
Office of Utilities Regulation

**DETERMINATION ON THE
ACCOUNTING DOCUMENTS FOR
CABLE & WIRELESS JAMAICA**

3rd Floor, P.C.J. Resource Centre, 36 Trafalgar Road, Kingston 10, Jamaica West Indies

Adoption Date: April 17, 2008



OFFICE OF UTILITIES REGULATION

DOCUMENT TITLE AND APPROVAL PAGE																	
DOCUMENT NUMBER: Tel 2008/02 : Det/1																	
DOCUMENT TITLE: Determination on “Accounting Documents for Cable and Wireless Jamaica”																	
<p>1. PURPOSE OF DOCUMENT</p> <p>This document provides the Office's Decision on the “Accounting Documents for Cable and Wireless Jamaica” regarding the preparation and publication of Regulatory Accounts”.</p>																	
<p>RECORD OF REVISIONS</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 20%;">Revision Number</th> <th style="width: 60%;">Description</th> <th style="width: 20%;">Date</th> </tr> </thead> <tbody> <tr><td> </td><td> </td><td> </td></tr> <tr><td> </td><td> </td><td> </td></tr> <tr><td> </td><td> </td><td> </td></tr> <tr><td> </td><td> </td><td> </td></tr> </tbody> </table>			Revision Number	Description	Date												
Revision Number	Description	Date															
<p>APPROVAL</p> <p>This document is approved by the Office of Utilities Regulation and the Decisions therein become effective on April 17, 2008.</p> <p>On behalf of the Office:</p> <div style="text-align: center; margin-top: 20px;">  </div> <p>.....</p> <p>J Paul Morgan Director General 15 April 2008 Date</p>																	

CONTENTS

OFFICE STATEMENT	4
CHAPTER 1: COMMENTS ON C&WJ'S ACCOUNTING DOCUMENTS	5
CHAPTER 2: DETAILED ATTRIBUTION METHODOLOGY (DAM) AND THE COST ATTRIBUTION METHODOLOGY (CAM).	10
CHAPTER 3: OFFICE DECISION	11

OFFICE STATEMENT

Pursuant to the Office's Determination on Regulatory Accounting Rules for the Telecommunications Sector, (Document No: TEL 2006/04 Vol.3) on May 24, 2006, Cable and Wireless Jamaica (C&WJ) submitted its Draft Accounting Documents on January 26, 2007. The Office initiated a public consultation on this matter and received one response from Mossel (Digicel) Jamaica Limited.

Based on the Regulatory Accounting Rules, the "Applicable Accounting Documents" means the document having that title that is approved by the Office and containing descriptions of the:-

- (i) Regulatory Principles,
- (ii) Attribution Methods,
- (iii) Transfer Charging System,
- (iv) Accounting Policies,
- (v) Costing Methodology(ies),

used in the preparation of each Regulatory Financial Statement and supporting notes to each statement. Where there is inconsistency between the requirements of one or more of the Applicable Accounting Documents, the documents shall have priority in the order listed above.

This Determination Notice serves as the Office's Decision regarding the Applicable Accounting Documents for C&WJ. This Decision is based on the assessment of C&WJ's complete set of accounting documents (including the Cost Allocation Methodology) which was submitted on October 25, 2007. In submitting these Documents, C&WJ indicated it has submitted:

"...a complete and revised version of C&WJ's Accounting Documents for Accounting Separation. The changes in the document reflect the following changes from the version submitted last January:

- 1) those associated with the anomalies we jointly identified in the Guidelines,
- 2) added detail to the operation of the OROS model structure spelling out the two-tiered structure of Resource and Activity Modules,
- 3) aligning the template and example of the DAM entries with those found in the actual confidential DAM, and
- 4) stylistic clean up.

We also append the draft (i.e., 05-06) confidential DAM as submitted to you earlier. We again emphasize that we will be revising the drivers contained therein for the 06-07 DAM."

The Office wishes to emphasize that no material change to the Documents may be effected without its explicit approval.

