



USAID
FROM THE AMERICAN PEOPLE



TECHNICAL ASSISTANCE TO THE ETHIOPIAN ENERGY AUTHORITY ON IMPLEMENTATION OF THE UNIFORM SYSTEM OF ACCOUNTS

FINAL PROJECT REPORT

March 2020

This publication was produced for review by the United States Agency for International Development (USAID). It was prepared by the National Association of Regulatory Utility Commissioners (NARUC).

TECHNICAL ASSISTANCE TO THE ETHIOPIAN ENERGY AUTHORITY ON IMPLEMENTATION OF THE UNIFORM SYSTEM OF ACCOUNTS

FINAL PROJECT REPORT

Project Title: Technical assistance to the Ethiopian Energy Authority on Implementation of the Uniform System of Accounts

Sponsoring USAID Office: AFR/SD

Cooperative Agreement #: AID-OAA-A-16-00042

Recipient: National Association of Regulatory Utility Commissioners (NARUC)

Date of Publication: March 2020

Author: Gagik Hovhannisyan



National
Association of
Regulatory
Utility
Commissioners

This publication is made possible by the generous support of the American people through the United States Agency for International Development (USAID). The contents are the responsibility of the National Association of Regulatory Utility Commissioners (NARUC) and do not necessarily reflect the views of USAID or the United States Government.

Contents

- I. Introduction 4**
- II. Deliverables..... 4**
 - II.1. Task 1 4**
 - II.2. Task 2 9**
 - II.3. Task 3. 11**
 - II.4. Task 4. 11**
 - II.5. Task 5. 11**
 - II.6. Task 6. 12**
- III. Key Accomplishments 12**
- IV. Next Steps for EEA 13**

I. Introduction

The National Association of Regulatory Utility Commissioners, through funding from Power Africa and the United States Agency for International Development (USAID), supported the Ethiopian Energy Authority (EEA) in clarifying its regulatory approach towards a Uniform System of Accounting (USoA), Regulated Accounting. NARUC implemented a scope of work which supported the EEA through short term technical assistance, providing leadership towards promotion of USoA to Ethiopian Energy Sector stakeholders, development of required document to build a strong legal basis for USoA, and by offering several approaches for implementation of USoA in Energy Companies.

Through existing research, interviews, and in-person stakeholder consultation, NARUC's embedded technical consultant reviewed the existing and pending regulations and methodologies associated with data collection, accounting practices and rate making.

NARUC's technical assistance developed the directive that enables the EEA to enforce the Energy Companies to use Ethiopian USoA; and provided the technical assistance required to enable the adoption of stated directive.

NARUC's technical assistance led and established a Working Group on Regulatory Accounting comprised of staff from EEA, Ethiopian Electricity Utilities (EEU) and Ethiopian Electricity Production (EEP) to coordinate the efforts of the companies on implementation of USoA in the companies. The Working Group served as focus training group on cost allocation, regulatory accounting practices, and financial analysis.

Through NARUC's technical assistance, the project technical advisor served as a liaison between NARUC, EEA, and key stakeholders to clarify the role of the regulator and prioritization of associated regulatory issues. He provided technical input and advice on NARUC's in-country peer-to-peer activities. The project technical advisor advised the EEA on other issues as determined necessary in close coordination with EEA leadership and NARUC.

II. Deliverables

Key deliverables associated with this task order are outlined below:

II.1. Task I

Description of Task: Conduct introductory conference call and review resource materials on Ethiopian regulator and context power sector, perform technical review of regulatory accounting framework, accounts and software, analyze data collection practices, conduct regulation review, conduct stakeholder assessment and develop workplan

There were 6 subtasks in Task I:

- Conduct Introductory Conference Call with NARUC Staff Development of Methodology
- Perform Technical Review of Existing Utility and Regulatory Accounts, Systems and Software
- Conduct Regulation Review for a 2016 Ethiopian USoA Directive
- Conduct Stakeholder Meetings and Analysis

- Develop Workplan
- Workplan Presentation to Leadership of EEA, EEU, EEP and USAID/Power Africa

In order to assess the current power sector situation in Ethiopia, the following studies were conducted:

- Study Scan of Accounting Information Systems in EEU and EEP
- Study of Ethiopian legislation related to financial regulation:

The results were presented to NARUC and EEA Authorities.

