulatory Accounts and on the basis of preparation of the Regulatory Accounts and any other issues that might give rise to a significant difference between the Regulatory Accounts and a true and fair view of the Licensee's financial position]

Yours faithfully,

[insert name of auditor]

[insert name of signatory]



Chairman of the Board of ERO

Members of the Board:
