

UNIFORM SYSTEM OF ACCOUNTS NO 1/2005

CHAPTER ONE General

Art. 1 Issuing Authority

This Uniform System of Accounts is issued by the Agency in accordance with Art 34(1) of Electricity Operation Regulations No 49/1999.

Art. 2 Short Title

This document may be cited as the "Uniform System of Accounts No. 1/2005"

Art. 3 Definitions

In this uniform system of Accounts, unless the context requires otherwise;

1. "Financial year" means the Ethiopian financial year, from 8 July to 7 July ("Hamle 1 to Sene 30" in the Ethiopian calendar);
2. "Licensee" means a person holding a license to undertake electricity supply operations;
3. "Out turn Allowed Revenue" means the allowed revenue calculated ex-post using actual financial data (rather than the forecast data) that is used in price submissions;
4. "Operating Expenditures" means an amount of asset consumed and service used in the process of producing and supplying electric services;
5. "Price Application" means an application made by a licensee, when price changes are required to allow revenues to be sufficient to cover operating costs and finance new investment. A pricing application is not related to a change in the structure of pricing;
6. "Pricing procedure for Inter-connected System and Large Isolated System" means the pricing procedure No. 1/2005;
7. "Pricing Procedure for Very Small and Small Self-Contained System" means the pricing procedure No.2/2005;
8. "Audited Reports of Accounts" means an account, which is audited by a legally recognized auditor or audit firm, and submitted by a licensee to the Agency for regulation purposes;

9. “Regulatory Asset Base” means the assets that are allowed by the Agency for the purpose of calculating the allowed profit (Calculated using a rate of return on assets) and depreciation charges. The value of regulatory Asset base may differ from the value of net fixed assets reported in a Licensee’s statutory accounts since some assets may be disallowed by the Agency;
10. “Shared Costs” means costs that are partially or fully shared by electrical business activities , i.e generations, transmissions, distributions and sales, owned and run by a licensee;
11. “Working capital” means resources needed to operate a business firm fully or partially (working capital=current assets-current liabilities);
12. “Accounts” means a system of financial records and recording that enables revenue earned and costs incurred in meeting the obligations incurred under electric_operation license;
13. “Document” means this uniform system of accounts document;
14. “Financial Statements” means the income statement, the statement of owner’s equity, the balance sheet, and the statement of cash flows;
15. “Person” means natural or juridical person;

Abbreviation

1. “EEPCO” means the Ethiopian Electric Power Corporation;
2. “EEA” means the Ethiopian Electricity Agency;
3. “ICS” means Inter Connected System;
4. “IT” means Information Technology;
5. “IAS” means International Accounting Standards;
6. “RE” means Rural Electrification;
7. “GAAP” means Generally Accepted Accounting Principle;
8. “SCS” means Self Contained System;

Art. 4 Objectives of the Document

1. This Document specifies the Agency's requirements for the collection, allocation and recording of business data by the licensee and the reporting of that data to the Agency.
2. The information provided to the Agency pursuant to this Document enables the Agency to:
 - 2.1 insure the correct allocation of costs among electric businesses (generation, transmission and distribution).
 - 2.2 review and regulate electric prices.
 - 2.3 measure actual financial performance of the utility against forecasts.
 - 2.4 publish information on financial performance of the licensee whenever required.
 - 2.5 give effect to the objectives of the Agency stated in Electric Proclamation No. 86/1997 and Electric Regulation No. 49/1999.
 - 2.6 allow bench marking among regulated licensees that requires consistency and comparability in the data.

Article 5 Scope of the Document

1. This document applies to all licensees, i.e.
 - 1.1 EEPCo's Inter-connected System (ICS);
 - 1.2 Large Isolated System Licensees including those of EEPCO's Self Contained System (SCS);
 - 1.3 Small Isolated System Licensees including those of EEPCO's SCS System; and
 - 1.4 Very Small Isolated System Licensees.