II.1.1. Task I.a

Description of Subtask: Conduct Introductory Conference Call with NARUC Staff.

Introductory Conference Call was conducted with NARUC prior the trip in order to clarify the key expectations and identify the supporting resources in Ethiopia.

II.1.2. Task I.b

Description of Subtask: Perform Technical Review of Existing Utility and Regulatory Accounts, Systems and Software.

The technical review of the EEU and EEP existing utility and regulatory accounts, systems and software was conducted by scanning the Accounting Information Systems (AIS) in stated companies.

The purpose of this task was to assess the capability of the system to adopt the Uniform System of Accounts as it was necessary to identify the weaknesses of an internal control system with regards to the quality of accounting information, risk assessment, business performance measurement, reliability of information system, etc. The scanning was organized by interviewing accounting and finance officials and requesting documentary samples supporting the statements of interviewees.

Both companies were interviewed on the following subject matter:

- General Accounting
 - Coding Approach of the Chart of Accounts
 - Accrual vs. Cash Base of Accounting
- Chart of Accounts
- Property, Plant, and Equipment Accounting
- Inventory Accounting
- Cash and Cash Equivalents Accounting
- Revenue
- Expenses
- Regional Accounting, Consolidation
- IT and Enterprise Resource Planning (ERP)
- Perspectives of USoA Implementation
 - IFRS working groups
 - Critical Issues, ERP capability

- Human Resource to establish USoA implementation working group

Based on this study scan, the following deliverable was developed and submitted to NARUC: *Task 1.b. Technical review of existing utility and regulatory accounts, systems and software and submit draft technical report.*

II.1.3. Task 1.c Conduct Regulation Review for a 2016 Ethiopian USoA Directive

Description of Subtask: Conduct Regulation Review for a 2016 Ethiopian USoA Directive

Regulation Review for a 2016 Ethiopian USoA Directive was conducted and based on the study of the following legal framework:

- General Accounting Regulation, IFRS
- Electricity Operation Regulation No 49/1999 (Council of Ministers Regulations No. 49/1999 Electricity Operations Council of Ministers Regulation)
- Council of Ministers Energy Regulations No 447/2018 (*draft*)
- Tax Regulation
- Uniform System of Accounts

General Accounting is regulated by *Proclamation #847/2014 to Provide for Financial Reporting*. This proclamation sets the superiority of IFRS for financial statements preparation for all companies operating in Ethiopia if there is no other rule set by the Accounting and Auditing Board of Ethiopia. During the regulation review, no special rules were set by the Accounting and Auditing Board of Ethiopia.

The Council of Ministers Electricity Operation Regulations No. 49/1999, declares Uniform System of Accounts (USoA) *as designed to support the price regulation efforts* and that USoA *shall be determined by the Agency [EEA] to be applied by all licensees*. By the end of 2018 Council of Ministers Regulations No. 49/1999 Electricity Operations Council of Ministers Regulation was replaced by Council of Ministers Energy Regulations No. 447/2018.

The Council of Ministers Energy Regulations No. 447/2018 restates the USoA *as is* in Council of Ministers Electricity Operation Regulations No. 49/1999. EEA remains the authority to adopt directives on Uniform System of Accounts.

Ethiopian Tax Regulation is based on Federal Income Tax Proclamation No 979/2016. Besides specific tax controls, this Proclamation rules the inter-relationship between cost drivers set for financial, industrial, and other regulations with taxes. Thus, the EEA regulation on specific depreciation or other cost driver shall be acceptable for taxation as base.

