



Regulatory Accounts Guidelines for the Electricity Sector

Preliminary Determination

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Abstract

Most licenses in the Electricity Sector contain a condition that the licensee maintain separated accounts. While these guidelines are applicable to the Electricity Sector as a whole, URCA's preliminary determination is that they be adopted by the Public Electricity Suppliers at this time.

Public electricity suppliers are recommended to implement robust measures for separating regulatory accounts following best practices in electric utility regulation.

Such measures are essential not only for regulatory adherence but also for enhancing operational efficiency and financial integrity. By implementing these steps, public electricity suppliers can ensure that their regulatory accounts are distinct and accurately reflect the costs associated with their regulated activities.

By establishing standardized procedures for account segregation, public electricity suppliers can also better manage and forecast financial outcomes, optimizing resource allocation and strategic planning. This foresight is vital for meeting both operational demands and long-term sustainability goals.

This approach enhances transparency and accountability and prevents cross-subsidization between regulated and non-regulated activities. Leading utilities have adopted comprehensive guidelines to delineate financial boundaries, enabling more accurate cost allocation and financial reporting. These practices are instrumental in fostering a fair, competitive landscape and protecting consumer interests.

These measures align with industry standards and support regulatory compliance by providing clear and distinct financial records. Such transparency is crucial for regulatory bodies to accurately assess public electricity suppliers' financial health and performance without interfering with unregulated business activities.

TABLE OF CONTENTS

1	INTRODUCTION	6
1.1	Background	7
1.2	Objectives of this consultation	7
1.3	Structure of the Document.....	8
1.4	Consultation Process	8
1.5	Confidentiality	9
1.6	Intellectual Property.....	9
2	LEGAL AND REGULATORY FRAMEWORK	10
3	OVERVIEW OF THE PROPOSED GUIDELINES FOR REGULATORY ACCOUNTS	12
3.1	Introduction.....	12
3.2	Purpose of the proposed Regulatory Accounts Guidelines and Regulatory Impact Assessment (RIA) ..	12
3.3	A Comparative review of the content and scope of Regulatory Accounts (RAs)	13
	International and Regional Approaches	13
3.4	Approach in relation to Regulatory Accounts Guidelines	21
3.5	Wording on the treatment of fuel in accounts separation	21
	3.5.1 Are the operating expenses and assets relating to fuel included in the regulatory accounts separation?.....	21
	Fuel Treatment in Accounts Separation	23
4	NEXT STEP.....	24
5	PRELIMINARY DETERMINATION	25
6	DRAFT ORDER	26
7	ANNEX A - SCHEDULE OF PROPOSED GUIDELINES/RULES FOR REGULATORY ACCOUNTS SEPARATION	27
1	Definitions	27
2	Methodological Approach	30
2.1	Proposed General Accounting Policies.....	30
2.2	Proposed Documentation of Accounting Policies and Use	30
2.3	Materiality	31
2.4	Information must be verifiable.....	31
2.5	Management Responsibility Statement	31
2.6	Records and audit trails supporting Accounting Separation Statements	31
2.7	Audit requirements	32
2.8	Reporting Cycle.....	32

2.9	General Information Sheet	33
2.10	Compliance Report	33
2.11	Documents to be delivered to URCA (Reporting Requirements)	33
2.12	Additional Information	34
2.13	Confidentiality	34
3	Information Requirements for Accounts Separation	35
3.1	Financial Statements	35
3.2	General Principles for Accounts Separation	36
3.2.1	Cost basis and cost allocation standard	36
3.2.2	Principles of revenue and cost allocation	36
3.2.3	Income Statement	37
3.2.4	Statement of Mean Capital Employed	38
3.2.5	Transfer Pricing.....	39
3.2.6	Accounts Separation Statements for Business Segments	40
4	The Relationship between Business Functions and Segments.....	41
4.1	Introduction.....	41
4.2	Vertically Integrated Business Segments.....	41
4.2.1	Generation of Electricity and Provision of Ancillary Services Business Segment.....	41
4.3	Supply Services Business Segment	42
5	Consultation Questions	45
5.1	Scope of regulatory accounts	45
5.2	Operating cost and revenue allocation	45
5.3	Assets and liabilities allocation.....	45
5.4	Transfer charges and related party transactions	45
5.5	Third-party transactions disclosure	45
ANNEX 1.	The Consolidated Income Statement Reporting Format.....	46
ANNEX 2.	The Consolidated Mean Capital Employed Statement Format	49
ANNEX 3.	Business Function Income Reporting Formats	50
ANNEX 4.	Business Functions/Segments Mean Capital Reporting Formats.....	51
ANNEX 5.	Business Functions Cash Flow Formats	52
ANNEX 6.	Business Functions Revenue Schedule Format	53
ANNEX 7.	Business Segments Cost Schedule Format	54
ANNEX 8.	Management Responsibility Statement	55

ANNEX 9.	Auditor’s Statement	56
ANNEX 10.	The Structure and Allocation of Cost.....	58
6	References	60

1 INTRODUCTION

The Utilities Regulation and Competition Authority ('URCA') is The Bahamas Electricity Sector's independent regulator and competition authority ('ES'). URCA is responsible for licensing and regulating all electricity generation, transmission, distribution, and supply within, into, from, or through the Bahamas.

URCA regulates the ES through the Electricity Act, 2024 ('EA'), which includes, inter alia, the functions and powers to issue regulatory and other measures to regulate the sector.

Furthermore, under section 28(8)(iv) of the EA, URCA is empowered to include as a condition in its license to PES that licensees maintain specified accounting records according to specified accounting principles.

URCA considers that effective regulation of the Public Electricity Suppliers (PES) requires the regulator to have relevant and accurate data concerning the finances of the PES. This is because, amongst other things, many of the decisions that URCA, as regulator, must make (for example concerning tariff setting and setting annual license fees) depend on URCA having access to timely, verifiable, granular and comprehensive accounting data from the utility.

URCA believes that those PES operating as an Approved Public Electricity Supplier should only be required to maintain specified financial accounting records and prepare financial accounts as required by URCA from time to time and on a case-by-case basis. URCA believes that Regulatory Accounts Separation, as set out herein, will likely become too burdensome and cost-ineffective for the smaller PES. URCA is of the view, however, that all PES with a Public Electricity Suppliers Licence (PESL) should be subjected to the requirements of Conditions 54 and 53 of their respective licenses and as per the Guidelines outlined herein.

URCA accordingly considers that it is essential for effective regulation to establish guidelines in relation to a system of accounts by which the regulated PES can record and categorize its myriad financial transactions and, as necessary, present accurate and coherent data concerning those transactions to URCA the regulator charged with ensuring that the utility performs its essential functions at a reasonable cost to customers.

As such, and in accordance with the powers granted to URCA under section 48(8)(iv) of the EA which is reflected in condition 54 of URCA's standard PES license, URCA proposes to develop Account Separation Guidelines for the ES that outlines the minimum requirements necessary for PES in relation to account records for regulatory purposes.

Per URCA's Standard Consultation Procedure, URCA intends to approach the implementation of its Regulatory Account Separation Guidelines in a two (2) staged approach. Firstly, through this Preliminary Determination document, URCA will outline its justification for implementing Account Separation Guidelines and obtain stakeholder feedback concerning proposed account separation principles. If URCA determines to implement Account Separation Guidelines in the ES, URCA will then undergo the appropriate regulatory procedure to establish its substantive Account Separation Guidelines for the ES.

This Preliminary Determination document accordingly sets out, and invites comments, on the guidelines and rules that should be applied to accounts separation in The Bahamas electricity sector. These rules align with the intent provisions of the Electricity Act, 2024 Amended (the EA) and the Public Electricity Suppliers Licences (PESL & APESL) under which the Public Electricity Suppliers operates. Conditions 53 and 54 of the PESL and APESL stipulate that the Public Electricity Supplier (PES) shall maintain separate and distinct accounts for its transactions in generating, transmitting, distributing, and supplying electricity. Furthermore, the Licence specifies that the PES shall, within a specified period, by URCA:

- a) Prepare and maintain accounting records in a form that enables the activities of any business unit specified by URCA to be separately identifiable; and
- b) Maintain accounts according to internationally comparable standards and prepare them according to rules approved by URCA.
- c) Prepare and maintain accounting records in a form that enables the activities of any business unit specified by URCA to be separately identifiable; and
- d) The accounts shall be maintained according to internationally comparable standards and prepared according to rules approved by URCA

1.1 BACKGROUND

Since establishing the new regulatory regime of the ES in January 2016, URCA has not issued a regulatory measure outlining the principles that licensees should abide by concerning accounting records in the ES. In addition, URCA has observed that the accounting data provided by licensees may contain data irrelevant to the licensee's regulated business. Regarding the issues and the powers vested in URCA by the EA and the license conditions, URCA indicated in its annual plan for 2022 and 2023 its commitment to consulting on Regulatory Accounts Guidelines (RAGs) to effect the PES accounts separation.

Adopting the Accounts Separation for regulated utilities will provide significant benefits to the utility's ability to assess its business, and, as important, will enhance the regulator's ability to carry out its obligation to ensure that utility services are being provided at just and reasonable rates. Moreover, the data collected pursuant to the RAGs will allow valid comparisons over time and among utilities, enhancing transparency and highlighting areas where further utility and regulatory examination is warranted. Additionally, as economies become increasingly global, the broad adoption of Accounts Separation will provide a degree of commonality among financial reporting systems that will increase the confidence of prospective investors in the electricity sector.

URCA now issues this consultation document on Regulatory Accounting Guidelines (RAG) for the Electricity Sector.

1.2 OBJECTIVES OF THIS CONSULTATION

URCA's goal is to consult on Regulatory Accounts Guidelines (RAGs) to establish accounts separation as per Section 13(2)(a), Section 14 of the EA, and Conditions 53 of the APESL and 54 of the PESL. This will ensure fairness in cost attribution, transparency in record keeping, and consistency in applying the methodology established.

To achieve this ultimate goal, several key issues must inform the development and construction of the RAGs, which this consultation seeks to address. These include:

1. The principles of the guidelines relate to the overarching regulatory criteria guiding the cost allocation process.
2. The cost allocation methodology refers to the conceptual technique to be applied to the attribution of cost; and
3. The scope of the RAGs; this addresses the nature of the responsibility for producing separated accounts and the business components that should be in the report.

URCA considers the development of RAGs to be of public significance with the potential to affect members of the public, licensees, and other stakeholders throughout The Bahamas in different ways. Therefore, pursuant to

section 19(2) of the EA, URCA issues this consultation document to afford persons with sufficient interests or who are likely to be affected by the outcome of this consultation to comment. URCA, therefore, encourages all stakeholders and interested parties to participate fully in this consultation process.

1.3 STRUCTURE OF THE DOCUMENT

The remainder of this consultation document is structured as follows:

Section 1:	Continues by outlining, <i>inter alia</i> , how persons may respond to and participate in this consultation process;
Section 2:	Outlines the legal basis and framework under which URCA is conducting this consultation process.
Section 3:	Overview of the proposed Regulatory Accounts Guidelines
Section 4:	Describes URCA's "Next Steps" in the consultation process.
Sections 5 & 6	Outline the Preliminary Determination and Draft Order
Section 7: Annex A:	Schedule of Proposed Rules and Guidelines and Consultation Questions (section 5)

1.4 CONSULTATION PROCESS

URCA invites written comments and submissions from members of the public, licensees, and interested parties on the issues raised in this consultation document. Comments and submissions can be shared on any aspect of this consultation document, and insofar as possible, each section has been numbered to facilitate easy reference. Persons may deliver their written comments or submissions to URCA's Director of Utilities and Energy either:

by hand, to URCA's office at Frederick House, Frederick Street, Nassau, Bahamas; or

- by mail, to P. O. Box N-4860, Nassau, Bahamas; or
- by email, to info@urcabahamas.bs.

