



**Republika e Kosovës**  
**Republika Kosova - Republic of Kosovo**

**ZYRA E RREGULLATORIT PËR ENERGJI**  
**REGULATORNI URED ZA ENERGIJU**  
**ENERGY REGULATORY OFFICE**



## **Regulatory Accounting Guidelines**

December, 2016



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## CHAPTER I                      GENERAL PROVISIONS

### Article 1

#### Scope and Purpose

- 1        These Regulatory Accounting Guidelines are issued by the Energy Regulatory Office (the Regulator) in order to establish a mechanism for the collection by the Regulator from Licensees of financial and other information required for regulatory purposes, to monitor the performance of licensees and most notably for defining the Maximum Allowed Revenues.
- 2        Article 12 of the Law on the Energy Regulator provides for the ERO to have the right:

*to require from any energy enterprise or public authority all information, data, and documents, including accounts and any financial and accounting information, including confidential information, that are necessary for the fulfillment of its functions and duties, in line with this law and other applicable laws.*
- 3        This power is enforced through license conditions and, specifically, the requirements on Licensees to prepare and maintain separate accounts for separate businesses as follows:
  - *The Licensee shall prepare annual accounts in accordance with Regulatory Accounting Guidelines issued by the Regulator and shall deliver to the Regulator 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.*
  - *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 the Regulator, must be delivered to the Regulator in the form and at the times specified by the Regulator. The accounts shall be in accordance with such Regulatory Accounting Guidelines as may be issued by the Regulator from time to time.*
  - *The Regulatory Accounting guidelines or directions notified by the Regulator to the Licensee under paragraph 2 may, inter alia:*
    - (i)        *specify the form of the accounting statements/records, including but not limited to, profit and loss accounts, balance sheets, recognized 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.*



- (ii) *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.*
- (iii) *specify the accounting principles (including the basis for the allocation of costs and depreciation based on the requirement of the regulator).*

4 These Guidelines:

- 4.1 Set out the process for preparing and submitting Regulatory Accounts by Licensees, in accordance with these provisions;
- 4.2 Detail the information that should be contained in the Regulatory Accounts; and
- 4.3 Define the principles that govern how Licensees should prepare their Regulatory Accounts, including the allocation of revenues, costs, and assets between licensed activities.

5 The information provided to the Regulator in accordance with these Regulatory Accounting Guidelines will be used for the following purposes:

- 5.1 Calculating Maximum Allowed Revenues in accordance with the Pricing Rules;
- 5.2 Reviewing the conformity of revenues earned by Licensees from licensed activities with any revenue control set by the Regulator and with any regulated tariffs approved by the Regulator;
- 5.3 Ensuring that the Licensee is appropriately allocating costs, revenues, and assets between their Regulated Activities and Excluded Services, and there are no cross-subsidies between different customer categories and that the tariffs and charges for regulated activities are cost-reflective; and
- 5.4 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.
- 5.5 Monitoring the performance of the Licensees in accordance with the licenses, the Law on Energy Regulator, and the Law on Electricity, including measuring actual financial performance of energy enterprises;
- 5.6 Such other purposes as may be required for the fulfilment of the Regulator's functions, duties and powers.



## **Article 2**

### **Definitions and Interpretations**

- 1 The following terms used in these Guidelines shall have the following meanings:
  - 1.1 “Guidelines” means these Regulatory Accounting Guidelines;
  - 1.2 “Licensees”
  - 1.3 “Regulated Activities” has the meaning set out in 0 of these Guidelines;
  - 1.4 “Regulatory Accounts” means the financial and other information submitted by Licensees to the Regulator as required for regulatory purposes and as defined in these Guidelines;
  - 1.5 “Regulatory Accounting Principles” means the principles set out in 0 of these guidelines;
  - 1.6 “Regulatory Input Data” has the meaning set out in 0 of these Guidelines
  - 1.7 “Related Parties” has the meaning set out in 0 of these guidelines;
  - 1.8 “Statutory Accounts” means the financial accounts of the Licensee prepared and submitted in accordance with Kosovan laws and Kosovan Accounting Standards;
  
- 2 The following terms used in these Guidelines shall have the meanings specified in the Pricing Rules issued by the Regulator, as applicable to each Licensee:
  - 2.1 “Actual Regulated Revenues”;
  - 2.2 “Approved Capital Expenditure Plan”;
  - 2.3 “Excluded Service”;
  - 2.4 “Economic Asset Lives”
  - 2.5 “Maximum Allowed Revenues”;
  - 2.6 “Regulatory Period”; and
  - 2.7 “Regulatory Asset Base”.
  