Based on this study, the following deliverable was developed and submitted to NARUC: *Task 1.c. Regulation review for a 2016 Ethiopian USoA directive.*

II.1.4. Task 1.d.

Description of Subtask: Conduct Stakeholder Meetings and Analysis

During all three in-country visits, there were continuous meetings, trainings, and brain-storming discussions with the following identified stakeholders:

- EEA:
 - Director General of EEA Mr. Getahun Moges
 - Head of License Department Mr. Arsema Belayneh
 - EEA, License Department officer, Mr. Yeshak Ayana
- EEP
 - Mr. Abebe Getaneh, Financial Manager of EEP
 - Mr. Ashenasi Melsew, as responsible person for IFRS implementation (USoA coordinator in the beginning)
 - Mr. Menur Yasin, Financial Analyst
 - Mrs. Tiruwork W/Michael, Manager of Treasury and Payroll Office
 - Mrs. Wondmagen Moges, Assistant Manager for Cash and Bank
 - Mr. Ashagre Tawye, Chief Cashier
 - Mr. Wondwosen Derete, Assistance Manager for Material Account Control
 - Mr. Endale Xinbera, Accountant I in Adama I Wind Farm Operation 56 MW
 - Mr. Birwayenu Arlinu, ICT Director
 - Mrs. Lensie Edal, HR director
 - Mrs. Hanni Kebede Assistant of fixed asset Manager
 - Mr. Mindaye Assefa, Finance Administration Officer I
 - Mr. Muluken Tazesse Ayalem, Finance Manager of Addis Ababa Region Transformation Operation
- EEU
 - Mrs. Meaza, Financial Manager of EEU.
 - Mr. Habtamu Mulugefa, Funding management & investment head (USoA coordinator from USoA)
 - Mr. Abebe Molla, Financial Controller of Material & Property Account
 - Mr. Binyam Atnafe, IT Application Manager
 - Mrs. Genet Amde, Assistante of Fund Manager
 - Mrs. Yeshiwork Beihanu, Finance and Treasury Department Manager
 - Mr. Abiy G/Mariam, Head of Financial Department in South-East Region
 - Mr. Solomon T/Haimanot, IFRS&FAIR Program Manager
 - Mrs. Alemash Abrha, IFRS Team leader
- USoA, Power Africa
 - Lead Transaction Advisor for Power Africa in Ethiopia, Mr. Nebiyou Girma,
 - Legal Advisor for Power Africa in Ethiopia, Mrs. Sedania Gebre,
- MoWIE
 - State Minister Electric Sector, Dr. Frehiwot

Meetings were held for the purpose of the Accounting Scan in order to analyze the capacity of the Electricity Sector to implement Uniform System of Accounts.

Based on this study, the following deliverable was developed and submitted to NARUC for first visit: *Task 1.d. Stakeholder meetings and analysis.*

II.1.5. Task 1.e.

