

Financial Analysis and Cost Accounting for Economic Regulation

17 – 19 March 2015

COURSE OUTLINE

1st ANNUAL COMPETITION AND ECONOMIC REGULATION (ACER) WEEK, SOUTHERN AFRICA

This Short Learning Programme (SLP) provides an introduction to financial analysis and cost accounting for economic regulation. The SLP is targeted at staff employed at economic regulators, departments within government and at regulated enterprises.

The SLP will be led by Thabiso Madiba, an accounting professional and academic at the University of Johannesburg. Dr Javier Tapia, a Judge at the Chilean Competition Tribunal, and previously chief legal counsel of the Chilean Electricity Generators Trade Association and legal advisor at Ofgem, the UK energy regulator, will address the key questions of financial analysis for regulatory decision-making. Ryan Hawthorne, an economic regulation and competition expert with extensive experience on telecommunications, will also teach on the course.

Accounting and finance are key areas of work at economic regulators and play a critical role in the determination of tariffs and the assessment of firm conduct. Different costing methodologies can result in very different tariffs for regulated entities or different evaluations of a firm's conduct. In capital-intensive industries capital investments can account for the bulk of a regulated entity's costs, and therefore the costs of capital need to be carefully weighed when arriving at a final tariff or evaluating a firm's conduct. The SLP will cover theoretical and practical aspects of these topics.

Approach

The course will be taught by means of lectures on theory and practical case studies on actual regulator decisions in order for course participants to develop a working knowledge of regulatory costing and finance principles. There will also be in-depth case exercises involving analysis of data and fact patterns by different groups who will present findings in feedback sessions. Key principles and tests taught during the lectures will be reinforced through the case exercises.



COMPETITION AND TARIFF COMMISSION



Programme

Day 1, 17 March 2015	
0830-0900	Registration and welcome
0900-1000	The role of financial analysis and cost accounting <ul style="list-style-type: none"> Using financial analysis and cost accounting in regulatory decisions Standards of evidence used in financial analysis and cost accounting
1000-1115	Activity based costing <ul style="list-style-type: none"> Variable & fixed costs The allocation of overhead expenditure Discussion on cost & revenue drivers
Tea break	
1130-1230	Measures of costs <ul style="list-style-type: none"> Volume based and non-volume based revenue drivers Activity based costing profitability analysis Resource consumption models Cost vs. benefit considerations
Lunch break	
1330-1500	Case study exercise: Setting mobile call termination rates in South Africa <ul style="list-style-type: none"> Includes an analysis of stand-alone costs, fully allocated costs, marginal costs, long run average incremental costs
Tea break	
1515-1630	Case study exercise: Presentations
Day 2, 18 March 2015	
0830-1030	Introduction to financial theory <ul style="list-style-type: none"> The weighted average cost of capital Measures of profitability and capital budgeting techniques
Tea break	
1100-1230	Introduction to financial theory (continued) <ul style="list-style-type: none"> WACC and the Capital Asset Pricing Model Overview of measures of WACC for utilities
Lunch break	
1330-1500	Case study exercise: Cost of capital and costs of an efficient operator in the Mittal Steel excessive pricing case
Tea break	
1515-1630	Case study exercise: Presentations
Day 3, 19 March 2015	
0830-1030	Introduction to financial analysis <ul style="list-style-type: none"> Outline of financial statements Statement of financial performance
Tea break	
1100-1230	Introduction to financial analysis (cont.) <ul style="list-style-type: none"> Statement of financial position Statement of cash flows
Lunch break	
1330-1500	Case study exercise: The evolution of investment and profitability of fixed line telecom operators, electricity utility and state transport company <ul style="list-style-type: none"> Analysis of financial statements
Tea break	
1515-1630	Case study exercise: Presentations
1630-1645	Wrap up and presentation of certificates