- 3 Other terms in these Guidelines shall have the meanings specified in the Law on Energy Regulator, in the Law on Energy or in the Law on Electricity.



## CHAPTER II

## REGULATORY ACCOUNTING GUIDELINES

### Article 3 General Principles

- 1 It is the Regulator's intention that licensees should be able to prepare Regulatory Accounts alongside the preparation of their Statutory Accounts at minimum additional cost.
- 2 The Regulatory Accounts shall be prepared in accordance with the accounting principles and policies used to prepare the licensee's Statutory Accounts, adjusted for the differences where the accounting principles and policies used to prepare the licensee's Statutory Accounts differ from the Regulatory Accounting Principles contained in this chapter.
- 3 In preparing Regulatory Accounts, licensees shall report the content of transactions, rather than the legal form, in the event that these differ. In determining the content, 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.

### Article 4 Supplements- Amendments

1. The Regulator will amend these Guidelines from time to time to meet changing needs. When making such amendments, the Regulator will provide appropriate opportunities for consultation with Licensees and other interested parties including, in general:
  - 3.1 The publication of a notification of the Regulator's intent to amend these Guidelines;
  - 3.2 Opening of a public consultation, including in the form of written comments and consultations with Licensees and other interested parties, and allowing a reasonable time period for the consultation period;
  - 3.3 Preparing and publishing for comments a draft of the proposed amendments, taking into account comments received during public consultation.



## CHAPTER III PREPARATION AND SUBMISSION OF REGULATORY ACCOUNTS

### Article 5

#### Obligation to Submit Regulatory Accounts

- 1 Licensees are obliged to prepare and submit Regulatory Accounts in accordance with the applicable conditions of their license and these Guidelines.
- 2 When the Regulator considers that a requirement on a licensee to submit Regulatory Accounts will meet either of the following conditions then the Regulator may, by notification, exempt the licensee concerned from this obligation for either a defined or indefinite period, as stated in the notification:
  - 2.1 The requirement to submit Regulatory Accounts imposes unreasonable costs on the licensee concerned; or
  - 2.2 The requirement to submit Regulatory Accounts does not significantly enhance the Regulator's ability to fulfil its functions and duties.
- 3 Notwithstanding the period contained in any notification issued in accordance with 0, the Regulator may, at its own discretion, remove this exemption at any time by notification.
- 4 In general, licensees who are required to propose regulated tariffs to the Regulator for approval, including the Transmission System Operator, the Market Operator and the Distribution System Operator, will not be exempted from the obligation to submit Regulatory Accounts.

### Article 6

#### Timing and Form of Submission

- 1 Regulatory Accounts shall, unless notified otherwise by the Regulator, be prepared on a calendar year basis.
- 2 When a licensee commences operations at a date other than 1 January, or otherwise is obliged by the Regulator, then the initial Regulatory Accounts shall cover the period from the date of commencement of operation until 31 December of the same calendar year. Subsequent Regulatory Accounts shall run from 1 January to 31 December of each calendar year.
- 3 Regulatory Accounts shall be submitted in both electronic form and as hard copy to the Regulator.
- 4 Regulatory Accounts shall, unless an extension is granted by the Regulator, be submitted no later than three months after the completion of the calendar year to which they apply.



- 5 A licensee may request from the Regulator an extension of deadline for a maximum period of one month for submission of Regulatory Accounts if the licensee can clearly demonstrate that it is unable to prepare the Regulatory Accounts for reasons that are largely outside of its control.
- 6 In case the Regulatory Accounts and accompanying material are incomplete, these will be rejected and returned to the licensee for completion and resubmission. The Regulator shall allow a reasonable period for completion.