All comments and submissions to this consultation document should be **submitted on or before 30 July 2025**. URCA will acknowledge receipt of all responses.

URCA's preferred format for written responses is as follows:

- Respondent's name

- Name of organization (or state whether respondent is a consumer)
- Email address or other address of respondent
- Response to Question 1
- Response to Question 2, etc.; and
- Any other matters you believe URCA should consider under the instant consultation process.

The questions asked in this consultation document have also been listed in section 5 of Annex A for ease of reference. A full explanation of the answers submitted, or views held by respondents on any of the issues raised or proposals made in this consultation would also be helpful.

1.5 CONFIDENTIALITY

URCA believes that, as a matter of transparency and good regulatory practice, it is important for the public and interested parties in this consultation process to have sight of the views and positions expressed by all respondents. As such, as soon as reasonably practicable after the close of the response date for this consultation, URCA intends to publish all responses on the URCA website.

However, URCA may treat confidential responses marked (in part or in full) as “Confidential”. Explanations should be provided to justify any information submitted on a confidential basis. In such circumstances, a redacted version should also be submitted to URCA. URCA has the sole discretion to publish any submission marked “Confidential”.

1.6 INTELLECTUAL PROPERTY

Copyright and all other intellectual property that form any part of a response to this Consultation will be assumed to be licensed to URCA for its use during this Consultation process.

2 LEGAL AND REGULATORY FRAMEWORK

This section of the consultation document details the legislative and other provisions under which URCA proposes to establish and implement account separation guidelines in the ES.

URCA's authority to act and issue this consultation document is derived from the legal framework established under the Utilities Regulation and Competition Authority Act, 2009 (URCA Act) and the Electricity Act, 2024 (EA).

The following sections outline the relevant provisions that empower URCA to exercise its powers and functions as proposed herein.

URCA is established as a public body under section 40 of the URCA Act. It is mandated to conduct its affairs in a manner that allows its revenues and funding to be derived from exercising its powers to impose charges or fees, independent of and in addition to statutory fund obligations.

Section 6(1) of the EA establishes that "the main goal and objective of the electricity sector policy shall be the creation of a regime for the supply of safe, least cost, reliable and environmentally sustainable electricity throughout The Bahamas".

Section 12 of the EA designates URCA as the independent regulator of the Electricity Sector (ES). The provisions of the EA and the URCA Act empower URCA to exercise its functions and powers.

Under Section 13 of the EA, URCA's primary role is to regulate the electricity sector according to the national energy and electricity sector policies' goals, objectives, and principles underpinning the policies. Section 13 (2)(a) stipulates that URCA shall operate independently and transparently to give the members of the public and regulated entities confidence in the regulatory process.

Section 14 of the EA stipulates, inter alia, that the functions and powers of URCA are to

(a) "review and determine that the rates and scale of charges comprising the tariff rate for electricity supply services proposed by a public electricity supplier are reasonable, reflect efficiently incurred costs and are not inconsistent with, or in contravention of, this Act or any other law and allow an opportunity for public input"

[...]

(k) require public electricity suppliers and other licensees to submit periodic reports, as determined by URCA, on their operations ..."

In granting licenses, section 28(8)(a)(iv) empowers URCA to include as a license condition that licensees be required to maintain specified accounting records and prepare financial accounts according to specified principles. URCA has, in fact, in its license conditions, implemented such an obligation as Public Electricity Suppliers and Authorised Public Electricity Suppliers are bound as a condition of their licenses, respectively, condition 25.1 of the PESL and 24(1) of the APESL, which states that:

"The Licensee shall exercise prudence in the purchase or acquisition of goods and services having regard to the quantity, timing, and nature of the goods or services required to enable it to discharge its obligations under this License"

This is particularly relevant as under Conditions 26.1 and 25.1 respectively, PES may engage in any other business other than the Licensed Business but it is mandated to keep separate accounts. Condition 26.1 of the Licence reads,

“The Licensee may engage in other business activities and shall keep separate accounts for its different activities. The Licensee’s profits and losses from such other business activities shall not be considered for the purpose of setting tariffs”.

Additionally, Condition 30.1 (b) states “URCA may require the licensee or any of its subsidiary Undertakings to provide URCA with such information, documents, accounts, returns, estimates, reports or other information required by URCA in the manner and at the times specified by URCA. URCA may use this information for, but not limited to, compiling statistics and publishing periodical reviews of the electricity Sector, and as required or permitted by the Act or other laws or legal process.”

Condition 54.1 states, “to assist in setting tariffs, the Licensee shall maintain separate accounts for generation, transmission, distribution, and supply services”.

Furthermore, Condition 54.2 states, “If so determined by URCA, the Licensee shall, within a specified period by URCA:

- (a) Prepare and maintain accounting records in a form that enables the activities of any business unit specified by URCA to be separately identifiable; and*
- (b) The accounts shall be maintained according to internationally comparable standards and prepared according to rules approved by URCA.”*

The cumulative effect of the foregoing statutory provisions and license conditions provides the regulatory framework by which URCA may establish guidelines regarding accounting principles and account separation.

3 OVERVIEW OF THE PROPOSED GUIDELINES FOR REGULATORY ACCOUNTS

3.1 INTRODUCTION

URCA proposes establishing Regulatory Accounts Guidelines to set out the form and manner in which PES must prepare financial statements to be submitted to URCA.

The Guidelines present a proposed set of rules for regulatory account separation for discussion and feedback from the stakeholders and outline the general principles applicable to PES's preparation of regulatory separated accounts. They also envisage that PES must prepare and maintain a Cost Allocation Manual, which sets out the rationale, assumptions, and parameters used to allocate revenues and costs to each service.

The proposed Regulatory Accounts Guidelines (RAG), which set out the rules and information requirements, are outlined in section A

In exercise of the powers conferred upon the Utilities Regulation and Competition Authority (URCA) by section 4 of the Utilities Regulation and Competition Authority (Amendment) Act, 2015 ("the Act") sections 13 and 14 of the EA and Condition 54 of the Public Electricity Licencees, 2016, the following Guidelines and attendant Rules are outlined herein in Section 7: Annex A

3.2 PURPOSE OF THE PROPOSED REGULATORY ACCOUNTS GUIDELINES AND REGULATORY IMPACT ASSESSMENT (RIA)

The purpose of the proposed guidelines herein is to provide the framework with rules for the structural and functional separation of costs of the business activities of the PES, to, among other things:

- (a) Implement Condition 54 of the Public Electricity Supplier Licence (PESL), which stipulates that "To assist in setting tariffs, the licensee shall maintain separate accounts for generation, transmission, distribution, and supply services
- (b) Ensure that the costs of regulated services and activities are allocated on a fair and reasonable basis and reflect the efficient costs of the respective services and activities; and
- (c) Ensure the availability of the information required to effectively regulate the vertically integrated utility and the authorised public electricity suppliers and establish the framework for the functional decoupling of business activities in the electricity power industry. The objectives of the Guidelines and rules are to:
 - i. Ensure the services provided by the PES with respect to the use of the T&D grid or other approved internal services are done on similar terms to equivalent services it would provide for itself;
 - ii. Ensure that the costs of generating units installed by PES under competitive tender are accounted for separately from the facilities it owns.
 - iii. Ensure that the purchasers of special services from PES are not required to pay more than a reasonable cost for the services used.
 - iv. Monitor compliance with the prohibition on cross-subsidies contained in the Guidelines

3.3 A COMPARATIVE REVIEW OF THE CONTENT AND SCOPE OF REGULATORY ACCOUNTS (RAs)

Broadly, URCA considers that any proposed guidelines will outline the principles for the separation of accounts necessary to satisfy the requirements of the EA, PESL, and APESL, including:

- i. The accounting record that must be maintained.
- ii. The requirements and format for reporting to URCA and when such reports must be provided to the regulator.
- iii. The methodology should inform how revenues and costs must be allocated, including between regulated and non-regulated activities.
- iv. The requirements related to the reporting of business segments' transactions; and
- v. the audit requirements

In adopting RAGs, URCA is cognizant that all regulatory and other measures taken by URCA shall be proportionate to their purpose and issued in a manner that is transparent, fair and non-discriminatory under section 7(c) of the EA and section 8b of the URCA Act.

In reviewing the best practice approach and the theoretical guidance from recent publications on regulatory accounts separation, URCA has considered international and regional approaches related to regulatory account separation. In proposing these guidelines, URCA is guided by the regulatory principles and practices from jurisdictions that have adopted RA to inform price control reviews and monitor company performance between price control reviews. Table A highlights the regulatory bodies and the points of review.

INTERNATIONAL AND REGIONAL APPROACHES

URCA has considered international and regional approaches to regulatory account separation. The proposed guidelines are informed by regulatory principles and practices from jurisdictions that have adopted Regulatory Accounts (RAs) to inform price control reviews and monitor company performance between reviews.

Table A highlights the regulatory bodies and points of review in various jurisdictions.

Table A: A Comparative review of the content and scope of Regulatory Accounts in three (3) different Regulatory Jurisdiction.

<u>FERC Uniform System of Accounts (USoA), USA</u>	OFGEM, United Kingdom, UK, Regulatory Accounts – General Principles Guiding the Regulatory Accounts	Office of Utilities Regulation (OUR), Jamaica – Accounts Separation Guidelines, Notice of Proposed Rulemaking
• According to the Public Utility Accounting Manual 2018¹ Electric utilities must complete some form of a standardized annual report to an oversight body, generally at the state level. These forms are often organized in a format consistent with the FERC Uniform System of Accounts. Electric utilities that are not using this system of accounts are required to convert their financial data into FERC format. This format of account is not a replacement for any statutory accounts report • One reason utilities in the United States adopt the FERC system for voluntary compliance is consistency and comparability. Using the industry standard chart of accounts, a utility	• The main rules governing the preparation of the regulatory accounts are set out in licence conditions. In broad terms the rules require the licensee to keep separate accounting records for each separate business, in the form that would be required by the Companies Act 1985 if the separate businesses were separate companies. Licensees are required to prepare regulatory accounts for each separate business, including a profit and loss account, balance sheet and cash flow statement. The accounts are audited by each licensee's external auditors. • The main purpose of regulatory accounts is to inform price control reviews and to monitor company	• The Notice of Proposed Rulemaking (NPRM) is a consultative document which sets out, and invites comments, on the guidelines that should be applied to accounts separation in the Jamaican electricity sector. The guidelines are in keeping with the provisions of the Jamaica Electricity Act, 2015 (the Act) and the Jamaica Public Service Company Limited (JPS) Electricity Licence, 2016 (the Licence) under which JPS operates. The Act stipulates that JPS, shall keep separate and distinct accounts for its transactions in the generation, transmission, distribution and supply of electricity. Furthermore, the Licence specifies that such accounts should be consistent with generally accepted accounting principles and industry best practice².

