
Office of Utilities Regulation

Accounting Separation for Cable and Wireless Jamaica

Supplementary Consultative Document



OFFICE OF UTILITIES REGULATION

June 30, 2005

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Abstract

This is the Office's second consultative document regarding the structure and form of regulatory accounts for a dominant Public Voice Carrier (in this case Cable & Wireless Jamaica – C&WJ). The Office issued its first Consultative Document in March 2000. The Office wishes to provide interested parties with an additional opportunity to comment on the issues in this consultation before it issues a determination on this matter.

Comments from Interested Parties

Persons who wish to express opinions on this Document are invited to submit their comments in writing to the OUR. Responses to this document should be sent by post, fax or e-mail to:-

Patrick K. Williams
P.O.Box 593, 36 Trafalgar Road, Kingston 10
Fax: (876) 929-3635
E-mail: pwilliams@our.org.jm

Responses are requested by July 29, 2005. Any confidential information should be submitted separately and clearly identified as such. In the interest of promoting transparent debate, respondents are requested to limit as far as possible the use of confidentiality markings. Respondents are encouraged to supply their responses in electronic form, so that they can be posted on the OUR's Website.

Comments on responses

The OUR's intention in issuing this Consultative Document is to stimulate public debate on the important issues pertaining to regulatory accounting for Cable and Wireless Jamaica. The responses to this Document are a vital part of that public debate, and so as far as possible, should also be publicly available. The OUR considers that respondents should have an opportunity both to examine the evidence and views put forward in other responses, with which they may disagree, and to comment on them. The comments may take the form of either, correcting a factual error or putting forward counterarguments and/or providing data relating to cost and revenues, etc.

Comments on responses are requested by August 19, 2005.

Arrangements for viewing responses

To allow responses to be publicly available, the OUR will keep the responses that it receives on files, which can be viewed by and copied for visitors to the OUR's Offices. Individuals who wish to view the responses should make an appointment by contacting **Lesia Gregory** by one of the following means:-

Telephone: (876) 968 6053 (or 6057)
Fax: (876) 929 3635

The appointment will be confirmed by a member of the OUR's staff. At the pre-arranged time the individual should visit the OUR's offices at:

3rd Floor, PCJ Resource Centre, 36 Trafalgar Road, Kingston 10

The individual will be able to request photocopies of selected responses as well as comments on responses at a price, which just reflects the cost to the OUR.

Timetable

The timetable for the consultation is summarized in the table below:-

Summary of the timetable for public consultation

<i>Event</i>	<i>Date</i>
Publish Supplementary Consultative Document	June 30, 2005
Response to this document	July 29, 2005
Comments on respondents' Response	August 19, 2005
Determination Notice	By October 7, 2005

This Consultative Document is not legally binding and does not constitute legal, commercial or technical advice of the Office of Utilities Regulation. This consultation is engaged in without prejudice to the legal position of the Office and its duties under applicable legislation.

This document will be available on the OUR's Web site at <http://www.our.org.jm>

CHAPTER 1: INTRODUCTION

Regulatory Framework

1.0 The Telecommunications Act 2000 (The Act) is the primary legislation governing Jamaica's telecoms sector. Under this Act the Office has been assigned certain regulatory duties. The broad objectives of this Act are:-

- to promote and protect the interests of the public;
- to promote universal access to telecommunications services for all persons in Jamaica, to the extent that it is reasonably practicable to provide such access;
- to facilitate competition in a manner consistent with Jamaica's international commitments in relation to the liberalization of telecommunications; and
- to encourage economically efficient investment in the sector.

1.1 It is a provision of the Act that the Office discharges its duties and responsibilities in a transparent and accountable manner. Amongst the duties and functions, the Office is to:-

- promote the interests of customers while having due regard to the interests of carriers and service providers ; and
- promote competition among carriers and service providers.

1.2 In order to satisfy the *any-to-any* connectivity principle of interconnection each public voice carrier is obligated to permit interconnection of its public voice network with the public voice network of any other carrier for the provision of voice services.¹ Two other general principles regarding the nature and purpose of interconnection by all public voice carriers are:-

- a) *End-to-end Operability*: Interconnection should be across interfaces, of sufficient functionality to ensure that high quality services can be provided to consumers even where the call recipient and the calling customer are on different networks.
- b) *Equal Responsibility*: All public voice carriers have equal responsibility to ensure that networks are interconnected and to do so as quickly as is reasonably practicable.