CHAPTER 1: COMMENTS ON C&WJ'S ACCOUNTING DOCUMENTS

Digicel's Comments

Consistency of treatment

“Digicel disagrees with the way consistency is proposed to be treated by the document. Digicel believes that CWJ should apply the same and consistent practices every year to afford meaningful comparison of information over time. However, where changes to accounting practices and or policies may become necessary such changes should be in accordance with the procedures for modification. Digicel asserts that the following rules could be adopted as procedures for modification of the Regulatory Accounting Principles, the Attribution Methods or the Accounting Policies:

- I. Any change to the procedures for compliance with the Guidelines proposed by CWJ must be filed with OUR for approval prior to implementation.
- II. A notice for change should be accompanied by the reasons for the change and the financial impact on the affected segment(s) of the company. Also, in order to illustrate the effect of the proposed change, CWJ should submit reporting statements for the previous three periods.
- III. The OUR may request that CWJ provides further information for the purposes of its consideration of the proposed change.
- IV. The OUR will consider the proposed change and notify CWJ of its approval within six (6) weeks of the notice for proposed change.”

Office

The Office notes Digicel's concern but is of the view that any proposed amendment of the “Accounting Document” should follow the procedure outlined in sections 10 through 13 of the Regulatory Accounting Rules (Telecommunications). The relevant sections of these rules are reproduced below:

10. The Office may either on its own initiative and or at the request of an interested party, direct a carrier and or service provider to amend, modify, or change any of the following:
 - a) the definition of each business in terms of the revenues, costs, liabilities and assets comprised in it;
 - b) the definition of the service categories making up each business in terms of the revenues, costs, liabilities and assets comprised in it;
 - c) the number of businesses and service categories making up each business;
 - d) the form and content of each Regulatory Financial Statement including:
 - i) statement of profit and loss for each business;
 - ii) statement of current cost mean capital employed for each business;
 - iii) statements of cost on a current cost basis (if required by the Office);
 - iv) statement of costs on an incremental cost basis (if required by the Office);
 - v) statement reconciling each Regulatory Financial Statement with that carrier and or service provider's audited statutory accounts and that reconciliation shall be demonstrated and explained;
 - vi) any other Regulatory Financial Statements, supporting notes, principles, methodologies and documents used in the preparation of each Regulatory Financial Statement;
 - vii) the Applicable Accounting Documents.

11. Any request to amend any of the items contained in paragraph 10 above shall be to ensure that they are consistent with, and give full and complete effect to:
 - i) written undertakings given by the carrier and or service provider to the Office following investigations into possible contravention by that carrier and or that service provider of any of the terms of its licence, the rules herein or the Act; and
 - ii) determinations made by the Office from time to time in pursuant to its functions and duties under the Act.

and such request to amend shall be-

- (a) in writing, and
- (b) set out the reasons for the amendments

12. In considering a written request to amend, modify, or change any of the items contained in paragraph 10 above the Office shall:
 - (i) make copies of the written request available to interested parties;
 - (ii) invite submissions from interested parties on the request for amendment; and
 - (iii) have regard to any comments made by interested parties.

13. A carrier and/or service provider shall comply in full with any determination of the Office requiring it to amend, modify, or change any or all of the following:
 - a) the composition of each business in terms of any or all revenues, costs, assets and liabilities;
 - b) disaggregate any business to create one or more additional businesses or aggregate businesses to create fewer businesses or one business
 - c) the form and content of each Regulatory Financial Statement and supporting notes;
 - d) the "Accounting Documents";
 - e) the Applicable Auditing Standard;

and such determination shall be in writing and shall include the following:

- (i) reasons for the amendments, modifications or change;
- (ii) time period in which the carrier and or service provider is required to take action to comply with item (i); and
- (iii) the specific action to be taken by the carrier and or service provider in relation to 10(a) through to 10(d).

Notwithstanding this, in relation to the restatement of previous results such that the effect of the change can be seen and comparisons can be made, the Office is of the view that, at a minimum, the previous period (in this case the prior year) should be restated and an appropriate note placed in the notes to the current years financial statements. That is, any change in policy should be applied retrospectively to the earliest period presented and other comparative amounts should be disclosed for each prior period present as would have been the case if the new accounting policy had always been applied.