Description of Subtask: Develop Workplan

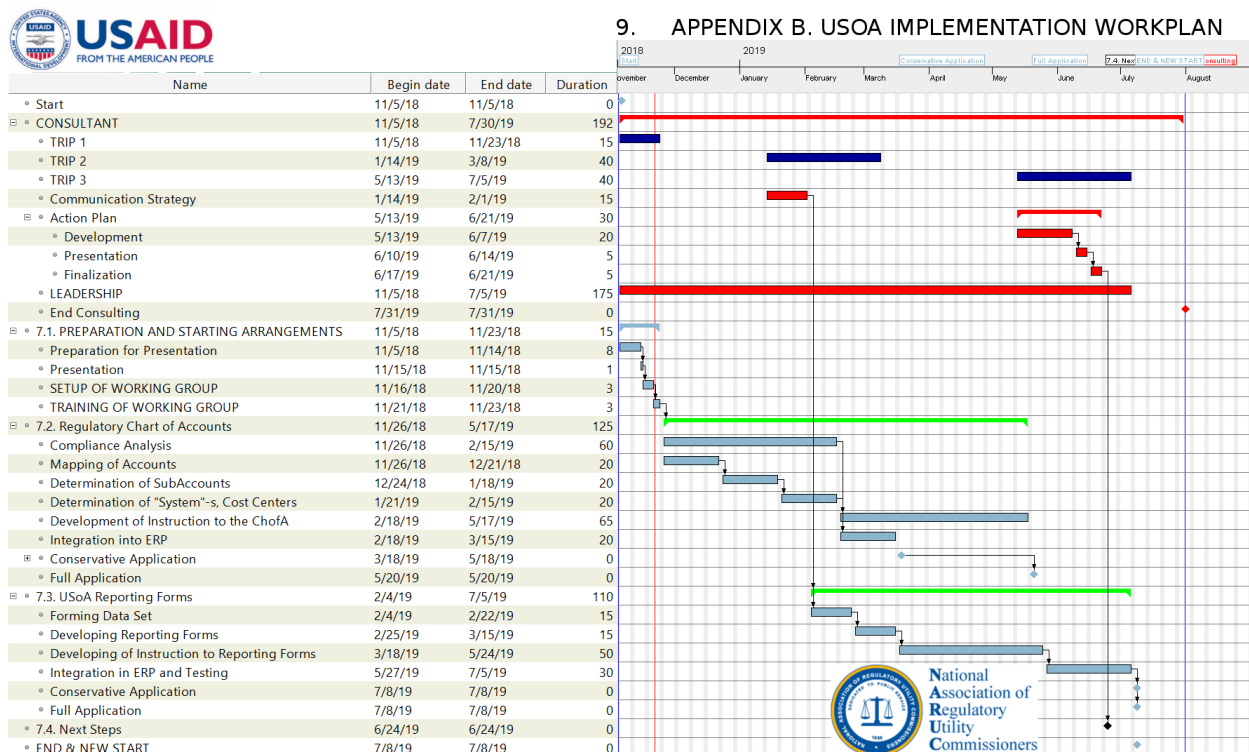
Based on studies and assessments, the following workplan was developed.

The main parts of stated workplan were determined as:

- Goal
- Brief-history
 - Draft USoA Implementation plan, June 2016
 - Follow up of USoA implementation plan, August 2016
 - Follow up of USoA implementation plan, December 2016.
- Current situation
 - Installation of new ERP
 - Transformation Accounting
 - Proclamation (Directive) on USoA
 - Staffing
- Scenarios:
 - Scenario A (Optimistic Case)
 - Scenario B (Moderate Case)
 - Scenario C (Pessimistic Case)
- Consultant's role
- USoA implementation workplan
 - Preparation and Starting Arrangements
 - Regulatory Chart of Accounts
 - USoA Reporting Forms
 - Next Steps
- USoA Implementation Map



• USoA Implementation Gantt Chart



The workplan was submitted to NARUC as the deliverable of Task 1.e. USoA implementation workplan.

II.1.6. Task 1.f.

Description of Subtask: Workplan Presentation to Leadership of EEA, EEU, EEP and USAID/Power Africa

The workplan developed in Task 1.e. was presented to stakeholders on November 15, 2018 with the title “USoA: Yesterday, Today, Tomorrow”.

Two presentations were conducted and delivered to the audience: (1) USoA: Introduction, Requirements, Challenges and (2) USoA: Implementation Workplan.

For more details see deliverable Task 1.d. Stakeholder meetings and analysis.

II.2. Task 2

Description of Task: Implementation of workplan and other advisory services to the EEA

As part of the workplan, the following steps were conducted:

- USoA Working Group that included representatives from EEA, EEU, and EEP.
- General and on-job training for working group members
- Development of mapping tables of companies
- Special trainings for both EEU and EEP.

Those steps were successfully implemented.

Following the workplan, companies were required to complete the integration of the Regulatory Chart of Accounts into ERP prior to the third country visit by NARUC's specialist but were unable to do so.