1.3 Entrants have to pay a large amount of their revenues in interconnection charges, making them vulnerable to abuse of dominance by the

¹ Section 29(1), Telecommunications Act, 2000

incumbent. A dominant firm has the ability to distort competition in a relevant market. This is especially so in telecommunications, in which a dominant firm is typically both:-

- a supplier of critical inputs (interconnection and wholesale) to downstream service providers; and
- a competitor against these service providers in downstream retail markets.

1.4 For these reasons, the Act provides some general underlying principles regarding interconnection services supplied by dominant public voice carriers. These are listed below (Section 30):-

- terms and conditions of interconnection shall be
 - “on a non-discriminatory basis;
 - reasonable and transparent, including such terms and conditions as relate to technical specifications and the number of locations of points of interconnection; and
 - charges shall be cost oriented and be guided by certain cost causation principles (section 33);
- no unfair arrangements for cross-subsidies shall be made; and
- where technically and economically reasonable interconnection services shall be so diversified as to render it unnecessary for an interconnection seeker to pay unreasonably for network components or facilities it does not require.”

1.5 To ensure that charges are truly cost oriented Section 30 of the Act makes it obligatory for each dominant public voice carrier to “...keep separate accounts in such form and containing such particulars as will enable the Office to assess whether that carrier provides interconnection services in accordance with the principles specified...” at paragraph 1.4. A more general provision is set out at section 4(5) 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”.

Public Consultation

1.6 In March 2000 the Office published a consultative document titled [“Regulatory Accounts for a Dominant Carrier or Service Provider.”](#) In this document the Office sought the views of interested parties and stakeholders on the regulatory accounting requirements to be imposed on the dominant telecommunications carrier and service provider, C&WJ.

The March 2000 document covered a wide variety of issues relating to the preparation and publication of regulatory financial information, including:-

- (a) purposes of separate accounts;
- (b) separate accounting structure,
- (b) definitions of main business areas, and where applicable the service categories within each business area;
- (c) format and contents of financial statements;
- (d) publication of financial statements and related information;
- (e) auditing, and
- (f) the Accounting Documents.

1.7 Responses were submitted by C&WJ and Digicel. There was general support for the objectives of regulatory accounts put forward in that consultative document. However, there were differences of opinion with regard to the degree of disaggregation in the structuring of such accounts. While Digicel supported the level of disaggregation set out in the document, C&WJ for its part argued that it would be costly both in terms of publication, auditing preparation and would lead to higher prices for customers.

1.8 In this document, the Office reports on the consultation and sets out its views with regard to the issues raised in the consultative process.

Structure of this Document

1.9 Chapter 2 discusses the rationale for separated accounts. The remainder of this Document sets out the Office's views with regard to:-
the level of accounting separation (Chapter 3), format and content of financial statements (Chapter 4); the Accounting Documents (Chapter 5); and publication of financial statements and other information (Chapter 6). Annex I - XIII sets out the definitions, level of disaggregation, Statement formats and Regulatory Principles.

CHAPTER 2: OBJECTIVES OF SEPARATED ACCOUNTS

Introduction

- 2.0 Market distortion by a dominant firm may take various forms, including excessive charges for interconnect services, discrimination in pricing, unfair cross-subsidies, and predatory pricing. These practices are usually aimed at stifling competition and may even prevent market entry. Accounting Separation (AS) is a common tool used to address these anti-competitive concerns. Under this approach, the operator's activities are split for accounting purposes, into separate businesses or services. In other words accounting separation does not impose on the operator a set of rules about how its activities should be organized, but simply how accounting information is to be collected and reported. The transfer charges from one business to another can be explicitly identified, allowing non-discrimination to be enforced, and the profitability of particular businesses or services can be monitored, allowing cross-subsidies to be identified. Accounting separation would also ensure a systematic division of costs between retail and wholesale, thereby ensuring that the cost base for interconnection charges and charges for other services and products include only relevant costs.
- 2.1 Carriers have also found separated accounts to be useful because it provides the foundation for an integrated platform for internal product reporting requirements and pricing.

Objectives of Separated Accounts

- 2.2 Accounting separation provides a useful technique for investigating allegations about anti-competitive behavior by dominant firms. The Office is also aware of the need for robust cost information for future price cap purposes as well as for setting or assessing interconnection charges.
- 2.3 The Office holds the view that the preparation and publication of separated accounts that are transparent and audited are essential to the development of truly competitive markets for telecommunications services. Indeed, without such a tool the Office would not be able to discharge its duties and functions as provided for in the Act. In the March 2000 consultative document([Regulatory Accounts for a Dominant Carrier or Service Provider](#)) the Office set out four regulatory objectives that separated accounts are intended to support:-
- ensuring non-discrimination,
 - identifying unfair cross-subsidies,
 - setting or assessing interconnection charges,
 - retail price control.