For the avoidance of doubt, it should be noted that, at a minimum, both the current period's and the immediate previous period's regulatory financial statements should be restated and published.

Digicel's Comments ***Cash at bank and in hand***

"Digicel completely disagrees with the proposed method of allocating cash balances. This is because cash balances may be related to operational activities or may be surplus. Therefore an evaluation of the various cash accounts should be done in order to identify cash that is related to operations vis-à-vis surplus cash. Where cash can be

identified as related to operations, the balance should be allocated to the respective segment. Surplus cash balances are essentially a funding decision of management. Surplus cash therefore has to be separated from operational cash, as well as the interest earned on surplus cash balances.”

Office

The drivers for holding cash are: (1) operating expenditure and (2) capital expenditure. If capital expenditure is high in an unregulated segment of an integrated firm and minimal in the regulated segments of the firm, allocating cash based on operating cost only will lead to an overstating of the cash balance attributable to the regulated segments of the business. The Office is of the view that a more appropriate way to allocate cash balances is as a proportion of both operating and capital expenditures.

Determination 1.0: The Office has determined that the allocation of cash balances should be apportioned based on both operating and capital expenditures.

Digicel's Comments

Transmission

“The links between customer premises and connection Distribution Points (DPs / cabinet) should be part of the access network. This should not be included in the transmission as it is used to provide access from the customer’s premises to the rest of the network. Digicel reiterates the point that it is important that the relevant expertise is available to do a proper assessment of CWJ accounts.”

Office

The Office notes the concerns expressed by Digicel but treats the comments on transmission in the Draft Accounting Documents only as a general description of transmission links and not an allocation of the costs associated with those links. It is indeed appropriate to allocate the costs of transmission links on the customer side of the exchange to the “Access Network Business” and not to the “Fixed Network Business” (Core Network). The Definitions of the “Fixed Access Business” and the “Fixed Network Business” in the Draft Accounting Documents seem to make this distinction. However, this segment of the Accounting Documents is titled “Apportionment of Network Costs”, and the impression may be given that transmission costs (cost of links on the network side as opposed to the customer side of the exchange) are being expanded to include the cost of the local loop.

Determination 1.1: The Office considers that the following shall be added to paragraph 2.6.3:

For the avoidance of doubt, the costs associated with the “links between customer premises connections and Distribution Points (DPs/cabinets)” as well as the “links between DPs and Exchanges will be allocated to the “Fixed Access Business” and the costs associated with the Links between Exchanges will be allocated to the Fixed Network Business.

Digicel’s Comments

Network Charges

“The rate of return on capital of 26.7% is very high for an incumbent PSTN network, compared with else where in the region and the rest of the world. PSTN networks are generally well established with lower risk exposure than newly built networks, such as mobile. Digicel is respectfully asking that this be reviewed.”

Office

The OUR proposes to conduct a review of the cost of capital before the end of this fiscal year (2008/2009).

CHAPTER 2: DETAILED ATTRIBUTION METHODOLOGY (DAM) AND THE COST ATTRIBUTION METHODOLOGY (CAM).

The Office notes that the Draft documents submitted January 2007 were incomplete. In particular, a complete Detailed Attribution Methodology and the Cost Attribution Methodology (CAM) was not included in this Document.

DAM

“Detailed Attribution Methods” means the document with that title (along with the Detailed Valuation Methodology and Costing Model: Relationship and Parameters) containing details of the systems and processes for deriving or calculating the costs, revenues, assets and liabilities which are used by the carrier and or service provider in addition to the descriptions in the Applicable Accounting Documents, to prepare each Regulatory Financial Statements and supporting notes.

CAM

As described in C&WJs “Draft Accounting Documents”, the CAM consists of:

“The Detailed Cost Attribution Methods ... that describe the processes and drivers used to fully allocate costs to C&WJ’s activities and services....”

In an E-mail dated January 18, 2007, C&WJ indicated that:

“In addition, C&WJ will include in the Accounting Documents, a template, description and sample of the Detailed Attribution Methodology (DAM) and the Cost Attribution Methodology (CAM). A complete DAM and CAM would not be available until the system build is complete.”