By the end of 2018, the EEU finished the development of its new Chart of Accounts based on IFRS and was in the process of developing its own ERP. While preparing the Terms of Reference for the procurement of an ERP contractor to assist with integration, NARUC emphasized the fact that accounting maintenance would be in accordance with the USoA but this was not taken into consideration during the ERP contracting phase. When USoA was legally adopted, the EEU disputed the superiority of USoA for the regulated companies to follow. For that purpose, special guidelines (*Guideline of EEA on application of USoA (Regulatory Accounting) by Regulated Energy Licensees*) were developed and submitted to EEA and NARUC.

The EEP has not commenced development of a new Chart of Accounts compliant with IFRS. Although, the contractor (PWC) did not raise any objections to the use of USoA as a basis for EEP's Chart of Accounts, there were several issues that required the attention of the EEA. Due to such issues, there is sufficient justification for supporting the EEA in the implementation of the USoA directive, as the EEA does not have the in-house capacity to do so. At any rate, the EEP was unable to integrate USoA within ERP.

II.3. Task 3.

Description of Task: Provide guidance in preparing a communications strategy and communication materials to leadership and decision-makers

Guidance in preparing a communication strategy and communication materials to leadership and decision-makers were embedded into the USoA Directive and approved by the EEA Board of Directors. EEA communication was governed by the communication rules of State Authorities, which needed to be adjusted for electricity regulation purposes and incorporated in the Directive.

(For more details see approved USoA directive.)

II.4. Task 4.

Description of Task: Develop action plan for EEA to write directive to adopt the 2016 Ethiopian USoA

Task 4 was transformed into actions to write the Directive for the 2016 Ethiopian USoA and to support the EEA's efforts to approve the stated Directive by the Board of EEA. The additional action plan was developed for building EEA capacity to support the implementation of the approved directive for the 2016 Ethiopian USoA.

Subsequently all efforts were directed towards obtaining approval of the Directive on Ethiopian USoA by the Board of Directors. For that purpose, a special training session was held for EEA Board members. Specific directions were discussed with General Manager of EEA, Ato Getahun.

As a result, Ethiopian USoA (2016) was approved by EEA Board and became a part of Electricity Regulation in Ethiopia, which represented a significant feat.

Within the framework of Task 4, a special four-day training on *Regulatory Financial Analysis 101* was provided to EEA officials and interns.

II.5. Task 5.

Description of Task: Develop directive to adopt the 2016 Ethiopian USoA

In order to develop the stated Directive, the following steps were applied:

- Study the format of similar directives
- Reformat 2016 USoA to be justified by the Directive's format
- Additions and clarification were included,
- Double interpretations were removed,
- Reporting forms based on USoA were developed
- Special requirements for reporting were determined

All amendments were discussed with, and made only if accepted by, the Director General of EEA, Mr. Ato Getahun.

II.6. Task 6.

Description of Task: Final report

The Consultant reviewed the work products, project notes and monthly invoicing reports to produce a summary of the project as a whole and a task-by-task description. The consultant also reviewed the outcomes of the report and developed the action plan needed to support USoA reform in Ethiopia by building the capacity for EEA.

III. Key Accomplishments

The list of deliverables, presentations and accomplishments are presented as follows:

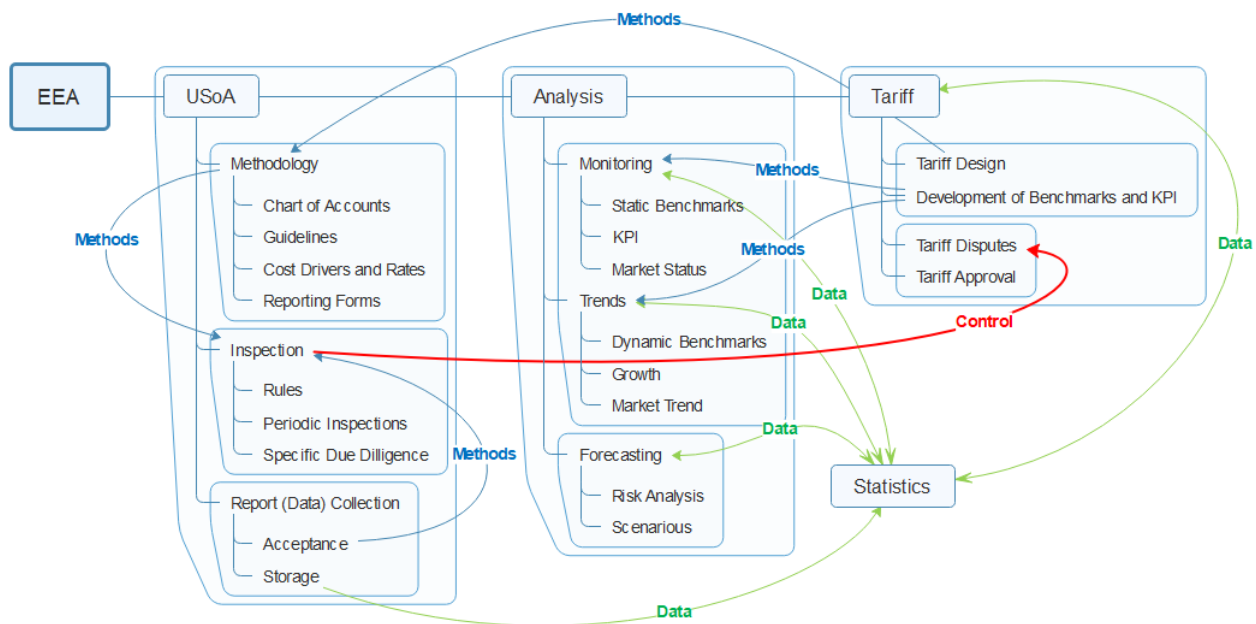
##	Name	Type
01	Task I.b. Technical review of existing utility and regulatory accounts, systems and software and submit draft technical report	Deliverable
02	Task I.c. Regulation review for a 2016 Ethiopian USoA directive.	Deliverable
03	Task I.d. Stakeholder meetings and analysis	Deliverable
04	Task I.e. USoA implementation workplan.	Deliverable
05	USoA: Introduction, Requirements, Challenges	Presentation
06	USoA: Implementation Workplan	Presentation
07	Establishment of USoA Working Group	Accomplishment
08	Mapping Table for EEU	Accomplishment
09	Mapping Table for EEP	Accomplishment
10	Development of Directive on Uniform System of Accounts	Deliverable
11	USoA of Ethiopia: Orientation (for EEA Board Members)	Presentation
12	Approval of Directive on Uniform System of Accounts by EEA Board	Accomplishment
13	USoA of Ethiopia: Implementation in EEU	Presentation
14	Guideline of EEA on application of USoA (Regulatory Accounting) by Regulated Energy Licensees	Deliverable
15	(Regulatory) Financial Analysis 101 (4-day training session)	Presentation
16	Action plan of USoA implementation support	Deliverable
17	Task 6. Final Report	Deliverable