¹ Public Utility Accounting – A Public Power System's Introduction to the Federal Energy Regulatory Commission Uniform System of Accounts

² https://our.org.jm/wp-content/uploads/2021/04/nprm-accounting_separation_final_final_2018-04-18_0.pdf

<u>FERC Uniform System of Accounts (USoA), USA</u>	OFGEM, United Kingdom, UK, Regulatory Accounts – General Principles Guiding the Regulatory Accounts	Office of Utilities Regulation (OUR), Jamaica – Accounts Separation Guidelines, Notice of Proposed Rulemaking
accountant (and management) can effectively compare operating statistics with those of other utilities. These measurements of operating efficiency can be extremely helpful in identifying operational (financial) problems at an early stage. When examining utility costs, it is very beneficial to use the same "language" in defining costs that other utility accountants use. In the absence of this common "language," comparisons of such costs as "administrative and general expenses," can be very misleading. • Changes to the Uniform System of Account (USoA) have been and continue to be made from time to time. Each revision requires the issuance of a rule making docket, which is followed by public hearings and a comment period. An accounting order must then be issued by the FERC to make the revision effective. • the most compelling reason for an electric utility to use the FERC USOA is to meet the requirements of the	performance between price control review. • By developing the Regulatory Accounts Guidelines (RAGs) and defining a standard template for the regulatory accounts, OFGEM believes it is possible to achieve greater consistency in regulatory accounts both across time and between companies. This facilitates comparisons with the assumptions underlying price controls. In developing the RAGs and the standard templates OFGEM considered ensuring that the costs of implementing and maintaining any new arrangements are proportional to the benefits that the use of improved information will bring • Ofgem notes that when the adoption of the RAGs required major changes to the Utilities financial systems. the timetable will have to be adjusted and be flexible or an interim solution	• The NPRM outlines the legal basis for the accounts separation, identifies the methodological approach and principles applicable, and lays out the scope of activities that are required in the preparation of the accounts. OUR outlines the principles for Accounts Separation under the following guidelines: • Cost Accounting Methodology • Cost Allocation Principles • General Accounting Policies • Documentation of Accounting Policies • Changes to the Accounting and Cost Allocation Manual • Materiality • Determination of Substance • Verifiability of Information • Management Responsibility Statement • Supporting Records and Audit trail • Audit Requirements

<u>FERC Uniform System of Accounts (USoA), USA</u>	OFGEM, United Kingdom, UK, Regulatory Accounts – General Principles Guiding the Regulatory Accounts	Office of Utilities Regulation (OUR), Jamaica – Accounts Separation Guidelines, Notice of Proposed Rulemaking
regulatory jurisdictions under which the utility falls. • The FERC USOA is activity-based. • The USoA includes detailed descriptions of the various financial activities that are to be recorded under each account. In addition, it outlines instructions and definitions for use in applying the system of accounts by electric utility systems. The specific sections of the USoA are: I. Commission Order of Applicability II. Definitions III. General Instructions IV. Electric Plant Instructions V. Operating Expense Instructions VI. Balance Sheet Chart of Accounts & Descriptions	adopted. This issue was resolved before any RAGs are finalised. • RAGs should comply with UK GAAP for a London Stock Exchange listed company. However, in certain circumstances there may be a justification for alterations to ensure appropriate and relevant information is provided to the regulator. Where RAG differ from UK GAAP, RAGs will take precedence. It is recognised that GAAP is dynamic, and the RAGs will need to be monitored and updated in line with modifications to GAAP. OFGEM requires that regulatory accounts should be: ➤ prepared only by those separate licensed businesses subject to price control. ➤ prepared on the basis of historical cost accounting principles but with disclosure of each company's	• General Information sheet • Reporting Requirements • Modification of Guidelines • Confidentiality. Further, OUR outlined the information requirements and provide the templates of Reporting Format for Accounts Separation as follows: • Accounts Separation Statements for Business Functions • Income Statements • Statements of Mean Capital employed. • Transfer Pricing Accounts Separation Statements for Business Segments

<u>FERC Uniform System of Accounts (USoA), USA</u>	OFGEM, United Kingdom, UK, Regulatory Accounts – General Principles Guiding the Regulatory Accounts	Office of Utilities Regulation (OUR), Jamaica – Accounts Separation Guidelines, Notice of Proposed Rulemaking
VII. Electric Plant Chart of Accounts & Descriptions VIII. Income Chart of Accounts & Descriptions IX. Retained Earnings Chart of Accounts & Descriptions X. Operating Revenue Chart of Accounts & Descriptions XI. Operation & Maintenance Expense Chart of Accounts & Descriptions	estimate of its regulatory asset value. ➤ presented in such a way that they can be reconciled in a reasonably straightforward way with the assumptions underlying the price control and also with the statutory accounts. ➤ subject to a more rigorous audit process; and ➤ published annually and include more information and narrative. • In order to derive consistency in the Regulatory Accounts reporting Ofgem instructed the Public Electricity Suppliers (PES) to report their activities and services on the same basis. Each PES is required to provide a breakdown of its costs into the activities.	

<u>FERC Uniform System of Accounts (USoA), USA</u>	OFGEM, United Kingdom, UK, Regulatory Accounts – General Principles Guiding the Regulatory Accounts	Office of Utilities Regulation (OUR), Jamaica – Accounts Separation Guidelines, Notice of Proposed Rulemaking
	• Guideline on allocation of overheads stems from the premise that allocations should be carried out on the basis of a ‘reasonable’ estimate of the different workloads or underlying activities. Allocations should reasonably reflect the cost of services. Disclosures and explanations of all exceptions should be required. • Ofgem believe that activity reporting and additional rules for allocation of costs into these activities will make benchmarking of costs between PESs more transparent. In summary Ofgem RAGs mainly cover the following issues: • the level of detail that is included in the regulatory accounts. • the accounting policies to be used for each aspect of regulatory accounting. In most cases this entailed a reference to UK GAAP but in some cases such as capitalisation policy there will probably be a specific detailed policy	

<u>FERC Uniform System of Accounts (USoA), USA</u>	OFGEM, United Kingdom, UK, Regulatory Accounts – General Principles Guiding the Regulatory Accounts	Office of Utilities Regulation (OUR), Jamaica – Accounts Separation Guidelines, Notice of Proposed Rulemaking
	• the principles to be followed for accounting for cost attributions, cost allocations and inter-business recharges. In particular examining Service Level Agreements and how these types of charges can be verified; and • definition of the activity analysis structure and how that will be incorporated into the regulatory accounts.	

Regulatory Body	Country	Guidelines	Purpose	Requirements
FERC	USA	Uniform System of Accounts (USoA)	Standardized annual report, consistency, and comparability	Detailed descriptions, instructions, definitions, public hearings, and a comment period
OFGEM	United Kingdom	Regulatory Accounts – General Principles	Price control reviews and monitors company performance	Separate accounting records, audited accounts, historical cost accounting, and published annually
OUR	Jamaica	Accounts Separation Guidelines	Consistency with the Jamaica Electricity Act, 2015	Cost Accounting Methodology, Cost Allocation Principles, General Accounting Policies, Audit Requirements

3.4 APPROACH IN RELATION TO REGULATORY ACCOUNTS GUIDELINES

In reviewing and comparing the above international, regional, and national approaches to account separation, URCA has considered adopting the method and approach outlined in section 3.3, which compares the case studies.

In practice, most differences between the accounting policies of the utilities required to prepare regulatory accounts will probably appear more detailed than addressed by each country's Generally Accepted Accounting Practice (GAAP) or International Financial Reporting Standards (IFRS). Generally, GAAP or IFRS are designed to apply to the accounts of all companies within a country and, as such, are a framework of accounting principles. In contrast, the RAGs will be designed to provide accounting information for one type of company, mainly a utility company or a company. This distinction allows the RAGs to be as detailed as required, whereas GAAP has to be more general. This means that by having detailed rules in certain specific areas, applying those rules will ensure more consistency between the regulatory accounts of the companies concerned than would be achieved by just complying with GAAP or IFRS.

Additionally, the FERC system of accounts is a uniform system of accounts specific to the utilities, which is designed to achieve the same outcome of consistency and comparability. Using the industry standard chart of accounts, a utility accountant (and management) can effectively compare operating statistics with those of other utilities. These measurements of operating efficiency can be extremely helpful in identifying operational (financial) problems at an early stage. When examining utility costs, using the same "language" to define costs that other utility accountants use is very beneficial.

Essentially, the FERC System of Accounts and the proposed RAGs are synonymous. They both seek to establish rules and guidelines for reporting accounting information at a higher level of detail to address questions concerning the pricing of electricity services.

The rules and guidelines proposed herein are in keeping with the general approach and methodology commonly used internationally, proportionate to the legal framework, the enabling environment, and the objective of having the rules and guidelines in place. Additionally, the structure of the utility market is of significance. The rules and the level of detailed information that are required will vary. The FERC accounting system is relevant and more specific to the Structure of the Electricity market in the United States. Similarly, the rules and guidelines for a vertically integrated utility will require a different level of disaggregation of the costs and revenues associated with the operation of the integrated parts.

The URCA proposed RAG herein is synonymous with the principles and methodology commonly applied in other jurisdictions. In contrast, the proposed reporting format is consistent with that commonly applied to vertically integrated utilities in Island states.

3.5 WORDING ON THE TREATMENT OF FUEL IN ACCOUNTS SEPARATION

3.5.1 ARE THE OPERATING EXPENSES AND ASSETS RELATING TO FUEL INCLUDED IN THE REGULATORY ACCOUNTS SEPARATION?

Account separation is a tool for **disaggregating the costs and revenues associated with the component operations of** the PES integrated service. The PES must provide separate regulatory accounts to enable URCA to fulfil its functions under the EA.

From URCA's standpoint, the main objectives of implementing separate accounts/regulatory accounts in the ES are to:

- i. Support tariff regulation—protect end-users' interests regarding the electricity service's affordability. Separate regulatory accounts are essential to inform the level of electricity tariffs for end-users.
- ii. Monitor the performance of the licensee.
- iii. Close the information asymmetry between URCA and the regulated entity.
- iv. Allow for benchmarking of the licensee's performance relative to other service providers. Promote economic efficiency and sustainability in generating, transmitting, distributing, and selling electricity. Separated regulatory accounts inform the requirements for an adequate tariff, which incentivizes efficiency and allows for the licensee's sustainable functioning.
- v. Increasing the transparency of costs and profitability levels enhances the ability of independent power producers to compete with vertically integrated utilities. It also allows URCA to target regulatory controls at the natural monopoly elements of the sector, such as transmission and distribution networks, while reducing the regulatory burden on generation, for which the EA suggests that competitive bidding in procurement of resources may be possible.

The main business areas for which separate accounts are required are:

- Generation,
- Transmission & Distribution; and
- Supply business units,

The reporting requirements for Separated Accounts include three financial statements:

- Income Statement.
- Balance Sheet; and
- Reconciliation Statement.

The PES is required to submit audited statutory financial statements to the URCA as the regulator. These may be prepared on a consolidated group basis and must comply with Generally Accepted Accounting Practice (GAAP) or, in the case of the Bahamas, the International Financial Reporting Standards ("IFRS"). In addition, and as per regulatory accounts/accounts separation methodology requirements, URCA requires the PES to report separately for the main business areas noted above.

