REGULATED
INDUSTRIES
COMMISSION

REGULATORY ACCOUNTING GUIDELINES
FOR
TRINIDAD AND TOBAGO ELECTRICITY COMMISSION

DRAFT FOR CONSULTATION

January 2008

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1. OVERVIEW

The Regulated Industries Commission's (RIC) Final Determination (June 01, 2006) indicated the need to develop and publish the Regulatory Accounting Guidelines for the Trinidad and Tobago Electricity Commission (T&TEC). The RIC also indicated that it will consult with the service provider and all other interested parties before finalizing the guidelines. Regulatory accounts will be part of the information used to track the performance of the regulated business.

The primary objective of the guidelines is to provide the basis on which T&TEC will be required to prepare its regulatory accounts. The information collected will allow the RIC to monitor T&TEC's performance on a continuous basis during the regulatory control period through information in the regulatory accounts, as well as provide a basis for assessing expenditure and revenue forecasts to approve tariffs for future price reviews.

Regulatory accounts are required because T&TEC's statutory accounts (standard financial statements) do not contain sufficient information needed for rate review purposes. Furthermore, certain accounting items in statutory accounts may not be relevant for regulatory purposes.

This consultative document has been prepared to give stakeholders an overview of the proposed process by which regulatory accounting information will be recorded, submitted, reviewed and published. It is important to note that the RIC proposes to amend the guidelines from time to time to meet the changing needs of the RIC and to reflect evolving best practice and experience. The RIC will consult with the service provider and other interested parties in respect of such amendments. Notwithstanding the provision of regulatory accounts by T&TEC, the RIC still reserves the right to obtain any information it requires in order to carry out its functions under its Act. Also, these guidelines do not remove any obligation of T&TEC to provide information/reports to the RIC.

The RIC welcomes comments or suggestions for amendments to these guidelines from any interested party. The due date for submission of comments is **February 29, 2008**. Any contribution in this regard should be addressed to:

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2. INTRODUCTION

The RIC is responsible for regulating prices and service standards for services provided by T&TEC. The Regulatory Accounting Guidelines are made in accordance with Part VII, Sections 56-60 and also form part of the broader regulatory framework for electricity sector underpinned by the RIC Act No. 26 of 1998.

On June 01, 2006, the RIC released its Final Determination on the regulation of electricity transmission and distribution services. In the Final Determination, the RIC noted its intention to establish a framework for requiring T&TEC to submit regulatory accounting information to the RIC.

The regulatory accounts are a critical information source for the RIC in ensuring compliance with its decisions and for informing customers and other stakeholders of the performance of the service provider. All business activities are required to comply with a range of reporting requirements for specific purposes. The regulatory accounts are required for specific regulatory purposes as T&TEC's statutory accounts (standard financial statements) do not contain sufficient information needed for rate review purposes. Furthermore, certain accounting items in statutory accounts may not be relevant for regulatory purposes, and are likely to differ from regulatory accounts in, for example, treatment of costs, asset values or depreciation.

The RIC's review of T&TEC's information also highlighted difficulties associated with the consistency of T&TEC's accounting information from year-to-year, particularly with respect to T&TEC's operating and maintenance (Opex) cost categories. Among other things, this made it difficult to place T&TEC's proposed Opex forecasts in a meaningful historical context. The current statutory accounting system also made it very difficult for the RIC to assess the merits of T&TEC's claim that it made efficiency gains during the last number of years. If these requirements are not set in advance, when a problem arises there is the risk that the RIC would lack the necessary information to analyze the issue. Any information obtained would be on an ad hoc basis and could consequently lack robustness.

The RIC is, therefore, convinced of the importance of establishing a regulatory accounting and reporting framework for a core set of financial reporting requirements for T&TEC. Of potential interest to the RIC and other interested parties are matters such as operational and capital expenditure, profits, return on assets and cash flow. These need to be presented in terms which can be related back to the bases on which the price control was set. In fact, regulatory accounts are necessary to underpin the price control process, and to reflect the objectives of incentive regulation. The RIC considers that, to be effective, regulatory accounting guidelines need to be consistent with the requirements of best practice reporting standards. The key attributes of best practice reporting are generally recognized to be:

- relevance – where the information reported has the capacity to make a difference in its informational or accountability role;
- consistency – where the information reported allows comparison to be made for the same organization over periods of time;
- comparability – where the information reported enables valid comparisons to be made between different utilities; and
- reliability – where the information reported corresponds with the actual underlying transactions, is capable of independent verification and is free from error and bias.