Art. 6 Financial Statements

1. The Financial Statements of regulated licensees shall be prepared and annually reported to the Agency.
2. The financial statements shall be presented in the most understandable manner, without sacrificing relevance or reliability.

CHAPTER TWO

Basic Regulatory Accounting Principles

Art. 7 Financial year and Accounting Principles

1. The Agency requires that all regulated companies shall adopt the same regulatory Financial Year (1 Hamle to 30 Sene in the Ethiopian calendar).
2. Audited Reports of Accounts shall be submitted to the Agency within six calendar months from the end of the Financial Year.
3. As the number of Licensees increases the Agency may wish to spread the reporting times more evenly through the financial year so as to spread the burden on the Agency away from a single busy period in January,
4. When this becomes necessary, the Agency may stipulate the timing of the regulatory financial year for each new Licensee.
5. Accounting Principles used by licensees shall conform to Generally Accepted Accounting Principles (GAAP).

Art 8 Operating expenditures

1. Licensees shall include Operating Expenditures in their Audited Reports of Accounts that are incurred in undertaking the Licensed Activity.
2. Operating Expenditures unrelated to the Licensed Activity shall not be included in the Price Submission.
3. Where an expense that requires capitalization is incurred consideration shall be given by the Licensee to spreading the expenses over a number of years to match the time periods over which the benefit is derived.
4. Expenses on research and development, charitable donations, lobbying expenses and advertising may only be included, in part or in whole, if they can be reasonably regarded as relating to the Licensed Activities and if these expenses are approved by the Agency provided however, that Operating Expenditures included in Licensees' Pricing submission should comply with criteria listed in Article 23 of the Income Tax Proclamation No. 286/2002.

Art 9 Regulatory Asset Base

1. The regulatory asset base, as also provided in the pricing procedures shall comprise:

$$RAB = GV - \sum D + I + W$$

where:

- RAB = regulatory asset base
GV = gross value of fixed assets in operation
 $\sum D$ = accumulated depreciation
I = inventory
W = working capital

2. Various techniques may be applied to arrive at net asset values;
 - 2.1. historic cost,

- 2.2. historic cost re-valued to reflect average inflation rates,
 - 2.3. modern equivalent asset values,
 - 2.4. market value.
3. If an asset is to be sold then the values shall be related to the market values. This is calculated as the present value of expected future cash flows from use of the asset.
 4. Only in exceptional circumstances, when other techniques of valuations of assets are not appropriate, shall the market value approach be relevant for valuing assets in order to regulate prices.

Art 10. Impaired Assets

1. Assets that are impaired and are not providing the service for which they were intended may continue to be included in the Regulatory Asset Base by the Licensee if the Licensee has taken reasonable steps to ensure that the asset is maintained in working order and the impairment is the result of circumstances outside the reasonable control of the Licensee.
2. Impaired assets that do not meet the conditions in the above provision shall have their values adjusted by Licensees in the Regulatory Asset Base based on its value in use.
3. The Audited Reports of Accounts shall include notes disclosing the circumstances of any revaluation relating to impairment and the method used.
4. Where some assets of a Licensee are impaired the Licensee may obtain compensation in full or in part by an insurer or other party, and the compensation shall be used to restore or replace the impaired asset.
5. If an asset is permanently impaired and associated compensation is received by the Licensee and the asset is not restored or replaced, then irrespective of whether the Licensee took reasonable steps to ensure the asset was maintained in working order, the value relating to the impaired asset shall be reduced in the Regulatory Asset Base.

Art 11 Working capital

1. Licensees in the Regulatory Asset Base shall include Working Capital.
2. The Agency may, however, impose a ceiling on the Working Capital that is allowed in the Regulatory Asset Base based on good industry practice.
3. Levels of Working Capital used by Licensees shall be reviewed by the Agency from time-to-time.

Art 12 New Additions

Equipment that is put into operation part way through a Financial Year shall be included in the Regulatory Asset Base at half its asset value in that year and at its full value in subsequent years.