## **Article 7 Contents of Submission**

- 1 The Regulatory Accounts shall comprise the following:
  - 1.1 A copy of the licensee's Statutory Accounts for the recently completed calendar year, alongside the accompanying auditor's report;
  - 1.2 Regulatory Input Data, as defined in paragraph 2 below;
  - 1.3 A description of the underlying calculations and assumptions used to prepare the Regulatory Input Data; and
  - 1.4 An auditor's report on the Regulatory Input Data, as described in 0 of these Guidelines.
- 2 Regulatory Input Data shall include, but is not limited to, both allowed and actual amounts of the following information, for the recently completed calendar year:
  - 2.1 Revenues, including Maximum Allowed Revenues, Actual Regulated Revenues, and other revenues as defined in the relevant Pricing Rule;
  - 2.2 Operating and Maintenance Costs, by category;
  - 2.3 License Fees;
  - 2.4 Cost of losses, including the related inputs as defined in the relevant Pricing Rule, if applicable to the licensee;
  - 2.5 Cost of ancillary services, if applicable to the licensee;
  - 2.6 Capital expenditure, by project, including cost, status, start date, completion date, commissioning date, and reasons for delay or substitution, in a manner that is consistent with the Approved Capital Expenditure Plan, as detailed in the relevant Pricing Rule; and
  - 2.7 Regulatory Asset Base, by asset category, including depreciation, disposals, and capital expenditure.
- 3 Regulatory Input data shall be provided in a format defined by the Regulator.





- 4 A description of the underlying calculations and assumptions used to prepare the Regulatory Input Data shall be provided in a format chosen by the licensee and may include spreadsheets. In general, the calculations and assumptions shall be presented in the most understandable manner that can be achieved without sacrificing relevancy or reliability.
- 5 For the avoidance of doubt, licensees are not required to prepare or submit full pro forma accounts based on the principles described in 0, including a balance sheet, an income statement, and a cash flow statement.
- 6 The Regulator may require the preparation and submission of Regulatory Accounts at such other times and covering such periods as it considers necessary to support the fulfilment of its functions, duties and powers. In doing so, the Regulator shall allow a reasonable period for the preparation of these accounts and shall not require that they be audited or accompanied by Statutory Accounts.

## **Article 8**

### **Verification and Auditing**

- 1 A licensee must maintain accounting and reporting arrangements in a manner which:
  - 1.1 Enables the Regulatory Accounts to be prepared; and
  - 1.2 Allow information in the Regulatory Accounts to be verified by reference to the Statutory Accounts.
- 2 The information provided in the Regulatory Accounts must be adequately and independently audited by an auditor acceptable to and approved by the Regulator. It shall be the responsibility of the licensee to ensure that such approval is obtained prior to the submission of the Regulatory Accounts.
- 3 In general, the Licensee should endeavour to propose an accredited auditor for approval by the Regulator. However, where a licensee can demonstrate that he is unable to contract a licensed auditor, then the licensee may propose an independent consultant that specialises in regulatory matters and is approved by the Regulator.
- 4 The approved auditor must prepare an auditor's regulatory report to be submitted to the Regulator with the Regulatory Accounts. This report must give the auditor's opinion as to whether the Regulatory Input Data and underlying calculations and assumptions are consistent with these Guidelines and the applicable Pricing Rules issued by the Regulator. In particular, the auditor should draw the attention of the Regulator to:
  - 4.1 Any deficiencies in the licensee's accounting records that may make the information contained in the Regulatory Input Data of uncertain reliability;
  - 4.2 Any significant deviations applied in the preparation of the Regulatory Input Data from the Regulatory Accounting Principles set out in these Guidelines; and



- 4.3 Any other matter that may mean that the Regulatory Accounts do not give a true and fair view of the costs, revenues, and assets of the licensee's Regulated Activities.
- 5 The provision of the auditor's regulatory report does not remove the responsibility of the licensees 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.
- 6 For the avoidance of doubt, the auditor's regulatory report is in addition to any report or opinion required to be submitted with the Statutory Accounts of the licensee.
- 7 The licensee must make appropriate provision for the Regulator 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.