The elements of the balance sheet and income statement (the "accounts"), with corresponding accounting disclosures and notes.

The elements of the income statement include operating costs and revenues. In particular, the following information is required for each business unit:

- A breakdown of operating costs and revenues by type of activity and allocation rules by cost and revenue.

- The split of operating costs and revenues between internal transactions, external transactions with related parties, external transactions with independent parties, and the pricing mechanisms used for internal and external transactions with related parties by type of activity.
- Disclosure of third-party transactions related to activities unrelated to the generation or TD&R business units.

The elements of the balance sheet include a breakdown of:

- fixed assets (fixed assets register), including the disclosure of asset life assumptions, depreciation methods, other relevant details on asset valuation policies, and whether an asset is used as collateral for a liability.
- current assets and liabilities, and allocation rules by current asset and liability type.
- long-term liabilities if they are directly associated with a particular business unit or are collateralized with assets related to specific business units; and disclosure of the details of long-term liabilities.

The guidelines require the PES to demonstrate how the separate business units' regulatory accounts reconcile with the PES's statutory financial statements in a reconciliation statement.

FUEL TREATMENT IN ACCOUNTS SEPARATION

To the extent that fuel costs and revenues are embedded in the overall cost and revenues of the integrated business, it will be captured in statutory accounts and, by necessity, in separate accounts consistent with the draft document's methodology. The cost allocation methods will allocate all operating expenses and costs to the business units, including generation and T&D. Ensuring the utility provides segregated fuel information will require an alternative regulatory approach.

Fuel is treated as a pass-through component of the tariff, requiring different regulatory actions and guidance for monitoring prices charged to consumers and the type of fuel used.

A significant portion of PES's operating expenses relate to fuel costs for generating electricity, over which the PES has little control. Treating this tariff component as a pass-through is prudent and good regulatory practice, allowing the PES to recover significant costs.

4 NEXT STEP

URCA is issuing these RAGs to facilitate a reasonable time for stakeholders to assess the delivery of the required information to URCA for its monitoring and information purposes and clarify the way forward for the PES. URCA believes that URCA and the PES need to work closely together to create a Regulatory Accounts (RAs) framework within the outline of the proposed RAGs. URCA is proposing that PESL establish Accounts separation within the **next three years** from the issuing of URCA's final determination.

URCA will carefully consider all comments and submissions received within the prescribed timeline to respond to these RAGs. URCA may extend the timeline as necessary to facilitate the effective participation of the PESs. URCA intends to issue a Statement of Results and Final Decision to this Preliminary Determination within thirty (30) calendar days following the consultation period unless extenuating circumstances dictate otherwise (URCA will notify the public via its website). URCA will give full reasons for its decisions.

Consultation Question 1

Do you agree that the accounts of the bulk generation and T&D licensed business units should be separated from each other, from the accounts of the unregulated business units of Licensees (if applicable), and from the accounts of related parties? Discuss.

5 PRELIMINARY DETERMINATION

This section sets out the determination that URCA proposes to make, subject to URCA's consideration and review of any written representations and objections raised by interested parties. URCA's Determination will be addressed to, and will be binding upon, the Licensees referred to in the Determination:

"WHEREAS section 14 (1)(j)(k) of the EA empowers URCA to require PES and other licenses to submit periodic reports, as determined by URCA, on their operations and perform such functions as may be assigned to URCA by the EA or any other law in relation to the electricity sector.

WHEREAS Condition 30.1 (b) states "URCA may require the licensee or any of its subsidiary Undertakings to provide URCA with such information, documents, accounts, returns, estimates, reports, or other information required by URCA in the manner and at the times specified by URCA. URCA may use this information for, but not limited to, compiling statistics and publishing periodical reviews of the electricity Sector, and as required or permitted by the Act or other laws or legal process".

AND WHEREAS Conditions 53 and 54 of the APESL and the PESL stipulate that the Licensee shall maintain separate accounts for generation, transmission, distribution, and supply services to assist in setting tariffs. Additionally, if so, determined by URCA, the Licensee shall, within a specified period, by URCA.

- (a) Prepare and maintain accounting records in a form that enables the activities of any business unit specified by URCA to be separately identifiable; and
- (b) The accounts shall be maintained according to internationally comparable standards and prepared according to guidelines approved by URCA.

AND WHEREAS URCA has set out its methodology and guidelines for Separated Accounts, which are called Regulatory Accounts Guidelines.

AND WHEREAS URCA has set out in section 3 of this document its preliminary analysis regarding the subject matter of the determination to be made by URCA.

NOW THEREFORE, having regard to the foregoing and in exercise of its power under section 49 of the EA, URCA HEREBY DETERMINES THAT:

1. The Regulatory Accounts Guidelines for the Electricity Sector shall apply to licensees in the Electricity Sector whose licenses contain a provision for separated accounts. In particular, with Conditions 53 and 54 of the APESL and the PESL, respectively, and as set out in Annex 1 of this document.
2. URCA shall issue a Final Determination and may also issue an Order in this matter.

Dated the [date] day of [month] A.D., 2025

6 DRAFT ORDER

The Utilities Regulation and Competition Authority (URCA) has enclosed this draft order pursuant to section 49(8) of the EA. URCA proposes to issue this Order in conjunction with the Final Determination pursuant to section 63 EA.

WHEREAS by Final Determination made on [xx, xxx, 2025] URCA has determined that the Regulatory Accounts Guidelines for the Electricity Sector comply with section 14 (1)(a, j, k, and m) of Electricity Act, Condition 53 of the Authorized Public Electricity Supplier Licence and Condition 54 of the Public Electricity Supplier Licence.

IT IS HEREBY ORDERED that the Regulatory Accounts Guidelines for the Electricity Sector shall take effect as of [d, m, 2025]. Public Electricity Suppliers shall comply with the same in accordance with condition 54 of their license.

J. Carlton Smith

Chief Executive Officer

7 ANNEX A - SCHEDULE OF PROPOSED GUIDELINES/RULES FOR REGULATORY ACCOUNTS SEPARATION

1 DEFINITIONS

In these Guidelines and rules, unless the contrary intention appears, the following terms, words and phrases used must have the same meaning as in the Act, the PESL,

For the purpose of these Guidelines, the following definitions apply:

“Accounts separation” means an accounting method to distribute all costs amongst a company's various services, the disaggregation of accounts in a form that enables the costs and revenues associated with each production and/or service unit to be identified, functional, and allocated appropriately.

“Accounts separation Statements” refers to statements prepared by URCA per the provisions of sections 5 and 6 of the Guidelines. the EA and the PESL.

In these Guidelines, “Accounts separation” means the deconstruction and disaggregation of a company's accounts in a form that enables the costs and revenues associated with each production and/or service unit to be identified, functionalized, and allocated appropriately.

“Accounting and Cost Allocation Manual” or “ACAM” means a document prepared by the PES and approved by the URCA that sets out in detail the accounting policies and principles employed in preparing the company's Accounts Separation Statements.

“Auditor” means a qualified accountant authorized to independently and objectively examine the financial records to ensure they comply with generally accepted accounting principles.

“Board of Directors” means the governing body of the PES, which has the ultimate decision-making authority.

“Business functions” shall be defined as specified in Annex 1 hereof.

“Business segment” means the functional component of the utility that provides a single product or service or a group of related products and services and is subject to risks different from those faced in other functional components of the business.

“Common cost” means costs which cannot be directly assigned to a particular product or service.

“Cost driver” means any factor that causes a change in the cost of an activity.

“Direct cost” means a cost associated with inputs that can be traced directly and unambiguously to a specific good or service and recorded against the relevant product or service in the operator's accounting system.

“Directly Attributable cost” means a cost that is directly and unambiguously related to a service or product but is not recorded in the financial accounts against the product or service to which it is related.

“Distribution system” means the component of the national grid dedicated to conveying electricity at comparatively low voltage levels and delivering it to end users. It includes poles, transformers, lines, insulators, and other equipment on the national grid that allows for the transportation of power below 69KV.

“Electricity Act” or **“EA”** means the Electricity Act, 2024, and any subsidiary legislation enacted thereunder and in force, as amended occasionally.

“Electricity Sector” refers to the energy industry, which provides for the economy's electrification needs through the generation, transmission, and distribution of electricity via the national grid.

“Fixed cost” means a cost that remains unchanged irrespective of a firm's output level or sales revenue, although, in the long run, no costs are fixed.

“Fully Distributed cost” means a method in which the cost of a product or service is determined by allocating direct costs, indirect costs, and non-attributable common costs, so that no costs are left unallocated.

“General Information Sheet” means a document submitted along with the Accounting Separation Statements, signed by the Chief Executive Officer of the PES and approved by a resolution of the Board of Directors. It sets out information on the companies within the Corporate Group that owns the utility, along with charts on the ownership structure and relevant transactions within the group.

“Indirectly Attributed cost” means a cost shared by more than one service or product but can be allocated between services on a non-arbitrary basis.

“Joint cost” means a cost that cannot be traced directly to any good or service but can be linked to the cost of inputs associated with a well-defined set of goods and services produced by the firm.

“kWh” means Kilowatt-hour, the unit of energy used to measure electricity consumption.

“MWh” means Megawatt-hours, the unit of energy used for electricity production or consumption. A MWh is the product of electrical power and time.

“Management Responsibility Statement” means a declaration signed by the Chief Executive Officer of PES and approved by a resolution of the Board of Directors indicating that the company's management accepts full responsibility for the accuracy of the information presented in the relevant Accounting Separation Statements.

“MW” means Megawatt, the unit of electrical power equivalent to one million watts.

“National grid” means a network of high, medium, and low voltage power lines and other associated power system equipment that connect major generating plants and end users.

“URCA” means the Utilities Regulation and Competition Authority as defined in the Utilities Regulation and Competition Authority (Amendment) Act, 2015, and amendments thereto.

“URCA Act” means the Utilities Regulation and Competition Authority (Amendment) Act, 2015, and amendments.

“O&M” means the operation and maintenance of the utility plant as a part of the supply process of generating, transmitting, distributing, and supplying electricity.

“Statement of Mean Capital Employed” means a statement that sets out the arithmetic average values of capital over the reporting period for the relevant business segments.

2 METHODOLOGICAL APPROACH

2.1 PROPOSED GENERAL ACCOUNTING POLICIES

2.1.1. The Accounting Separation Statements prepared by the PES for the purposes of these rules and guidelines must:

- (a) Comply with the relevant Accounting and Cost Allocation Manual (ACAM) prepared by the PES under section 2.2 (as amended from time to time per section 2.2) and with the requirements of Annex 2 and Annex 3.
- (b) Comply with Generally Accepted Accounting principles unless a particular provision of the Guideline requires non-conformity with those principles.
- (c) Result in financial information that is relevant and reliable and that reflects the substance of the underlying transactions and events (see section 2.3); and
- (d) Report all material items (see section 2.3)

The accounting Separation Statements prepared for the purposes of these Rules and Guidelines are in addition to any other statutory financial reporting obligations of PES participants and their Affiliates.