Art 13 Capital work-in-progress

1. Interest during construction shall be capitalised (IAS 23; Borrowing Costs). Assets qualifying for capitalisation of interest during construction are those assets that require a substantial period of time to bring them to their intended use.
2. Capital work-in-progress shall be capitalised at the allowed rate-of-return and shall be added to the Regulatory Asset Base after the construction or other work has been completed and the equipment is in use and providing its intended service.

Art 14 Depreciation

1. Depreciation shall be carried out on a straight-line basis. For each category of assets, appropriate economic asset lifetimes should be applied as in the Annex.
2. Licensees shall comply with depreciation charges applied to property, plant and equipment, particularly:
 - 2.1. The depreciation method shall reflect the pattern in which the asset's economic benefits are consumed by the enterprise;
 - 2.2. Where assets are re-valued, depreciation shall be based on the re-valued amount;
 - 2.3. The useful life shall be reviewed periodically and any change, once approved by the Agency, shall be reflected in the current period and prospectively;
 - 2.4. Significant costs to be incurred at the end of an asset's useful life shall either be reflected by reducing the estimated residual value or by charging the amount as an expense over the life of the asset.
3. Depreciation method in the Audited Reports of Accounts shall be the same as that for taxation as described in the Income Tax Proclamation No. 286/2002 Article 23 or subsequent Tax Proclamations.
4. In accepting or rejecting a Licensee's request for adopting asset lifetime that differs from those above, the Agency shall additionally consider the need for consistency across Licensees.

5. Licensees shall adopt the standard asset lifetime as shown in the Annex unless a Licensee has good reasons to choose other parameters and this shall be agreed with the Agency.

CHAPTER THREE

Capitalization policy

Art 15 Principle

A consistent approach shall be applied to the capitalization of expenditure to allow benchmark comparison between Licensees and to ensure that regulated Licensees are not able to manipulate allowed revenues and profits through changes to accounting policies.

Art 16 General capitalization

1. The capitalization of equipment shall take place when the asset enters service as in IAS 23 which refers to capitalization
2. Expenditure on tools and equipment over the value of Birr 200 and which has useful life of over one year shall be capitalized. However, Licensees with different capitalization procedure on tools, equipment or any other fixed asset shall present their practice to the Agency and seek the consent of the Agency.
3. Costs associated with the attainment of way leaves/ a right of way across land/ shall be capitalized when the lines are commissioned. The costs of the way leave acquisition should be depreciated according to a lifetime equal to the life of the way leave or the asset to which the right relates.

Art 17 Renewal expenditure

1. When renewal expenditure increases the value of the asset above its original value it is to be treated as an improvement and accounted for as capital expenditure rather than Operating Expenditure.
2. This will be the case where, following the renewal expenditure, the expected future revenue stream from the asset is higher than would have been the case, at the original level of performance, had the renewal expenditure not been made.
3. When renewal expenditure only restores the value of the expected revenue stream (at the original level of performance for plant and equipment) the expenditure shall be treated as repairs and shall be accounted for as Operating Expenditure.

Art 18 Capital Contributions

1. Capital contributions made by customers shall not form part of the Regulatory Asset Base.

2. Such contributions shall be represented on the balance sheet as debtor (reflecting the amount received in customer contributions) and as credit entry as an offset to fixed assets.
3. The contributions shall be depreciated over a period consistent with the economic life of the assets to which the contribution relates.
4. Such depreciation charges shall not be an allowable expense in the Audited Reports of Accounts.