#### **Article 9 Publication**

- 1 The Regulatory Accounts of licensees shall be published by the Regulator on its official website, with the exception of:
  - 1.1 The description of the underlying calculations and assumptions used to prepare the Regulatory Input Data; and
  - 1.2 Other material identified as being commercially confidential by the licensee and accepted as such by the Regulator.
- 2 Licensees shall draw the attention of customers to the availability of published Regulatory Accounts in a manner appropriate to ensure easy access for customers and other interested parties.

#### **Article 10 Separation by License**

- 1 In such cases that licensees form part of an integrated entity and hold more than one license for a Regulated Activity, they shall submit separate Regulatory Accounts for each of the licenses.
- 2 In general, licensed energy enterprises shall maintain accounting and reporting arrangements such that all costs, revenues, and assets can be attributed directly to each of its licenses. For example, by maintaining separate accounting systems or by separating the licensed activities in its chart of accounts.



- 3 Where a licensed energy enterprise can demonstrate that the costs of implementing or maintaining separate accounting and reporting arrangements are excessive relative to its regulated revenue, it shall allocate common or joint costs, revenues, and assets in accordance with the principles set out in 0.

#### **Article 11**

##### **Separation of Activities**

- 1 Licensees shall disaggregate between Regulated Activities and Excluded Services in the preparation of Regulatory Input Data. Regulated Activities are those activities provided by the licensee as part of its licensed activities, the costs of which are recovered by Maximum Allowed Revenues under the Pricing Rules.
- 2 When revenues, costs, and assets cannot be exclusively attributed to either Regulated Activities or Excluded Services then they should be allocated in accordance with the principles set out in 0.

#### **Article 12**

##### **Disaggregation of Operating Expenditure**

- 1 In preparing and submitting information on operating expenditure, licensees shall distinguish between categories of expenditure approved by the Regulator.
- 2 Licensees shall identify the extent to which each category of operating expenditure is fixed and the extent to which each is variable based on demand for services.
- 3 No expenses based on the provisions for impairment of fixed assets shall be included as operating expenditure. Any impairment should be treated as disposals in the Regulatory Asset Base.

#### **Article 13**

##### **Disaggregation of Capital Expenditure**

- 1 In preparing and submitting information on capital expenditure projects, Licenses shall distinguish between all major capital expenditure projects. These are defined as projects on which aggregate capital expenditure exceeds €100,000.
- 2 Licensees shall endeavour to ensure that all information on capital expenditure projects are presented in a manner that allows easy comparison with the Approved Investment Plan and provide the Regulator with reasons for any discrepancies.
- 3 Licensees shall identify which of the following categories each capital expenditure project falls under:



- 3.1 Replacement capital expenditure, which is incurred to address deterioration of assets, including works driven by reliability deterioration or as a result of an assessment of increasing risk;
- 3.2 Augmentation capital expenditure, which is triggered by a need to build, upgrade or replace assets to address changes in demand for services or to maintain quality, reliability and security of supply;
- 3.3 Connection and customer driven capital expenditure, which relates to the cost of connecting customers or generation to the system and other customer driven works; and
- 3.4 Non-system capital expenditure, which is not directly associated with provision of system services by the licensee and typically includes, but is not limited to, capital expenditure on information technology systems, vehicles, plant and equipment, and buildings and property.

#### **Article 14**

#### **Disaggregation of the Regulatory Asset Base**

- 1 The Regulatory Asset Base shall be prepared in accordance with the Pricing Rules applicable to the Licensee.
- 2 In preparing and submitting information on the Regulatory Asset Base, including capital expenditure, depreciation, disposals, and Economic Asset Lives, licensees shall distinguish between categories of assets approved by the Regulator.
- 3 For the purposes of calculating the Regulated Asset Base, licensees may calculate depreciation on capital expenditure related to previous Regulatory Periods by using an average remaining asset life for each asset category, rather than maintain annual depreciation schedules related to historical capital expenditure. In calculating the average remaining asset life for each asset category, the licensee shall ensure that the value of allowed depreciation over the current Regulatory Period is unchanged.
- 4 The licensee shall also distinguish between:
  - 4.1 Assets financed on commercial terms; and
  - 4.2 Assets financed from grants or on concessionary terms with funds provided from the state budget and donors.
- 5 Any third party contribution, such as customer contributions, shall be offset against the value of capital expenditures added to the Regulatory Asset Base.