2.2 PROPOSED DOCUMENTATION OF ACCOUNTING POLICIES AND USE³

2.2.1. PES must prepare an Accounting and Cost Allocation Manual (ACAM) which provides full proper documentation of the accounting policies and principles used to prepare the Regulatory Accounts Statements per these Guidelines, including:

- (a) The allocation methodologies used to allocate costs and revenues to and between business segments, including:
 - (i) A description of the basis, formulae, and or methodologies used for each cost and revenue item.
 - (ii) The reason for choosing the basis, formulae, or methodologies; and
 - (iii) The quantification of any factors applied in allocating unattributable costs or revenues, being in each case an allocation methodology that complies with the principles set out in section 3.4:
- (b) Depreciation policies and methodology for each class of assets (depreciation charges must be calculated based on either the appraisal value or the historical cost of the relevant asset (book value), depending on whether those assets have been reappraised, the economic life of that class of assets, and the weighted average remaining life of that class of assets; and
- (c) The transfer pricing policies used for transactions between Business Segments or between a Business Segment and another activity conducted by a member of the relevant PES.

³ This section reflects the standard approach and description on how the ACAM should be documented. The description of the accounting policies is similar in all jurisdictions using similar methodology and this is to ensure uniformity, for comparative purposes, across utilities and across jurisdictions. In this instance this rule may reflect similarity with Accounts Separation Guidelines, from other jurisdictions.

- 2.2.2. URCA may, from time to time, require the PES to make such changes to the ACAM prepared by the PES as URCA considers appropriate (including replacing that ACAM with one prepared or approved by URCA and the PES must thereupon make such changes and provide a copy of the ACAM to URCA
- 2.2.3. The PES may, from time to time, change the ACAM it has prepared, in which case it must thereupon provide URCA with a statement that sets out:
 - (a) The precise details of the proposed change.
 - (b) The reasons for that change; and
 - (c) The effect of that change on the Accounting Separation Statements

2.3 MATERIALITY

Regarding Section 2.1.1 (d), an item is considered material if its omission, misrepresentation or non-disclosure has the potential to prejudice the understanding of the financial position and nature of the business activities of a PES

2.4 INFORMATION MUST BE VERIFIABLE

PES must maintain (or ensure the maintenance of) general record-keeping and accounting arrangements that enable information provided in the relevant Accounting Separation Statements to be verified.

2.5 MANAGEMENT RESPONSIBILITY STATEMENT

The Accounting Separation Statements prepared by a PES for the purposes of these Guidelines must be accompanied by a statement which evidences the responsibility for the information contained in those Accounting Separation Statements (Management Responsibility Statement) in the form provided in Annex 8. A Management Responsibility Statement:

- (a) must be signed and dated by the chief executive officer of the PES or by such person who is specifically authorised in writing by the governing body of that PES for that purpose; and

2.6 RECORDS AND AUDIT TRAILS SUPPORTING ACCOUNTING SEPARATION STATEMENTS

- 2.6.1. A PES must keep (or ensure the keeping of) accounting records that:

- (a) Correctly record and explain the events and financial position of each relevant Business Segment.
- (b) Enable an Auditor to properly form an opinion on the Accounting Separation Statements prepared by the PES per the requirements of these Guidelines; and
- (c) Provide sufficient information about transactions with and between the relevant Business Segments to allow an Auditor to reach an opinion about compliance with these Guidelines.

- 2.6.2. PES must maintain (or ensure the maintenance of) an audit trail which includes:
- (a) All information contained in the Accounting Separation Statements prepared by the PES, including the allocation of costs to Business Segments and information in relation to transactions with related parties; and
 - (b) All relevant records, including but not limited to copies of contracts or engagements between related parties.

2.7 AUDIT REQUIREMENTS

- 2.7.1 These Audit requirements are proposed to be in effect no later than two (2) years after implementation of Accounts Separation and two years of filing such accounts separation information with URCA. Thereafter, the frequency of Audit Requirement will be subjected to the efficacies of the regulatory imperatives. All Accounting Separation Statements prepared for the purposes of these Guidelines, when required, must be accompanied by a report prepared, signed and dated by an Auditor (Auditor's Report). that:

- (a) Contains the Auditor's opinion on whether the Accounting Separation Statements are presented fairly in accordance with the requirements of this Guideline, clearly identifying any exceptions and the effect of each such exception on the Accounting Separation Statements; and
- (b) Is in the format provided in Annex 9.

- 2.7.2 It is the responsibility of the Auditor to understand the requirements of these Guidelines, but URCA is available to consult with the Auditor if necessary to enable the Auditor to obtain a sufficient understanding of these Guidelines to prepare the Auditor's Report referred to in Section 2.7.1

- 2.7.3 PES must ensure that, under the terms of engagement of the relevant Auditor, that Auditor is obliged (at URCA's request) to meet with URCA and provide it with information regarding the performance of its functions under Section 2.8 as URCA requires.

- 2.7.4 URCA may appoint an Auditor, or require the Auditor engaged to provide the Auditor's Report under Section 2.7.1, to prepare a new or amended report that complies with 2.7.1 if:
- (a) URCA becomes aware that information provided in the Accounting Separation Statements is incorrect or does not comply with the requirements of this Guideline; or
 - (b) In URCA's view, the Auditor Report prepared under Section 2.8.1 is unsatisfactory or does not comply with the requirements of this Guideline.

- 2.7.5 PES must bear all of the costs associated with any work done by an Auditor under Section 2.7

2.8 REPORTING CYCLE

- 2.8.1 The reporting period for the Accounting Separation Statements prepared for the purposes of these Guidelines must be the Financial Year of the relevant PES.

- 2.8.2 Notwithstanding Section 2.8.1, URCA may require a PES to provide interim or additional accounting information as specified occasionally.

2.9 GENERAL INFORMATION SHEET

- 2.9.1 If any changes are made during the course of the PES granted its license and the preparation of the Accounting Separation, all Accounting Separation Statements prepared for the purposes of these Guidelines must be accompanied by a statement (General Information Sheet) that:

- (a) Lists the name and company registration number of each PES
- (b) Contains an updated organizational chart showing the structure of the company; and
- (c) Contains an updated Description of the activities undertaken by each PES

- 2.9.2 The General Information Sheet:

- (a) Must be signed and dated by the chief executive officer of the PES or by such other person who is specifically authorized in writing by the governing body of that PES for that purpose; and

2.10 COMPLIANCE REPORT

- 2.10.1 All accounting Separation Statements prepared for the purposes of these Guidelines must be accompanied by a certificate (Compliance Report) that:

- (a) The relevant PES has not violated any code of conduct during the period of the Accounting Separation Statements; or
- (b) If the relevant PES has violated any code of conduct during the Accounting Separation Statements, a statement of that fact and details of that violation.

- 2.10.2 The Compliance Report:

- (a) Must be signed and dated by the chief executive officer of the relevant PES or by another person who is specifically authorized in writing by the governing body of that PES for that purpose.

2.11 DOCUMENTS TO BE DELIVERED TO URCA (REPORTING REQUIREMENTS)

Within 5 months of the end of the Financial Year of a PES, that PES must be delivered to URCA:

- (a) The Regulatory Accounting Separation Statements prepared by the PES for that period should be prepared in accordance with these Guidelines.
- (b) The Management Responsibility Statement that is required to accompany those Accounting Separation Statements in accordance with Section 2.5.

- (c) The Auditor's Report on the Accounts Separation Statements for the reporting period, in keeping with section 2.7 of these Guidelines.
- (d) The General Information Sheet that must accompany the Accounts Separation Statements in accordance with section 2.9 of these Guidelines.
- (e) A consolidated copy of the PES's ACAM, where such ACAM has been amended so that it does not correspond with the consolidated copy of the ACAM that has previously been provided to URCA for the purposes of these Guidelines.

2.12 ADDITIONAL INFORMATION

2.12.1. The PES must also provide to URCA such additional information as URCA may require, supplementing the reporting requirements set out in these Guidelines, including:

- (a) supplemental financial and accounting information, as well as information of a non-financial nature, deemed necessary for the determination of the actual cost of the services provided by the company for its tariff review; and
- (b) URCA may require Other information from time to time to effectively carry out its regulatory responsibilities.

2.13 CONFIDENTIALITY⁴

2.12.1. Where commercially sensitive information is provided in compliance with these Guidelines, URCA shall:

- (a) restrict the disclosure of such information to its technical staff, legal advisors, and the relevant consultants on a need-to-know basis;
- (b) employ the information only regarding its regulatory considerations, statements, and the fulfillment of its statutory duties.
- (c) disclose information only if URCA deems it necessary to fulfill statutory obligations and per law governing such information. In such an event, URCA will notify the Licensee before URCA's final decision on the disclosure and allow the PES a reasonable opportunity to present its position.

⁴ This is consistent with confidentiality guidelines used and adopted in different jurisdictions that developed Accounting Separation. This confidentiality guidelines is adopted from Office of Utilities Regulation (OUR), Jamaica – Accounts Separation Guidelines, Notice of Proposed Rulemaking, 2018.

3 INFORMATION REQUIREMENTS FOR ACCOUNTS SEPARATION⁵

3.1 FINANCIAL STATEMENTS

- 3.1.1. PES is required to maintain separate accounts for each business function. Section 4 defines each function.
- 3.1.2. The accounts maintained under each business function must be treated as if it were a separate company. This ensures that costs and revenues, assets and liabilities, and reserves and provisions of each business function are individually identifiable in the accounts.
- 3.1.3. PES is required, per these Guidelines, to prepare and submit the following:
- (a) Income Statements for each business function;
 - (b) Statements of Mean Capital Employed (assets and liabilities) for each business function (see Annex 4;
 - (c) Cash flow Statements for each business function (see Annex 5)
 - (d) A Consolidated Income Statement aggregates all the individual business functions' income statements in a single statement (see Annex 1). This statement should contain the following reports:
 - i. a summary of revenues, operating costs, and the return for each business function;
 - ii. consolidated adjustments, with separate identification of each adjustment item; and
 - iii. A reconciliation of the Licensee's audited income statement.
 - (e) A Consolidated Mean Capital Employed Statement aggregates all the individual business function Mean Capital Employed Statements in a single statement (see Annex 2).
- 3.1.4. The Account Separation Statements must be prepared on the basis that:
- (a) Items that are directly attributable to a Business Segment are allocated accordingly;
 - (b) Items that are indirectly attributable to a business Segment are allocated using an appropriate allocation method; and
 - (c) Items that are unattributable to a Business Segment are allocated using a fair and reasonable method, per the principles set out in Section 3.2

Consultation Question 2

Do you agree that, for every licensed business unit, the elements that need to be reported include operating costs, revenues, current assets and current liabilities, and fixed assets? Discuss.

⁵ This section reflects the standard approach and description of the rules governing information requirement for Accounts separation across jurisdiction using similar methodology and this is to ensure uniformity, for comparative purposes, across utilities and across jurisdictions. In this instance this rule is adopted from Office of Utilities Regulation (OUR), Jamaica – Accounts Separation Guidelines, Notice of Proposed Rulemaking, 2018.

3.2 GENERAL PRINCIPLES FOR ACCOUNTS SEPARATION

3.2.1 COST BASIS AND COST ALLOCATION STANDARD

- 3.2.1.1 The Accounting Separation Statements must be prepared on a historical cost accounting basis, except to the extent any relevant assets have been reappraised, in which case the Accounting Statements must be prepared using the appraisal value of those assets.
- 3.2.1.2 A fully distributed cost allocation standard must be applied in preparing the Accounting Separation Statements so that all costs, including corporate overhead costs, are apportioned among Business Segments per the principles set out below.

