JPS | RE-IMAGINING ENERGY... TOGETHER

May 18, 2018
Ambassador Peter Black
Secretary to the Office
Office of Utilities Regulation
36 Trafalgar Road
Kingston 10

Dear Ambassador Black,

Re: Comments on guidelines to Account Separation

We are in receipt of correspondence to our Sam Davis on April 18, 2018 and are grateful for this opportunity to provide comments on the Notice of Proposed Rulemaking for Accounts Separation at the Jamaica Public Service Company Limited (JPS). We are committed to the development of an appropriate framework upon which the presentation of the financial statements may be undertaken which will facilitate the necessary regulatory oversight and ensures transparency and consistency. We also acknowledge the statutory requirement of Section 46 (1) of the Electricity Act, 2015 re the requirement of JPS as the Single Buyer to maintain separate accounts.

As a general overarching qualifier to our specific comments, JPS wishes to record that the matter of separation of accounts is not simply an accounting exercise. The request being made of the organisation is to fundamentally reshape the way it organises its business and therefore account for the financial relationships across the vertically integrated utility. It is therefore not an exercise that can be entered into without detailed consultation, will be iterative and will require significant allocation of time and resources to achieve the intended outcome while preserving organisational effectiveness to serve customers.

It is therefore JPS' considered view that notwithstanding the statutory requirement the Company and the Office have an obligation to ensure realistic expectations of the process and schedule, and the full implication of the resource requirements and associated costs.

The ability of JPS to produce the type of information identified in the suggested Guidelines will require foundational changes to our overall structure, governance mechanisms, management processes and substantial investments in our financial and information systems. As you would appreciate, prior to such

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a substantial financial commitment we would need to be able to clearly identify for customers the overall benefits expected to be gained from such an undertaking to sufficiently justify the associated costs and operational adjustment. Additionally, these types of modifications will need adequate lead time to ensure the objectives are achieved in an effective manner which ultimately produces accurate and reliable results.

We expect that the Company and the Office will continue to have ongoing dialogue on these concerns in order to ensure that ultimately customers are not burdened with additional unnecessary costs that push electricity prices upward. Therefore, notwithstanding these concerns regarding the overall adjustments being requested, we have included below our comments on various aspects of the Notice of Proposed Rulemaking for Accounts Separation. Please note that these comments are by no means exhaustive.

General Accounting Policies

Section 5.4.2 – The Guideline should also include a specific timeframe where a response from the OUR will be provided on submission of the ACAM.

Materiality

Section 5.6 – Whereas the guidelines provide a general understanding of what should be considered material for the purposes of the Account Separation statements, it does not include any specific guidance regarding the basis to be used in the determination of that materiality.

In an audit of the general purpose financial statements, the auditor is required to determine the materiality to be used in the course of their review based on International Standards on Auditing 320. These standards provide sufficient guidance which are internationally accepted as an appropriate mechanism to determine materiality levels and we therefore suggest that reliance be placed on these standards to drive the determination of the materiality for the purposes of the Separation Statements.

By having specific guidance surrounding materiality, it allows for a consistent approach in the preparation of the accounting statements and avoids any ambiguity.

Verifiability

Section 5.8 – There should be a specific period for which the records and accounting data should be retained. We recommend that the information be retained for a period of seven (7) years which would coincide with existing statutory requirements.

Audit requirements

Section 5.11.4 d) – During the audit of the general purpose financial statements, the auditors conduct their review of the company's financial statements and express their opinion regarding the adherence to International Financial Reporting Standards (IFRS). Their audit would therefore already include an assessment of the appropriateness of the company's accounting policies including the capitalisation of costs and the depreciation and amortisation of the assets.

We recommend that the auditors' review of the Separation Statements should therefore focus on the adherence to the Guidelines and the Accounting and Cost Allocation Manual (ACAM) in particular, rather than a review of amortisation and cost capitalisation which may result in a redundancy of effort and possibly at additional cost.

Section 5.11.8 – The Guidelines and ACAM should provide sufficient detail and clarity that it would allow management to appropriately prepare the Separation Statements to meet the needs of the OUR. Additionally, the audit of the financial statements as well as the review of the Separation Statements are designed to provide sufficient assurance that these have been prepared in accordance with the relevant accounting standards as well as the ACAM and the Guidelines. There should therefore be no need for a re-audit of these statements as the initial review would already indicate whether they have met the required standard.

We therefore believe that sufficient guidance should be included within the Guidelines and the ACAM to ensure that all requirements are clearly understood and can be appropriately followed. In such an event, Section 5.11.8 would be unnecessary.

General Information Sheet

Section 5.12.1 a) – The Guidelines only require the provision of the names of the entities that own JPS. We believe this should also include the names of any entities owned by JPS.

Section 5.12.2 b) – We believe that the Guidelines should allow for the approval of the General Information Sheet by the Board of Directors for a period of up to three (3) months prior to the submission. The CEO or other designated representative approved by the Board (as required by Section 5.12.2 a) can also sign and approve that there have been no changes to the information included in the General Information Sheet as of date of the Board approval.

Reporting requirements
Section 5.13.3 - Regarding requests for additional information, the Guidelines should also indicate that JPS should be allowed a reasonable time to prepare and supply the additional information being requested by the OUR.

Changes to Accounting & Cost Manual/Modification of Guidelines

Section 5.5/Section 5.14 – Given the potential implications and costs, which may arise from changes to established guidelines and methodologies, a standard time period should be established when reviews of the Guidelines and the Accounting and Cost Allocation Manual (ACAM) should be undertaken, rather than on an ad hoc basis. These reviews should coincide with the five (5) year Rate Case regulatory period so that any necessary changes can be incorporated for the relevant tariff period. By undertaken the reviews in this standardised manner, it allows for an appropriate assessment of implication of the changes and the proper planning surrounding its implementation.
Additionally, whether it is a change being made by JPS or requested by the OUR, an appropriate assessment of the benefits surrounding these modifications as compared to the requisite costs must be conducted by management to determine the necessity and desirability of such a change and the cost implications. In particular the ACAM will represent a tool to be used by the company in the management of its operations and therefore would require the adequate assessment by JPS management to determine whether such modifications are appropriate.
Furthermore any modifications which are made to the ACAM and Guidelines, should be implemented on a prospective basis so that it is reflected in financial periods subsequent to period that the change has been finalised.
We therefore disagree with the procedures outlined in Sections 5.5 and 5.14.

Accounts Separation Statement by Business Segment

Section 6.5 – The Separation of the Accounting Statements by Business Function as illustrated in Annex 1A is understandable and aligns with our interpretation of Section 46 of the Electricity Act (2015). We however consider the additional separation required by Section 6.5 to be onerous and unnecessary. The production of these additional statements will place an unnecessary administrative and financial burden on the company over and above what is required to appropriately assess the revenues and costs of the respective business functions.

We look forward to discussing further the overall subject of the Separation of the Accounts with the Office including the matters raised in this correspondence and the critical issue of scheduling and anticipate continued consultation.

Yours sincerely,
Jamaica Public Service Company Ltd.

Emru Williams
Financial Controller

Copy: Cedric Wilson, Director, RPME – OUR