## Article 15 Capitalisation

- 1 Expenditures on existing assets should be capitalised where they appreciably extend the life, increase the earning capacity or improve the efficiency of the assets concerned. In general, the expectation is that assets are capitalised on the same basis as for the statutory reporting.
- 2 In line with the Pricing Rules, interest during construction shall be capitalised, and where any maintenance cost is or has previously been included in allowed operating costs it shall not be capitalised nor shall it be included in the Regulatory Asset Base.

## Article 16 Common costs, revenues, and assets allocation

- 1 The costs, revenues, and assets that cannot be directly attributed to a licensee or between the Regulated Activities and Excluded Services of a licensee should be allocated in accordance with the principles contained in this article.
- 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.
- 3 In its description of calculations and assumptions used to prepare the Regulatory Input Data, licensees shall detail the allocation methodology of common expenditures. For this purpose, a significant allocated item is defined as one with a value in excess of €100,000.
- 4 For non-significant allocated items or where the costs of allocating costs, revenues, or assets 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.
- 5 The allocation applied should conform with the following principles:
  - 5.1 **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;
  - 5.2 **Objectivity.** The basis of allocation should not unduly favour the licensee or any other company or organization;
  - 5.3 **Consistency.** Where practicable, the basis of allocation should be consistent from year to year; and
  - 5.4 **Transparency.** The basis of allocation should be clear and understandable.



- 6 In general, the Fully Distributed Cost allocation methodology, whereby cost drivers are used to allocate joint or common costs between the activities causing the cost, is the Regulator's preferred allocation methodology.

## **Article 17**

### **Related Party Transactions**

- 1 In its description of calculations and assumptions used to prepare the Regulatory Input Data, each licensee shall detail all significant Related Party transactions. 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 €100.000 .
- 2 For the purpose of these Regulatory Accounts, a Related Party is defined as any of the following:
  - 2.1 Subsidiaries of the licensee;
  - 2.2 Ultimate and intermediate parent undertaking of the licensee, and their other subsidiaries;
  - 2.3 Associates and joint ventures in which the licensee participates and other investors or participations in these associations and joint ventures;
  - 2.4 Other entities which share key management individuals with the licensee;
  - 2.5 Other entities which are controlled by persons or entities which separately or together also control the licensee; or
  - 2.6 Entities which manage or are managed by the licensee under a management contract or similar arrangement.
- 3 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 Where a licensee purchases or sells goods or services from a Related Party, it is required to demonstrate that:
  - 4.1 The prices paid or received for these goods or services are reasonable and at fair market value;
  - 4.2 No cross-subsidy exists between the licensee's Regulated Activities and Excluded Services and the Related Party; and
  - 4.3 The goods or services are provided at no extra cost than if they were provided from within the licensee's business.
- 5 At a minimum, this will require:



- 5.1 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
- 5.2 The price paid for the supply of goods and services should be based on actual costs of supply plus the appropriate rate of return on the capital employed.
- 6 Asset transfer between Related Parties shall be at a value contained in the Regulatory Asset Base.



## CHAPTER IV TRANSITIONAL AND FINAL PROVISIONS

### **Article 18**

#### **Official Language**

This Rule is issued in Albanian and shall be translated in Serbian and English. In case of discrepancy between the versions, the Albanian version shall prevail.

### **Article 19**

#### **Amendment**

ERO is entitled to change or modify any provision of this Rule

### **Article 20**

#### **Interpretation**

In case of any uncertainty concerning the provisions of this Rule, the Board shall issue explanatory information.

### **Article 21**

#### **Repeal**

These Guidelines repeal the “Regulatory Accounting Guidelines” applicable at the date of entry into force of these Guidelines.

### **Article 22**

#### **Entry Into Force**

These Guidelines shall enter into force upon their adoption by the Board and will be published on the official website of ERO.

ERO Board

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Krenar Bujupi, Acting-Chairman

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Arsim Janova, Member





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Besim Sejfičaj, Member