ELECTRICITY REGULATORY AUTHORITY

AFRICA ELECTRICITY SYMPOSIUM

UNPACKING CORPORATE AND REGULATORY FINANCE IN THE UTILITY SECTOR.

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INTRODUCTION

- Prices in perfectly competitive Economies/ Markets → DD and SS.
- creation of Monopolies…… with respective Market failures
- Regulator created to Mimic Competition; **Uganda among the 1st African countries to carry out the reforms.** **other SSA** have since undertaken similar reforms.
- **Regulatory objectives**
  - Encourage competition where possible mimic competition;
  - Encourage efficient
  - Set tariffs for cost recovery to ensure financial viability;
  - Encourage investment;

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CORPORTE AND REGULATORY FINANCE

Corporate finance: provides the framework for managing a company's financial resources including investments, capital structure and financial risk. (**IFRS**)

Regulatory finance: focuses on the legal and regulatory compliance aspects of financial activities. (**cost recovery, cost allocation and regulation of returns(USOA)**)

What is Regulatory Finance/Accounting?

- Practices and frameworks used by **regulated entities** to report financial and operational data to a **regulatory authority**.
- **Demonstrate compliance**, justify costs and investments, and support tariff or pricing decisions made by regulators.
- **regulatory accounting ensures transparency** and **cost reflectiveness** in pricing for services provided under monopolistic or public interest conditions.

Key Objectives of Regulatory Finance

- Transparency.
- Cost Allocation.
- Fair Tariff Setting.
- Performance Monitoring.
- Regulatory Compliance.

Regulatory Finance

Aspect	Regulatory Accounting Focus
Users	Regulators, not shareholders
Main Purpose	Transparency and justification of tariff-related costs
Reporting Basis	Modified rules, often aligned with regulatory frameworks rather than IFRS
Challenges	Cost allocation, asset valuation, reconciliation, data integrity
Outcomes	Supports tariff setting, incentivizes efficiency, enables performance tracking

Key Components of Regulatory Accounting

Component	Description
Regulatory Asset Base (RAB)	Basis for calculating return on investment
Allowed Revenues	Income allowed to be recovered through tariffs, based on costs + fair return.
Depreciation	Regulated asset lives used to calculate depreciation charges.
Cost Allocation Rules	Frameworks to allocate common costs between regulated and non-regulated business areas.
Capital & Operating Expenditures	Must be classified as prudent and efficient to be eligible for recovery.
Regulatory Adjustments	Includes disallowed costs, efficiency incentives, or penalties.

Similarities

Aspect	
Capital Investment Decisions	❑ Both involve evaluating long-term investments (e.g., capital projects, infrastructure).
Cost of Capital	❑ Use concepts like the Weighted Average Cost of Capital (WACC) to evaluate project viability.
Financial Modelling	❑ Both rely on tools like Net Present Value (NPV), Internal Rate of Return (IRR), and cash flow analysis.
Risk Management	❑ Both assess risks and uncertainties related to financing and investment choices.
Funding Sources	❑ Consider a mix of equity and debt financing.
Focus on Value	❑ Aim to optimize the value of the enterprise or service provided—either to shareholders or the public.

Key Differences

Category	Corporate Finance	Regulatory Finance
Primary Objective	❖ Maximize shareholder value or return on equity.	❖ Ensure fair returns to investors while protecting consumers from excessive tariffs.
Regulatory Oversight	❖ Driven by internal decision-making and market discipline.	❖ Subject to oversight by regulators (e.g., ERA, EPRA, EWURA, RURA..) who set limits on returns and prices.
Revenue Generation	❖ Revenue depends on market competition, pricing strategy, and demand.	❖ Revenue is based on regulated returns and cost recovery through tariffs.
Pricing Strategy	❖ Set based on market positioning, cost structure, and competition.	❖ Determined using tariff methodologies (e.g., rate of return regulation, price cap regulation).
Performance Metrics	❖ Earnings per share (EPS), return on equity (ROE), market share.	❖ Regulatory performance targets (e.g., efficiency, reliability, quality of service).

Key Differences

Feature	Corporate Finance	Regulatory Finance
Asset Valuation	❖ Market-driven; assets valued for strategic use or sale.	❖ Determined by the Regulatory Asset Base (RAB) and capital recovery schedules.
Incentives	❖ Incentivized by profit maximization.	❖ Incentivized by regulatory efficiency mechanisms (e.g., performance-based regulation).
Focus -Primary Objective	❖ Profit & value maximization	❖ Fair pricing & cost recovery
Returns	❖ Market-driven	❖ Regulator-set (e.g., via WACC) and affected by performance against set targets
Decision-making	❖ Shareholder-oriented	❖ Stakeholder-balanced (regulator, consumer, utility) Regulatory Oversight

Key Differences

Corporate finance

Evaluating long-term investments,

mix of equity and debt financing,

ensuring financial stability,

Depreciation = Wear & Tear

Maximizing shareholder value

Earnings per share, ROI,

(**GAAP & IFRS**)

Regulatory finance

Evaluating long-term investments ,

mix of equity and debt financing,

Promoting financial stability,

Depreciation=capital recovery;

protecting consumers, investors,

reliability, quality of service

(**USoA**)

REGULATORY FINANCE IN THE UGANDA ESI

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Determination of the RAB (**Investment**)

Implement the USOA & Cost Allocation

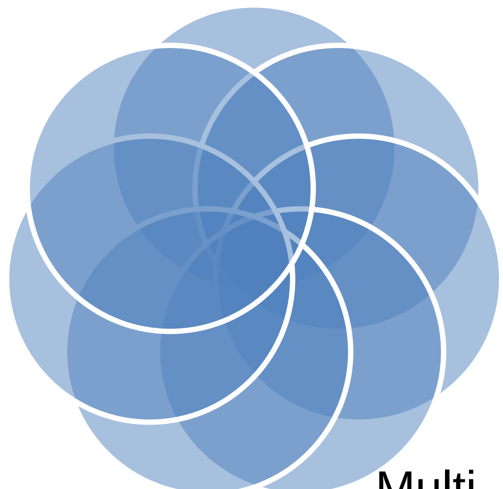
Develop Regulatory Cost Benchmarks

Multi- Year, Annual & Quarterly Tariff Reviews

Assess the Performance of Licensees (Ex-post)

Impact assessment (O&M Vs. Investment)

Perform Special Audits



CONCLUSION

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- ✓ In essence, corporate finance and regulatory finance are two sides of the same coin applied differently.

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THANK YOU

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