The Cost Attribution Methodology was presented to representatives of the OUR in a meeting on October 5, 2007 and the Office received the complete Accounting Documents on October 25, 2007. Upon review of these Documents the OUR found them to be consistent with the requirements stipulated in the Determination on Regulatory Accounting Rules, Accounting Separation for Cable And Wireless Jamaica: Determination Notice (Tel 2006/04 Vol. 1) – March 29, 2006 and Regulatory Accounting Guidelines for Cable and Wireless Jamaica (Tel 2006/04 Vol. 2) – March 29, 2006. Consequently, the Office has determined that the Documents submitted by C&WJ on October 25, 2007 titled “Accounting Documents for the Published Separated Regulatory Accounts, Revised 24 October 2007”, subject to the amendments as per this Determination Notice, shall constitute the Accounting Documents for C&WJ.

Determination 2.0: The Office has determined that the documents submitted by Cable and Wireless on October 25, 2007 titled “Accounting Documents for the Published Separated Regulatory Accounts Revised 24 October 2007”, subject to the amendments as per this Determination Notice, will constitute the Accounting Documents for Cable and Wireless Jamaica Limited.

CHAPTER 3: OFFICE DECISION

The Office has decided that Cable and Wireless Jamaica should effect the changes documented in this Determination Notice.

Specifically:

Determination 1.0: The Office has determined that the allocation of cash balances shall be a proportioned based on both operating and capital expenditures.

Determination 1.1: The Office considers that the following be added to paragraph 2.6.3:

For the avoidance of doubt, the costs associated with the “links between customer premises connections and Distribution Points (DPs/cabinets)” as well as the “links between DPs and Exchanges will be allocated to the “Fixed Access Business” and the costs associated with the Links between Exchanges will be allocated to the Fixed Network Business.

Determination 2.0: The Office has determined that the documents submitted by Cable and Wireless on October 25, 2007 titled “Accounting Documents for the Published Separated Regulatory Accounts, Revised 24 October 2007”, subject to the amendments as per this Determination Notice, will constitute the Accounting Documents for Cable and Wireless Jamaica Limited.

Determination 3.0: The Office now instructs Cable and Wireless Jamaica to revise the Accounting Documents in accordance with this Determination Notice and submit them to the Office by May 16, 2008.

Based on Determination 1.20 of the Office’s Determination Notice “Accounting Separation for Cable and Wireless Jamaica”, Document No: TEL 2006/04 Vol. 1, March 29, 2006:

Regulatory accounts may be published not later than nine (9) months after the end of the initial financial year of regulatory compliance and not later than six (6) months in subsequent years. That is, in accordance with section 4(5) of the Act which provides for the Office to “....make rules, subject to affirmative resolution, prescribing the system of regulatory accounts to be kept by a dominant carrier or service provider”, except for the initial reporting year, Cable & Wireless Jamaica is directed to prepare, submit and publish Regulatory Accounts each year no later than six months after the end of the company’s financial year in accordance with this Determination Notice and the associated Guidelines and any amendments thereof.

The Office wishes to note that events relating to the selection of an auditor and attempts to address concerns regarding the audit cost relative to the expected benefits have served to nullify the previous schedules and consequently, the first set of separated accounts for the financial year 2006/2007 are now overdue. However, the Office is concerned that the cost of producing two sets of audited regulatory accounts in the same year may place an unnecessary burden on the industry. In order to conclude this process in a reasonable timeframe and satisfy the concerns of the industry (including minimizing the impact of audit cost), the Office has decided to direct CW&J to provide it with an unaudited set of separated accounts for the financial year 2006/2007 by May 16, 2008 and the first audited set of Regulatory Accounts for 2007/2008 in accordance with the following timetable:

<i>Event</i>	<i>Date</i>
Publish Decision on accounting Documents	April 15, 2008
Revised Accounting Documents	May 9, 2008
Unaudited Regulatory Accounts 2006/2007	May 16, 2008
Audited Regulatory Accounts 2007/2008	By September 30, 2008

Determination 3.1: The first set of separated accounts (unaudited and unpublished) for the financial year 2006/2007 is due on May 16, 2008. The audited separated accounts for 2007/2008 shall become due by September 30, 2008.