3.2.2 PRINCIPLES OF REVENUE AND COST ALLOCATION

Allocation based on causation

- 3.2.2.1 Revenues and costs must be allocated to Business Segments based on causation to the extent possible. Each cost and revenue must be allocated to the activity that caused the cost or revenue.
- 3.2.2.2 From a practical standpoint, causation is determined by identifying one of the following relationships:
 - (a) A directly traceable cause and effect relationship between the revenue or cost and the execution of an activity or provision of a service, or product; or
 - (b) A verifiable relationship between the revenue or cost and the execution of an activity or provision of a service or product; or
 - (c) A direct causal relationship between a pool of common costs or revenues and the carrying out of an activity or provision of a service or product, such that allocation of the pool of common costs or revenues can be made using relevant, reliable, and verifiable factors, such as relative use.

Allocation of direct, indirectly attributable, and unattributable costs and revenues

- 3.2.2.3 **Direct costs/revenues** are costs/revenues that are solely incurred or generated in the undertaking or provision of a particular activity, service, or product, regardless of whether such costs/revenues are recorded in the accounts against the relevant item. Direct costs must be allocated to the relevant Business Segment based on this causal relationship.
- 3.2.2.4 **Indirectly attributable costs (or revenue)** are costs (or revenue) that are part of a common pool of costs (or revenue) but which can be attributed to a particular activity, service, or product through a non-arbitrary, commercially sustainable, and verifiable cause and effect relationship. Indirectly attributable costs (or revenue) must be allocated to the relevant Business Segment using an activity-based approach, where possible

- 3.2.2.5 **Unattributable costs (or revenue)** are costs (or revenue) that are part of a common pool of costs (or revenue) and which cannot be attributed to a particular activity, service, or product through a non-arbitrary, commercially sustainable, and verifiable cause-and-effect relationship. Unattributable costs must be allocated on a fair and reasonable basis, which must be documented in the relevant ACAM
- 3.2.2.6 If a causal relationship cannot be established for a particular cost (or revenue) without undue cost and effort, the cost (or revenue) may be allocated on a fair, reasonable and defensible basis, which must be documented in the relevant ACAM

Disclosure of costs and revenues

- 3.2.2.7 The Accounting Separation Statements must include a note that separately discloses each cost and revenue heading in the statement of income for each Business Segment.
- (a) The amount of direct costs and revenue
 - (b) The amount of indirectly attributable costs or revenue allocated to that Business Segment; and
 - (c) The amount of unattributable costs or revenue allocated to that Business Segment.

Depreciation

- 3.2.2.8 PES is required to prepare and document in its ACAM the methodology and policy pertaining to the depreciation of each class of assets. Depreciation charges computed based on the stated methodology and policy should be consistent with the Licence.

Transfer Pricing

- 3.2.2.9 The policies applicable to transfer pricing. These policies must be compliant with the requirements set out in section 3.2.5 hereof and inform the allocation of costs and revenues associated with transactions between business segments and activities between companies in the same business group.

Consultation Question 3

Do you agree with the approach to allocating all operating costs and revenues to the individual business units? Discuss.

3.2.3 INCOME STATEMENT⁶

- 3.2.3.1 Each business function listed in Annex 1 shall provide its own Income Statement. Each statement should show the revenues, costs, and operating result (i.e., profit or loss) for the segment (see Annex 3, 6 and 7)

⁶ Benchmark and adopted from Office of Utilities Regulation (OUR), Jamaica – Accounts Separation Guidelines, Notice of Proposed Rulemaking, 2018.

3.2.3.2 The following should be separately identified for reporting revenues:

- (a) Revenues from external sources.
- (b) Revenues from the company's internal businesses; and
- (c) Revenues from entities controlled by PES and/or related entities (including overseas parents and/or subsidiaries, if applicable).

3.2.3.3 A similar treatment should be given to the treatment of costs in each function. The following costs as described in Annex 6 should be clearly identified:

- (a) Fixed costs
- (b) Variable costs
- (c) direct, directly attributable, and indirectly attributable costs
- (d) allocated unattributable common costs
- (e) Charges paid to the company's internal business
- (f) charges paid to the company-controlled entities and/or related entities
- (g) Charges paid to other operators

3.2.4 STATEMENT OF MEAN CAPITAL EMPLOYED

3.2.4.1 The Licensee must prepare and submit a Statement of Mean Capital Employed for each business function. This statement must set out the arithmetic average capital values over the reporting period (see Annex 2 & 4). The Mean Capital Employed refers to the total written-down value of non-current assets and working capital. Therefore, the company's total assets are less than its current liabilities, excluding corporate taxes, dividends payable, and long-term liabilities.

In the Statement of Mean Capital Employed for each business function, PES must clearly identify the following:

- (a) Current assets by major line item
- (b) Non-current assets by major line item
- (c) Current liabilities by major line item
- (d) Non-current liabilities by major line item
- (e) Total mean capital employed
- (f) Return on capital employed

- 3.2.4.2 The return on the capital for each item in the Statement of Mean Capital Employed for the respective business segment should be consistent with the weighted average cost of capital as defined in the Tariff Guidelines⁷.

Consultation Question 4

Do you agree that assets should be allocated to the regulatory accounts of their main user, where the main user should make a transfer charge to any other business unit that also uses that asset? Discuss.

Consultation Question 5

Do you agree that current assets and current liabilities should be allocated to the business units in line with the principles of cost and revenue allocation? Discuss.

Consultation Question 6

Do you agree that long-term liabilities should be allocated to business units only if they are directly associated with a particular business unit, or are collateralized with assets that are associated with particular business units? Discuss.

3.2.5 TRANSFER PRICING

- 3.2.5.1 Transfer pricing refers to the process by which accounting values are assigned to a product sold in a transaction between divisions of a company or companies belonging to the same corporate group. This may lead to price distortions that unfairly favor a monopolist provider at the expense of its competitor. To minimize the likelihood of this occurrence, the following principles shall be applied to the pricing of the resources and products associated with transactions between business functions, divisions of the Licensee, or companies belonging to the same corporate group that owns the Licensee.
- (a) Electricity services shall be charged at the applicable tariffs specified in the current Rate Schedules.
 - (b) Competitive services shall be charged at the prevailing market rates.
 - (c) Shared services within PES shall be valued at the full cost of provision based on usage.
 - (d) Asset transfers from one division to another shall be valued at the realizable value of the resource.
 - (e) Allocation of the capitalized value of assets jointly used by two or more divisions within the company shall be based on service usage.

⁷ <https://www.urcabahamas.bs/wp-content/uploads/2021/07/Statement-of-Results-and-Final-Decision-Guidelines-and-Procedures-for-PES-Tariff-Review-Framework-ES-06-2021.pdf>

- 3.2.5.2 The Licensee shall be required to provide a detailed description of the process, cost build-up, and methodology employed to derive transfer prices between divisions within the company or those affecting its costs based on transactions between itself and companies within its Corporate Group.

Consultation Question 7:

Do you agree that, as far as is practical and proportionate, transfer charges and transactions with related parties should be valued at arm's length? Discuss.

Consultation Question 8:

Do you agree that, for every licensed business unit, Licensees should provide a breakdown of operating costs and revenues by internal transactions, external transactions with related parties, and external transactions with independent parties? Discuss.

3.2.6 ACCOUNTS SEPARATION STATEMENTS FOR BUSINESS SEGMENTS

- 3.2.6.1 Regarding the business segment, the Licensee shall be required to provide the following schedules segment identified in section 4 and Annex 1.
- a) Statement of Mean Capital Employed (assets and liabilities) for each business segment.
 - b) Cost Schedule Statement for each business segment that clearly identifies:
 - i. I. Fixed costs.
 - ii. Variable costs.
 - iii. direct, directly attributable, and indirectly attributable costs.
 - iv. IV. Allocated unattributable common costs.

4 THE RELATIONSHIP BETWEEN BUSINESS FUNCTIONS AND SEGMENTS

4.1 INTRODUCTION

The business Segments for the purposes of these Guidelines are set out in this section. A single business Segment may include activities conducted by more than one corporate entity.

4.2 VERTICALLY INTEGRATED BUSINESS SEGMENTS

The Vertically Integrated Business Segments are described below.

4.2.1 GENERATION OF ELECTRICITY AND PROVISION OF ANCILLARY SERVICES BUSINESS SEGMENT

4.2.1.1 This segment comprises

- i. **The generation** of electricity, (that is, the production of electricity, including using generating equipment for the production of electrical energy, including fossil fuel-driven generators, as well as those utilizing waste heat and renewable energy sources, and the provision of Ancillary Services (using generation assets)
- ii. **Transmission:** The assets included in this business segment are the facilities, equipment, and assets used for Transmission services, Transmission connection services, Metering services, and related business. These assets will include substations, and their contents, poles and equipment mounted thereon, service and transmission transformers, and the conductors to deliver electrical energy.
- iii. **Distribution:** This business segment includes the facilities, equipment, and assets used for Distribution services, Distribution connection services, Metering services, and related business. These assets will include Substations and their contents, Poles and equipment mounted thereon, service and distribution transformers, and the conductors used to deliver electrical energy.

4.2.1.2 The assets included in this Business Segment are all facilities and assets (including support plant) used for the generation of electricity or the production of Ancillary Services referred to in Section 4.2.1.1 The liabilities included in this Business Segment are all the liabilities incurred directly, or a relevant share of the shared liabilities which are incurred, to provide the services or undertake the activities referred to in Section 4.2.1.1

4.2.1.3 Revenues include all revenues derived from the sale of electricity or the provision of Ancillary Services referred to in Section 4.2.1.1, as well as revenues derived from the sale of related facilities, plant, or assets.

- 4.2.1.4 Costs include all operating and maintenance costs of assets associated with the generation, Transmission, and Distribution of electricity or the provision of Ancillary Services referred to in Section 4.2.1.1 and the depreciation of the assets referred to in Section 4,2,1,2

4.3 SUPPLY SERVICES BUSINESS SEGMENT

- 4.3.1.1 This segment comprises the sale of electricity by a Generation company, licensed as Public Electricity Suppliers (PES), to end-users in the PESL and APESL markets. It includes the:
- (a) Billing, collection, and the provision of customer services to such end-users in their capacity as electricity customers or to such other customers in their capacity as purchasers of electricity.
 - (b) Energy trading (including the purchase of electricity and hedging activities undertaken in connection with the sale of electricity to end users who are included in the APESL and PESL markets or to any other customers who are not end-users; and
 - (c) The sale of electricity to end-users who are included in the APESL and PESL markets or to other customers who are not end-users.