IV. Next Steps for EEA

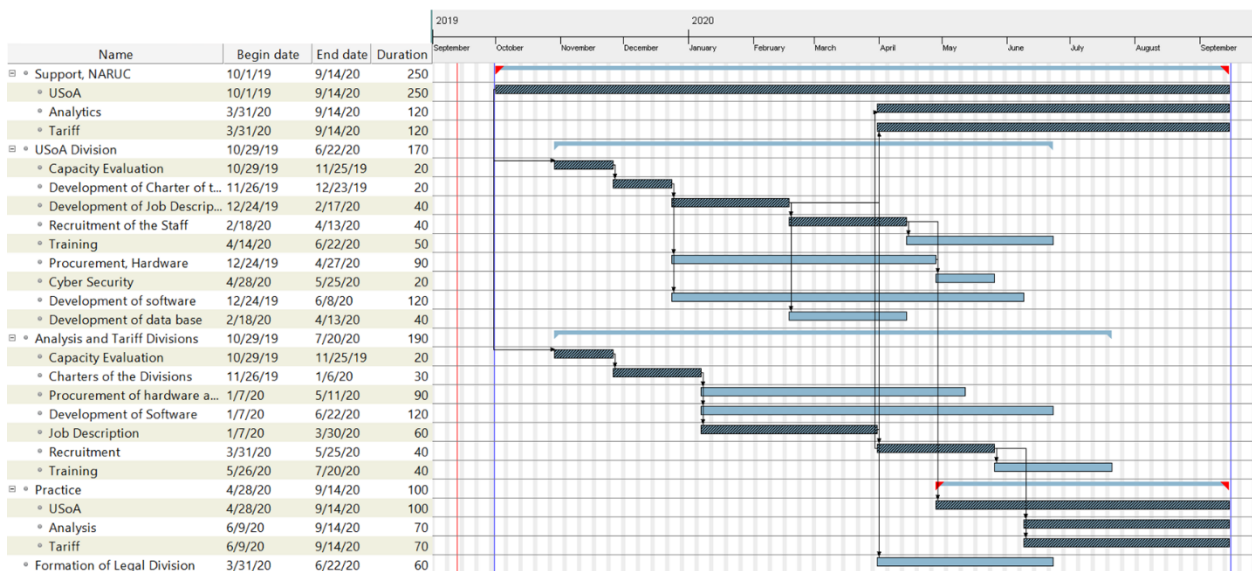
The observations and accomplishments resumed to development of Action plan in order to support USoA further implementation process, as key recommendations for regulator, donors, and other stakeholders.

The plan has a purpose to reorganize and build the capacity for the EEA to keep institutional USoA reform reliable and consistent.

In accordance with the Action plan, the EEA shall have additional divisions for USoA and Analysis that are interrelated with the Tariff division.



With support of international donors, the capacity shall be built for almost a year.



The Action plan was submitted to NARUC as Deliverable *Task 4. Action plan of USoA implementation support*. This plan can be used as a foundation and be adjusted to suit the time and resources available in Ethiopia and donor organization. However, the absence of similar support from stakeholders will jeopardize the USoA institutional reform.

V. Conclusion

An essential element of sustained investments in the power sector is the development of tariff structures that accurately reflects costs and risks, and provides a rate of return that encourages continued private sector engagement. The regulator plays an important role in the sector to carefully balance against the critical need to protect consumers, ensure affordability, and expand electricity access.

Ethiopia is working to make advancements in privatizing the sector and implementing such tools as the uniform system of accounts will be essential to better understanding the costs for providing service, improving the tariff setting process and supporting the financial viability of the utility to send the necessary price signals to investors.

Power Africa and USAID are proud to support NARUC's partnership with the Ethiopian Energy Authority, which seeks to bolster the regulatory framework underpinning the electricity sector and create an enabling environment for investment.

This technical assistance delivered strong objectives, roadmaps and other resources, and meetings where power sector stakeholders have come together to discuss how to overcome challenges towards implementing a uniform system of accounts.

As a direct result of this technical assistance, the Uniform System of Accounts directive was passed by the Ethiopian Energy Authority Board of Directors. It is expected that with the completion of this project, the regulator is now in a better position to operate the USoA regulatory accounting structure adopted by other countries in East Africa.

By adhering to the Action plan of key recommendations the regulator, donors, and other stakeholders can support further implementation processes of USoA in Ethiopia.

For questions regarding this publication, please contact:

Erin Hammel (ehammel@naruc.org)

Meghan Riley (mriley@naruc.org)

National Association of Regulatory Utility Commissioners (NARUC)

1101 Vermont Ave, NW, Suite 200

Washington, DC 20005 USA

Tel: +1-202-898-2210

www.naruc.org/international