In summary, the information provided to the RIC pursuant to these guidelines will enable the RIC to:

- measure actual performance against forecast;
- inform future price determinations;
- ensure the correct allocation of revenue and costs between customer classes;
- publish information on the performance of the service provider;
- improve the level of transparency in regulatory processes; and
- give effect to the objectives of the RIC as stated in its Act.

This document specifies the obligations on T&TEC to prepare, maintain and submit regulatory accounts and sets out:

- the nature of regulatory accounting information that is required;
- the broad guidelines to be adhered to in preparing regulatory accounts;

- the process by which regulatory accounts may be reviewed and amended where necessary; and
- the information templates in which the information is to be recorded and submitted.

The RIC has attempted to strike an appropriate balance between ensuring that it has access to accurate, reliable and relevant information while minimizing the cost and reporting burden on T&TEC.

The RIC will consider stakeholder comments received in response to this document before finalization. The RIC anticipates to finalize the regulatory accounting guidelines by **March 2008**.

3. RIC'S REGULATORY FRAMEWORK

In regulating electricity services, the RIC is guided by the legislative and regulatory framework set out in the RIC Act No. 26 of 1998. The RIC Act prescribes the services for which the RIC has powers to regulate prices and standards of service and sets out the broad principles that the RIC must consider when undertaking this role. Among these principles, the RIC is required to have regard to the following objectives:

- the protection of consumer interest with regard to the price, quality and reliability of services;
- the facilitation of the financial viability of service providers;
- the facilitation of efficiency and economy of operations by service providers; and
- the fairness and transparency of the prices determination.

The RIC has an explicit power under Sections 56 to 60 of the Act to call for any information and "be furnished within the time and in the manner and form and with such particulars and certification as are required" for the purpose of carrying out duties under the Act.

4. PUBLICATION OF REGULATORY ACCOUNTS

The RIC Act (Sections 56 – 60) attaches significant importance to improving transparency and accountability and mandates that “information collected and complied and the results of the research carried shall be furnished to any person”. Therefore, in the interest of improving transparency and accountability, the RIC will publish all regulatory accounts in full. In fact, information about a monopoly business should generally be disclosable. Arguments that full publication of regulatory accounts would unnecessarily damage the interests of the service provider do not hold as the information being requested is not commercially sensitive.

The RIC is of the view that the regulatory accounts should be made publicly available, as is the best practice. Consequently, the RIC proposes to place finalized regulatory accounts on its website and make available a hard copy on request. The RIC may also publish a high level version of the regulatory accounts in a newspaper.

T&TEC will be required to submit full year regulatory accounts to the RIC by the end of the third month of each regulatory control period. The RIC considers this to be an appropriate time frame as undue delays in publication would serve to negate the positives or to reduce the immediate significance. The regulatory accounting information is to be submitted in hardcopy and electronic format.

5. PROCESS FOR REVISION OF REGULATORY ACCOUNTS

The RIC will amend and expand the guidelines from time to time when necessary, to meet the changing needs of the RIC, the service provider or the customers and to reflect evolving regulatory practice and experience. The RIC will undertake consultation with the service provider and other stakeholders as appropriate before making any adjustments to these guidelines.

6. INFORMATION VERIFICATION AND INDEPENDENT ASSURANCE

The service provider must maintain reporting arrangements which provide information that can be verified. In this regard, the service provider will be required to provide a responsibility statement confirming that the information is true and properly reflects its activities. The responsibility statement will be signed and dated by the Chief Executive Officer or a senior officer of the service provider.

Furthermore, the RIC may require, from time to time, an independent assurance (audit) on information submitted. The required scope of any audit or other form of independent assurance will be specified by the RIC. The audit must be undertaken by an independent expert nominated and paid for by the service provider but approved by the RIC.

7. FORM AND CONTENT OF REGULATORY ACCOUNTS

This section outlines the major regulatory accounting requirements. As far as possible, the format of regulatory accounts follows that of statutory accounts. The form and content of regulatory accounts required will make the published regulatory accounts more informative, and increase transparency and comparability.

The regulatory accounts should enable actual outturns to be compared with past forecasts, and should permit analysis of differences by causes. Where appropriate, explanatory narrative should accompany the regulatory accounts, including as a minimum such information as:

- an explanation as to change in turnover from the previous year, including comparative data such as GWh sales and customer numbers as compared with price control assumptions, and the expected levels in the forthcoming year;
- an explanation of any significant changes in the level of each reported category of cost;
- a summary of capital projects undertaken and reasons for any significant difference between actual capital expenditure and allowed plans; and
- any recent or prospective changes in the organization of the service provider.

Furthermore, the regulatory accounts should include a range of additional statistics for comparative purposes.