Table B: The Relationship between Business Functions and Segments

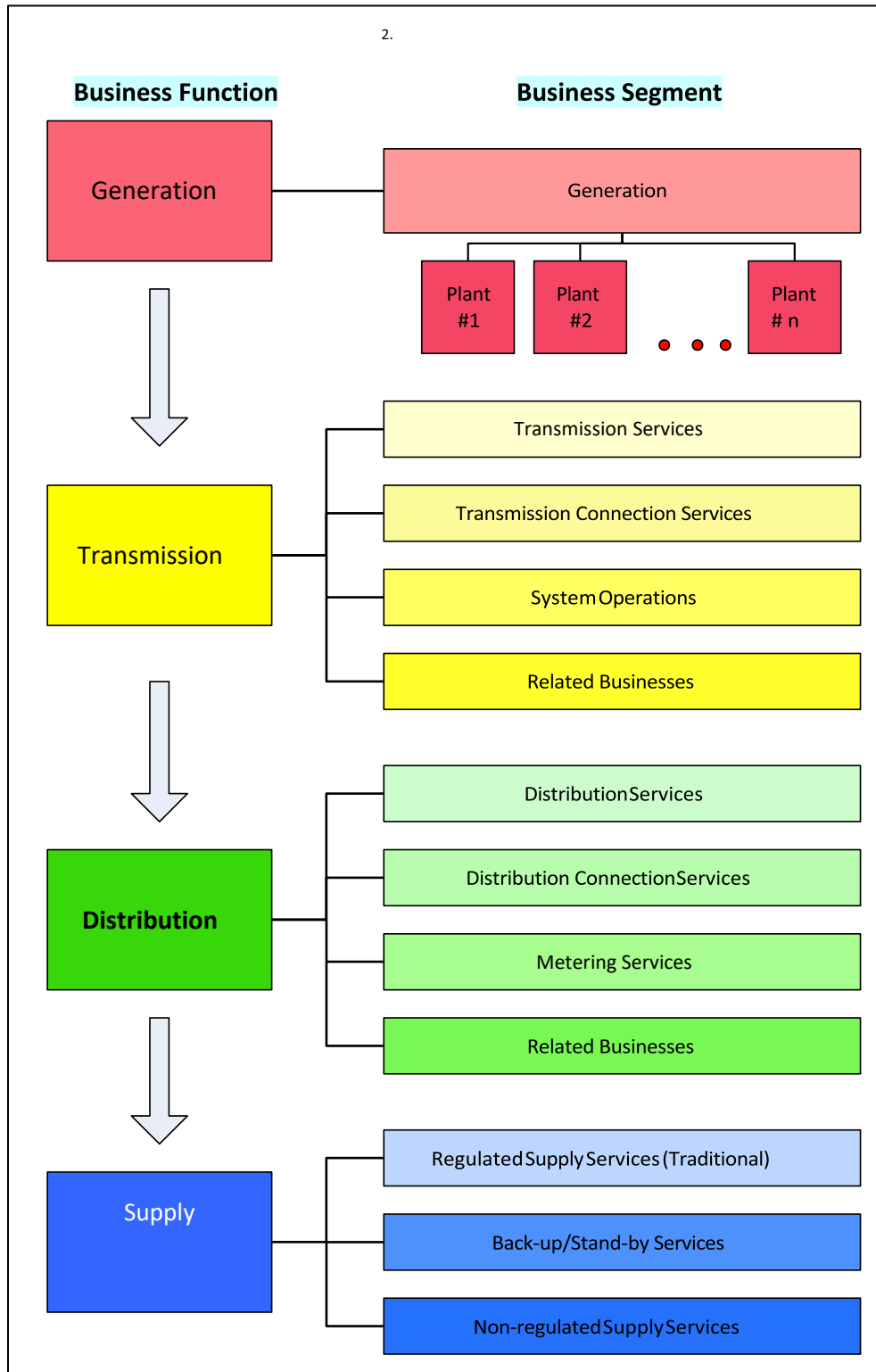


Table C: The Business Functions, Segments and Components

Function	Segment	Components
Generation	Generation Service	Generation of Electricity (Rate base)
		Generation of electricity(Utility owned IPPs
		Generation of electricity (purchases)
		Provision of Ancillary Services
Transmission	Transmission Services	Provision of ancillary services Provision of regulated transmission services Planning, maintenance, augmentation and operation of transmission
	Transmission Connection Services	Provision of access services Planning,maintenance, augmentation and operation of transmission connection assets
	System Operations	Provision of system operation services
	Related Businesses	Related businesses that uses transmission assets, facilities and staff
Distribution	Distribution Services	Provision of ancillary services Provision of regulated distribution services Planning, maintenance, augmentation and operation of distribution
	Distribution Connection Services	Provision of access services Planning,maintenance, augmentation and operation of transmission connection assets
	Metering Services	Provision of metering services (i.e> installation, commissioning, testing, repairs and maintenance of meters and meter reading, etc)
	Related Businesses	Related businesses that uses distribution assets, facilities and staff
Supply	Supply Services	Provision of regulated supply services (i.e. billing, collection, customer services, energy exchange etc) Provision of back-up/stand-by services

5 CONSULTATION QUESTIONS

Interested parties are invited to comment on the Regulatory Accounting Rules for the electricity sector. URCA welcomes responses to the questions outlined below.

5.1 SCOPE OF REGULATORY ACCOUNTS

Question 1: Do you agree that the accounts of the bulk generation and T&D licensed business units should be separated from each other, from the accounts of the unregulated business units of Licensees (if applicable), and from the accounts of related parties? Discuss.

Question 2: Do you agree that, for every licensed business unit, the elements that need to be reported include operating costs, revenues, current assets and current liabilities, and fixed assets? Discuss.

5.2 OPERATING COST AND REVENUE ALLOCATION

Question 3: Do you agree with allocating all operating costs and revenues to the individual business units? Discuss.

5.3 ASSETS AND LIABILITIES ALLOCATION

Question 4: Do you agree that assets should be allocated to the regulatory accounts of their primary user, where the primary user should make a transfer charge to any other business unit that also uses that asset? Discuss.

Question 5: Do you agree that current assets and liabilities should be allocated to the business units in line with the cost and revenue allocation principles? Discuss.

Question 6: Do you agree that long-term liabilities should be allocated to business units only if they are directly associated with a particular business unit, or are they collateralized with assets associated with particular business units? Discuss.

5.4 TRANSFER CHARGES AND RELATED PARTY TRANSACTIONS

Question 7: Do you agree that, as far as is practical and proportionate, transfer charges and transactions with related parties should be valued at arm's length? Discuss.

Question 8: Do you agree that, for every licensed business unit, Licensees should provide a breakdown of operating costs and revenues by internal transactions, external transactions with related parties, and external transactions with independent parties? Discuss.

5.5 THIRD-PARTY TRANSACTIONS DISCLOSURE

Question 9: Do you agree that third-party transactions need to be disclosed in the notes to the regulatory accounts? Discuss.

ANNEX 1. THE CONSOLIDATED INCOME STATEMENT REPORTING FORMAT

Public Electricity Suppliers

Total Statement of Income for the Year ended _____

Description	Revenue (BS\$'000)	Operating Costs (BS\$'000)	Profit before Interest & Tax (BS\$'000)	Interest & Tax Costs (BS\$'000)	Extraordinary Items (BS\$'000)	Operation Profit after Interest, Tax and Extraordinary Items (BS\$'000)
<u>Generation*</u>						
<u>Transmission*</u>						
<u>Distribution*</u>						
<u>Supply*</u>						
Elimination of Inter- company Transactions						
Total						
RELATED BUSINESSES⁸						
Total revenue						
Total costs ²						

⁸ Specify by type of revenue and by type of cost

Description	Revenue (BS\$'000)	Operating Costs (BS\$'000)	Profit before Interest & Tax (BS\$'000)	Interest & Tax Costs (BS\$'000)	Extraordinary Items (BS\$'000)	Operation Profit after Interest, Tax and Extraordinary Items (BS\$'000)
Other adjustments ⁹						
Elimination of Inter-company Transactions						
Total as per audited General Purpose Financial Statements						

⁹ Specify by type (account heading)

ANNEX 2. THE CONSOLIDATED MEAN CAPITAL EMPLOYED STATEMENT FORMAT

Public Electricity Suppliers

Total Statement of Income for the Year ended _____

Description	Total Assets	Total Liabilities	Net Assets (Liabilities)
<u>Generation*</u>			
<u>Transmission*</u>			
<u>Distribution*</u>			
<u>Supply*</u>			
Elimination of Inter-company Transactions			
Long-term borrowings, Provision for deferred tax, Provision for dividends payable			
Unallocated dividends receivable, Unallocated interest payable, Unallocated interest receivable			
Unallocated assets/liabilities ²			
Total			
RELATED BUSINESSES			
Assets & Liabilities for Related Businesses			
Shareholders' Equity as per the audited General Purpose Financial Statements			
• Vertically integrated			

ANNEX 3. BUSINESS FUNCTION INCOME REPORTING FORMATS

Public Electricity Supplier

Total Statement of Income for the year ended _____

Account code or reference	Description	Generation (BS\$'000)
	Revenue from the sale of electricity and provision of ancillary services Revenue from the sale of assets Other revenue (analyzed as appropriate)	
	Total Revenue	
	Maintenance Operating expenses (analyzed as appropriate) Depreciation – Historic cost Depreciation – Appraisal increment	
	Total operating costs	
	Profit before interest and tax	
	Interest	
	Profit before tax and extraordinary items	
	Tax Extraordinary Revenue items ¹ Extraordinary Expense items ¹	
	Profit after interest, tax and extraordinary items	

ANNEX 4. BUSINESS FUNCTIONS/SEGMENTS MEAN CAPITAL REPORTING FORMATS

Name of Public Electricity Supplier

Statement of Mean Assets and Liabilities as at _____

Account code or reference	Description	BS\$'000
	NON-CURRENT ASSETS	
	Utility plant and equipment – Historic cost	
	Buildings and improvements – Historic cost	
	Information technology – Historic cost	
	Motor vehicles – Historic cost	
	Other Assets (please specify) – Historic cost	
	Total Historic Cost	
	Utility plant and equipment – Accumulated Historic depreciation	
	Buildings and improvements – Accumulated Historic depreciation	
	Information technology – Accumulated Historic depreciation	
	Motor vehicles – Accumulated Historic depreciation	
	Other Assets (please specify) – Accumulated Historic depreciation	
	Total Accumulated Depreciation	
	Investments and advances	
	Land and development	
	Total non-current assets	
	CURRENT ASSETS	
	Cash and cash equivalents Receivables	
	Investments Prepayments Materials and supplies	
	Other current assets	
	Total Current Assets	
	TOTAL ASSETS	
	NON-CURRENT LIABILITIES¹	
	Provisions ² Loans	
	Total non-current liabilities	
	CURRENT LIABILITIES	
	Trade payables and accrued expenses Loans	
	Provisions	
	Total current liabilities	
	TOTAL LIABILITIES	
	NET ASSETS/(LIABILITIES)	

ANNEX 5. BUSINESS FUNCTIONS CASH FLOW FORMATS

Name of Public Electricity Supplier_____

Cash Flow Statement for the year ended as at_____

Account code or reference	Description	BSS'000
	Cash Flows from Operating Activities	
	Net income before tax and extraordinary items	
	Adjustments for depreciation – Historic cost	
	Adjustments for depreciation – Appraisal increment	
	Adjustments for foreign exchange loss / (gain)	
	Investment loss (income)	
	Interest expense (income)	
	Operating income before working capital charges	
	Decrease / (increase) in trade and other receivables	
	Decrease / (increase) in inventories	
	Increase / (decrease) in trade payables	
	Cash generated from operations	
	Interest paid	
	Income taxes paid	
	Cash flow before extraordinary items	
	Extraordinary gain / (loss)	
	Net cash from (used in) operating activities	
	Cash flows from Investing Activities	
	Acquisition of subsidiary	
	Purchase of plant and equipment (analyzed as appropriate) Purchase of land and buildings	
	Interest received Dividends received	
	Purchase of Other Investment Activities	
	Sale of Other Investment Activities	
	Net cash used in (from) investment activities	
	Cash Flows from Financing Activities	
	Proceeds from insurance of stock	
	Proceeds from Long Term Debt (analyzed as appropriated) Payment of financial lease liabilities	
	Dividends paid	
	Net cash used in (from) financing activities	
	Net Change in Cash Equivalents	
	Cash and Cash Equivalents at Beginning of Year	
	Cash and Cash Equivalent at End of Year	