CHAPTER FOUR

Transfer Pricing

Art.19 Principles

1. To ensure transparency, to allow inter-Licensee cost comparisons and to protect against cross-subsidization from regulated to non-regulated activities, the activities that take place in-group or subsidiary businesses shall be clearly ring-fenced and transfer prices identified.
2. The main transfer prices within EEPCo between generation - transmission and distribution shall be regulated by the Pricing Procedure No. 1/2005.
3. The following transfer pricing rules therefore apply to smaller activities (eg., pole manufacture or warehouse facilities) that are not core licensed activities. The general guidelines for transfer pricing are:
 - 3.1 In order to avoid cross-subsidy, transfer prices shall be checked by:
 - 3.1.1 Market testing;
 - 3.1.2 If market testing is not possible, then cost plus a reasonable return shall be applied.
 - 3.2 Where services are provided by a separate but affiliated company it shall be necessary not to include profit for that service in the cost base.
4. For Large Licensees, whose statutory and regulated accounts are audited, transfer prices shall be reviewed by the independent accountants and the accountants shall express an opinion on these transfer prices (as well as expressing opinion on the accuracy of the accounts in general).
5. To enable the Agency to benchmark costs between Licensees, Licensees are required to identify in their accounts those activities that are contracted to external companies.

CHAPTER FIVE

Allocation of Shared Costs

Art 20 Shared Costs

1. Shared Costs shall be allocated to the activities to which they relate according to reasonable proportions in which they relate.
2. Head office Shared Costs, that cannot be identified as specific to either the ICS or SCS, shall be allocated between the ICS and SCS pro rata with the revenues of the two.
3. Shared Costs in a vertically integrated business that is unbundled for accounting purposes shall be accurately allocated to those business components that operate in a competitive environment.
4. Those components of Shared Cost that can be readily identified as relating to a particular business unit shall be assigned accordingly.
5. The costs of customer services, such as meter reading, meter testing and repair, revenue collection, service centres and billing shall be assigned to distribution.
6. Head Office general management costs shared among the three business units shall be allocated pro-rata with the (non-Head office) cost of the three ICS business units (generation, transmission and distribution).
7. Head Office secretarial costs shared among the three-business units shall be allocated pro-rata with the (non-Head Office) costs of the three ICS business units.
8. Head Office internal audit costs shared among the three-business units shall be allocated pro-rata with the (non-Head Office) costs of the three ICS business units.
9. Training costs shared among the three ICS business units shall be allocated pro-rata with staff number.
10. General administrative costs relating to personnel departments of EEPCo's Head Office shall be charged to, or shared among, the three business units on the basis of number of personnel employed in each of the business units.
11. The costs of the commercial department shall be assigned to EEPCo's Distribution.
12. Head office finance dept. costs shared among the three business units shall be allocated pro rata with the (non-Head Office) costs of the three ICS business units.
13. Dispatch centre costs shall be assigned to EEPCo Transmission/Single Buyer.

14. The costs associated with the demand forecasting and transmission planning team in EEPCo shall also be assigned to EEPCo Transmission/Single Buyer.
15. Central Information Technology (IT) costs shall be charged to the business units according to the usage of the central IT services by the business units. EEPCo shall prepare estimates of these costs and the basis for allocating those costs and submit these estimates to the Agency.
16. When a Licensee wishes to propose cost allocation between ICS and SCS (for EEPCo) and among the generation, transmission and distribution business, which may not be adequately accommodated by the provisions list above, such proposal(s) shall be presented to the Agency and a consent has to be sought.

Article 21 General conditions

The articles and their explanations outlined in this document as to why certain information is required are mainly a guide, and should not be taken to limit in any way the Agency's objectives, functions or powers given to it by the Electricity Proclamation and Electricity Operation Regulations.

Art. 22 Amendment and Confidentiality

1. The Agency shall amend this document from time to time to meet changing needs. The Agency shall consult with the Licenses and other interested parties in respect of such amendments.
2. The Agency acknowledges that there may be commercial sensitivity attached to the disclosure of information concerning the non-regulated activities of the utilities and has no present intension of disclosing such information. The Agency shall consult with the licensees in respect of the disclosure of information about their regulated activities.

Art 23 Effective Date

This Uniform System of Account shall enter into force as of the date signed by the General Manager of EEA.