The level of disaggregation that is required is set out at **Appendix I**. T&TEC's costs consist of:

- **Operating Expenditure (Opex)**. These costs cover the day-to-day costs of running the network, and include *inter alia*, repairs and maintenance, salaries and wages, power purchase, fuel costs and overheads.
- **Capital Expenditure**. Capital costs cover spending on assets, the benefits of which would be expected to last for several years, such as plant and machinery, transformers, etc.
- **Returns to Capital Providers**. These are payments that are necessary to reward the providers of debt and equity.

The key categories for regulatory accounting requirements are:

- Revenue
- Assets
- Capital Expenditure (Capex)
- Depreciation
- Operating and Maintenance Expenditure (Opex).

Data collection templates are provided in Appendix I.

Revenue

The revenue categories to be reported are shown below. Categories for revenue other than from network tariffs are also shown.

***Revenue Categories*:**

- Network charges for: Residential, Commercial and Industrial.
- Street Lighting.
- Regulated Miscellaneous Charges.
- All Other Charges.
- Profit from the sale of assets (disclose gross asset sales proceeds and book value of assets sold).
- Other revenue (Income).

Assets

The "categories for fixed assets and capital expenditure/additions to fixed assets" are to be shown separately. Additions to fixed assets are needed separately as these are used to roll forward the regulatory asset base (RAB). The difference between capital expenditure and additions to fixed assets is largely one of timing. Capital expenditure is recorded when the money is spent whereas additions to fixed assets are recorded only once projects have been commissioned and the assets are included in the asset register. If customer contributions are excluded from the RAB, they should be excluded from additions. Street lighting assets should be shown separately.

Asset Categories:

- Transmission Assets
- Distribution Assets
- Other System assets
- Street Lighting
- Land
- Buildings
- Non-system assets.

Details are provided in the template at Appendix I.

Capital Expenditure

Capital expenditure on system assets (expenditure on street lighting is to be shown separately) is to be reported by purpose as shown below. A project may serve more than one purpose, for example, asset replacement may be combined with reliability improvements. Where the secondary function involves additional expenditure, this additional expenditure should be reported under the secondary function.

- **Asset renewal/replacement –** expenditure whose primary purpose is to maintain the existing level of supply and standard of service.
- **Demand (Growth) related –** expenditure whose primary purpose is to meet an increase in demand, or a movement of load within the network.
- **Reliability and quality improvements –** expenditure whose primary purpose is to improve network reliability.
- **Environmental, safety and legal obligations –** expenditure relating to environmental safety and legal obligations.
- **Other (all other expenditure)**, with explanations of what is included under this category.

Furthermore, the capital expenditure programme should be divided into the following categories:

- Transmission
- Distribution
- Information Technology
- Control and Communication

- Commercial and Metering
- Administration and General
- Street Lighting
- Government Initiated Projects

Depreciation

The categories of depreciation should be the same for asset categories. The following information should be reported on depreciation:

- Annual depreciation charge.
- Average expected lives grouped by asset category (as defined under asset values).
- Average useful remaining lives grouped by asset category.
- The depreciation methodology used.

Operating Expenditure

The categories for operating expenditure (Opex) are shown below. The overhead costs should be allocated to the different cost categories as appropriate. If the overhead amount is identifiable, the total dollar value of allocated corporate overheads should be separately disclosed.

A. Power purchase (conversion costs)

B. Fuel costs

C. Network operating costs (such as personnel, logistics and stores, IT, insurance, etc.).

D. Network maintenance costs (such as maintenance and repair, Emergency response, Inspection, etc.).

E. Other operating and maintenance costs (such as meter reading, customer service, advertising/marketing, etc.).

F. Street lighting.

Total operating costs = A + B + C + D + E + F. Details are provided in **Appendix I.**

8. NEXT STEPS

This document gives an overview of the regulatory accounting guidelines and the process by which regulatory accounting information will be recorded, submitted, reviewed and published. The RIC encourages all interested stakeholders to respond in writing to the issues raised or any other aspect of the document.

The due date for submission of comments is **February 29, 2008**.

The RIC anticipates to finalize the regulatory accounting guidelines by **March 2008.**

APPENDIX I

REGULATORY ACCOUNTS REPORTING TEMPLATES

Template 1 – Aggregate Revenue Requirement - Summary

The aggregate revenue requirement provides an overview of the contribution to revenue for services that are recovered through charges. The revenue template is to be populated by data that are provided in other templates.

	($ '000 nominal)
Revenue:	
Network Charges	
Other Network Revenue	
Other Income	
Total	
Operating and Maintenance Expenditure:	
Conversion Costs	
Fuel Costs	
Transmission and Distribution Costs	
Total	
Regulatory Depreciation	
Return on Capital	
Return on Working Capital	
Total Revenue Requirement	