ANNEX 6. BUSINESS FUNCTIONS REVENUE SCHEDULE FORMAT

Name of Public Electricity Supplier _____

Revenue Schedule for the year ended _____

Account code or reference	Description	BSS'000
	Direct revenue Revenue from the sale of electricity and ancillary services Revenue from the sale of assets Other revenue (analyzed as appropriate)	
	Total direct revenue	
	Indirectly attributable revenue Revenue from the sale of electricity and ancillary services Revenue from the sale of assets Other revenue (analyzed as appropriate)	
	Total indirectly attributable revenue	
	Unattributable revenue allocated Revenue from the sale of electricity and ancillary services Revenue from the sale of assets Other revenue (analyzed as appropriate)	
	Total unattributable revenue	
	Total revenue	

Note: In addition to the above, it is mandatory to produce for each revenue item that has been allocated to the Business Function a supporting work paper that includes:

- (a) The amounts that have been indirectly attributed to the Business Function
- (b) The amounts that have been allocated to the Business Function
- (c) A description of the allocation basis
- (d) The numeric quantity of each allocation factor

ANNEX 7. BUSINESS SEGMENTS COST SCHEDULE FORMAT

Name of Public Electricity Supplier _____

Cost Schedule for the year ended _____

Account code or reference	Description	Generation BSS'000
	Direct costs , Maintenance, Operating expenses Depreciation – Historic cost, Depreciation – Appraisal increment Other costs (analyzed as appropriate)	
	Total direct costs	
	Indirectly attributable costs Maintenance Operating expenses (analyzed as appropriate), Depreciation – Historic cost Depreciation – Appraisal increment	
	Total indirectly attributable costs	
	Unattributable costs allocated Maintenance Operating expenses (analyzed as appropriate), Depreciation – Historic cost Depreciation – Appraisal increment	
	Total unattributable common costs allocated	
	Total operating costs	
	Direct extraordinary items Indirectly attributable extraordinary items Unattributable extraordinary items allocated	
	Total Extraordinary Items	

Note: In addition to the above, for each revenue item that has been allocated to the Business Segment, it is mandatory to produce a supporting work paper that includes:

- The amounts that have been indirectly attributed to the Business Segment
- The amounts that have been allocated to the Business Segment
- A description of the allocation basis
- The numeric quantity of each allocation factor

ANNEX 8. MANAGEMENT RESPONSIBILITY STATEMENT

To: Utilities Regulation and Competition Authority (URCA)

The management of the (name of Public Electricity Supplier) accepts responsibility for all information and representations contained in the Accounts Separation Statements for the year ended [____]. The Accounting Separation Statements have been prepared per the provisions of the Regulatory Accounting Separation Guidelines for the (name of Public Electricity Supplier) dated [____] (the Guidelines) and satisfy the requirements stipulated by the Utilities Regulation and Competition Authority (URCA).

As such, we hereby state that:

- (a) The relevant systems of accounting and reporting are maintained to ensure that the necessary internal controls of assets, liabilities, and transactions are recognized and maintained.
- (b) Financial activities, transactions, and events are properly recorded; and that costs and revenues are appropriately allocated in accordance with the Guidelines; and
- (c) The accounting policies applied strictly conform to the requirements of the Guidelines and the policies and principles set out in the Accounting and Cost Allocation Manual.

This Management Responsibility Statement has been approved by a resolution of the Board of Directors of PES, dated [____]. A certified copy is attached to this Statement.

Signature_____ Name_____ Date ____

ANNEX 9. AUDITOR'S STATEMENT

To: Utilities Regulation and Competition Authority

Scope

We have audited the Accounts Separation Statements prepared by {name of PES} in the attached regulatory financial report for the year ended [].

Management Responsibility for the Accounts Separation Statements

The management of **(name of PES)** is responsible for the preparation and fair presentation of the Accounts Separation Statements in accordance with Regulatory Accounting Separation Guidelines for the **(name of PES)** (Guidelines) issued by the **Utilities Regulation and Competition Authority** (URCA). The management has determined that the Accounts Separation Statements satisfy the requirements of the Guidelines, including that:

- the system of accounting and reporting maintained by the management, which provides for the necessary internal controls to ensure that assets, liabilities, and transactions are appropriately recorded and recognized, and that revenues and costs are correctly allocated, has been implemented and maintained; and
- The accounting policies are consistent with the Guidelines' requirements and the approved Accounting and Cost Allocation Manual.

Auditors' Responsibility

Our responsibility is to express an opinion on the Accounts Separation Statements based on our audit. In the audit conducted no opinions are expressed on the appropriateness of accounting policies applied by URCA.

These Accounts Separation Statements have been prepared by the **(name of PES)** in keeping with the reporting requirements of the Guidelines established by URCA. We disclaim any assumption of responsibility for any reliance on this report, or on the Accounts Separation Statements to which it relates, to any person other than URCA, or for any purpose other than that which it was prepared.

This audit has been executed in compliance with generally accepted auditing standards in the Bahamas. Our procedures included examining, on a test basis, evidence supporting the amounts and other disclosures in the Accounts Separation Statements and evaluating significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the Accounts Separation Statements are presented fairly in accordance with the requirements of the Guidelines and the approved Accounting and Cost Allocation Manual.

Opinion

[To be completed by Auditors]

Name: Signature: Date:

Audit Opinion

It is our opinion that the Accounting Separation Statements have been correctly constructed in accordance with the Accounting Separation Guidelines, and that the Accounting and Cost Allocation Manual (ACAM) prepared by the **(Name of the Public Electricity Supplier)** and provided to the Utilities Regulation and Competition Authority (URCA) in all material respects, present fairly the following:

- (i) The Statements of Income for each Business Function.
- (ii) The Total Statement of Income of the **(Name of the Public Electricity Supplier)**;
- (iii) The Statement of Assets and Liabilities for each Business Function.
- (iv) The Statement of Assets and Liabilities of the **(Name of the Public Electricity Supplier)**; and
- (v) The Cash Flow Statement for each Business Function.

Material exceptions and their respective effects on the Accounting Separation Statements are as follows:

[Describe any material exceptions]

Date: _____

Firm: _____

Partner: _____

Address: _____

ANNEX 10. THE STRUCTURE AND ALLOCATION OF COST

Type of Costs

Cost in a firm may be broken down into two types of costs, fixed costs and variable costs:

1. *Fixed costs*: refer to costs that are independent of the quantity of output in the production of a product. These costs are not directly attributable to a single product when multiple products are produced in the production process. These costs are generally associated with the infrastructural facilities and are shared by several products in the production process.
2. *Variable costs* pertain to costs that vary with the output level. If a company produces a single product, then the variable costs are directly attributable to the product generated. If, on the other hand, the company produces multiple products, then these costs are indirectly attributable to each product generated.

Costs Attribution

In assigning cost or revenue to a specific business segment, a distinction must be made between the various classes of costs. As such, accounting items should be classified as follows:

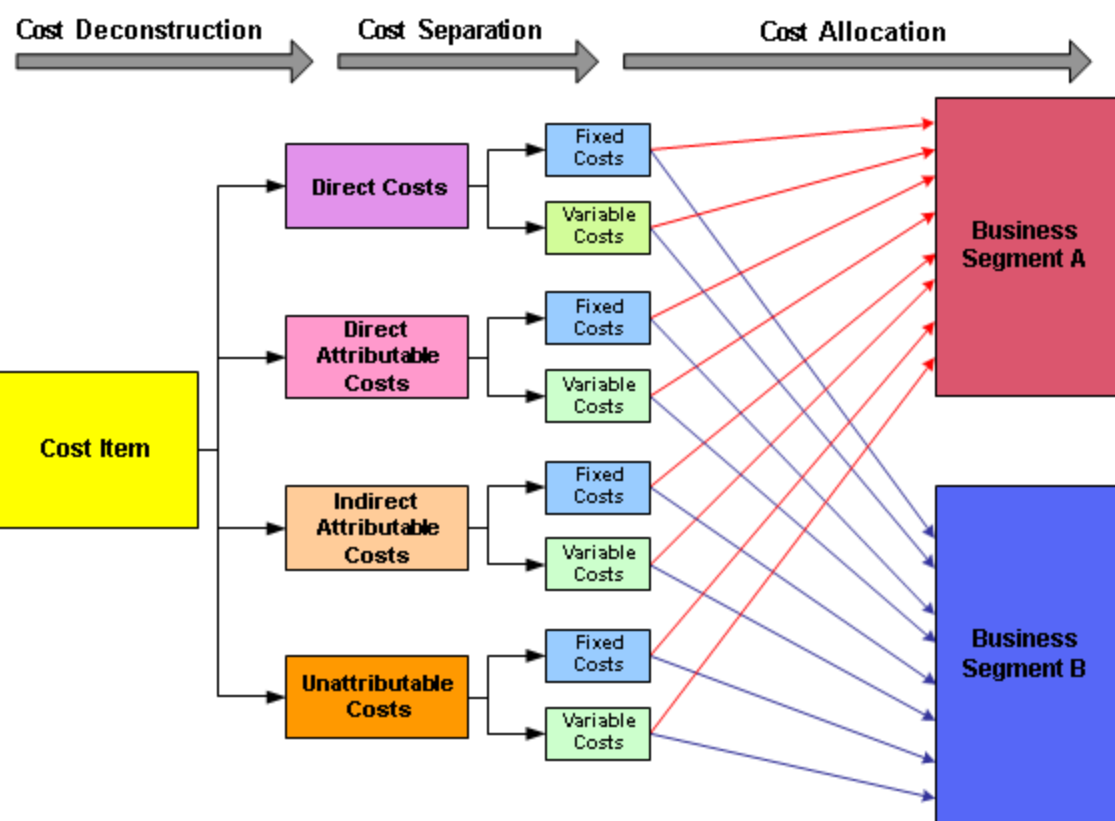
- a) *Direct cost/revenue* refers to costs incurred, or revenues generated exclusively by a specific product and are recorded in accounts assigned to that particular product.
- b) *Directly attributable cost/revenue* refers to costs incurred, or revenues generated by a specific product, but are recorded in accounts not exclusively assigned to the product.
- c) *Indirectly attributable cost/revenue* refers to costs incurred or revenues generated collectively by a group of products or services. Still, it can be traced to a particular product by an objective process based on cause-and-effect relationships.
- d) *Unattributable cost/revenues*: refers to costs conjointly incurred, or revenues collectively generated that cannot be objectively linked by a causal relationship to a particular product.

Cost Allocation Process

The company shall be required to record the costs incurred and revenues generated in its accounts to be directly allocated to products/services. In situations where direct allocation is not possible, costs and revenues should be attributed based on causation so that assignments can be made to the appropriate business segments.

The allocation of costs/revenues shall be based on clear and rational rules developed in the company's allocation manual. As shown in the Figure below, the cost allocation process starts with deconstructing costs/revenues to facilitate their allocation to their respective business segments.

THE COST ALLOCATION PROCESS



6 REFERENCES

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