Done at Addis Ababa, this 7th day of April, 2005.

Annex; Fixed Assets & their useful/economic life

Item (Fixed Assets)	Useful life of Building and Infrastructure
1. Hydro Power plants	
1 Civil works	
1.1 Dams and Weirs	
Dams (Earth/Rock)	60
Dams (concrete)	60
Weirs	50
Dikes/Embankments	40
Bottom outlet/Spillway (concrete)	50
1.2 Water conveyance system	
Intake structure	50
Concrete headrace tunnel	50
Concrete headrace canal	50
Paved headrace canal	50
Concrete headrace pipeline	40
Surge tank (concrete)	50
Penstock valve chamber	50
Penstock (steel/concrete)	40
Penstock fiberglass	30
Pressure shaft	50
1.3 Power house and other buildings	
Power house	50
Other technical buildings	40
Office buildings	40
Staff houses & dwellings	40
Other non-techn. buildings	40
1.4 Infrastructure works	
Access and internal roads	
Asphalt	15
Concrete	25
Gravel	5
Fences	20
Concrete work	50
Large excavation	50

Item (Fixed Assets)	Useful life of Electrical and Mechanical Equipments
2 Mechanical Equipment	
2.1. Gates and valves, trash racks	
Gates	40

Valves	40
Trash racks incl. cleaning machine	25
Cranes, hoists	30
2.2. Turbines and P.H. Cranes	
Turbines	30
Cranes	30
2.3. Auxiliary Equipment	
Workshop equipment	10
3. Electrical Equipment	
3.1. Generators (incl.Gen. Auxiliaries)	30
3.2. Transformer	25
3.3. Station service supply	25
3.4. Control, Protection, Measuring Equipment	20
3.5. HV Switchgear	25
II. Diesel Power Plant	
1. Civil works	
Power house (CIS, HCB, Bricks)	50
Office & workshop buildings	40
Staff houses & dwellings	40
2 Electrical equipment	
Diesel genset	10
Control & protection	15
Transformer	25
Switchgear & auxiliaries	25
3 Mechanical equipment	
Fuel supply system	20
Water cooling system	15
Cranes & hoists	15

Item (Fixed Assets)	Useful life of Electrical Mechanical Equipments and Civil Works
III. Geo-thermal Power Plants	
1 Civil works	
Service building with office & workshop	40
Steam wells & heads	25
Staff houses & dwellings	40
2 Mechanical equipment	
Steam turbine	20
Pentane gas turbine	20
Pipes, valves & other mechanical equipment	15
Cranes & hoists	15
3 Electrical equipment	
Generator	20
Control & protection	20

Transformer	25
Switchgear & auxiliaries	25
IV Transmission Lines	
15-230 KV overhead line (steel lattice, tubular & concrete towers)	40
45-230 kV overhead lines (wooden pole on concrete foundation)	25
45-kV overhead lines (wooden poles foundation direct in soil)	25
V. Substations	
1 Civil work	
Control & switchgear building	40
2 Electrical equipment	
HV switchgear, outdoor	25
MV switchgear, indoor	25
Transformers	25
Control/protection devices	20
Communication equipment	15
VI Distribution Network	
1 Civil works	
Foundations, etc	40

Item (Fixed Assets)	Useful life of Electrical Equipments/buildings etc.
2 Electrical equipment	
15 Kv distribution lines	
Wooden poles	15
Steel poles	20
Concrete poles	20
Underground cables	25
400 V distribution lines	
Wooden poles	15
steel poles	20
Concrete poles	20
Underground cable	25
15/0.4 kV distribution transformers	20
Street lighting	20
Service connection	20
Meters	25
VII. Other assets	
Motor Vehicles	5
Office furniture & equipment	10
IT equipment and information system software	5
Impregnation plant	25

Store	40
Administrative & training building	40
Garage equipment	10
Deferred charges	5