- 2.4 It is important to establish not only that the transfer charges from one of the incumbent's businesses to another are calculated in a non-discriminatory manner, but also that these are treated by the dominant carrier/service provider as 'hard' charges and not simply paper accounting transactions. In other words, when the incumbent sets the prices for the retail business that purchases network services, it must treat the transfer charges as real costs that need to be recovered. Otherwise, a price squeeze may occur if the incumbent's discriminatory pricing behavior. The margin between the interconnection charges and the incumbent's retail price, against which the entrant is competing, may be insufficient to allow an efficient competitor to make a profit. This may constitute a distortion of competition.
- 2.5 A widely used technique to ensure that such price squeezes are not occurring is the 'imputation test'. That is, the imputation test is conducted by comparing the retail price charged by the incumbent with the 'stack' of costs incurred to provide each service which is subject to competition. These costs comprise the transfer interconnection or wholesale charges for that service plus its retail costs (and any other relevant costs). The interconnection charges for the relevant service are calculated using the same charges as paid by interconnecting operators, and depend on the particular interconnection services that it uses as inputs.
- 2.6 If regulatory accounting requirements have not been set in advance, when a problem arises there is the risk that the Office would lack the necessary information to analyze the issue. Any cost information obtained would be on an ad hoc basis and could consequently lack robustness and credibility.
- 2.7 Respondents were in general agreement with the objectives of separate accounts outlined in the previous consultative document and which are summarized at paragraph 2.3 above.

CHAPTER 3: LEVEL OF ACCOUNTING SEPARATION

- 3.0 In the previous consultative document, the Office proposed to separate C&WJ's activities into ten (10) main Businesses: Fixed Access, Fixed Network, National Retail, Data Communications, International Retail, Mobile Network, Mobile Retail, Other Retail Services, Equipment Supply, and Residual Business. It also proposed to disaggregate Fixed Access, National Retail, International Retail, Data Communications, and Mobile Retail into various service categories. For example Fixed Access was to be split into residential, business and other access. Digicel supported the degree of disaggregation set out in the previous consultative document.
- 3.1 C&WJ for its part argued that the regulatory accounting structure laid out in the previous consultative document, if adopted, would impose significant regulatory costs on the company which, in the final analysis, would have to be borne by customers. Indeed, the company estimates that the regulatory costs of complying with the Office's proposed structure would run into several hundred million dollars. These include:-
- the cost of tracking costs and maintaining the system of accounts,
 - fees for annual audit by independent auditors,
 - costs of publishing reports, and
 - cost in terms of manpower necessary for audit, reporting and data collection.
- 3.2 The Company also proposed a less disaggregated structure using five categories of business activities as opposed to the ten categories put forward in the previous consultative document but no additional separation down to the service level. It is the opinion of the Office that the structure proposed by C&WJ, if adopted, would not enable the Office to fulfill its obligations in accordance with the Act particularly as it relates to the broad objective of promoting competition among carriers and service providers.
- 3.3 Accounting Separation is recognized as an extremely useful ex-ante regulatory tool especially in a newly liberalized regime for the following purposes:-
- prevention of unfair predatory pricing and cross-subsidization,
 - ease of comparison between operators,
 - promoting understanding of the relationship between the dominant carrier's charges and costs,
 - detecting discriminatory behavior on prices charged internally versus those charged to competing operators.
- 3.4 There is no doubt that there are additional costs involved in developing a robust and transparent system of regulatory accounting and the need to

minimize cost has been recognized by the Office. The need for the Office to strike a balance between transparency and the cost of compliance has been noted by C&WJ. Indeed, even in the absence of any requirement by the Office the company would need to know the cost and revenues of its various services and thus would incur these costs anyhow. Furthermore, the cost of auditing and publication is likely to be substantially below C&WJ's estimates when the adjustments to the OUR's initial position is taken into account. Additionally, in the absence of robust and transparent system of regulatory accounting, the welfare loss is expected to be significant.

Main Business Areas and Definitions

3.5 For purposes of accounting separation, the Office is of the view that C&WJ should split its activities into the main business areas listed below. The definition of each main business is set out in **Annex I** of this document.

- Fixed Access Business
- Fixed Network Business
- Fixed Retail Services Business
- Mobile Business

These main businesses would be further disaggregated as described in the next segment of this document.

Question 3.1: Do you agree that for the purposes of regulatory accounts C&WJ should split its activities into four Main Business Activities, namely: Fixed Access, Fixed Network, Fixed Retail Services and Mobile Business. The definitions of each main business are set out in Annex I to this Document.

Disaggregated Service Categories and Definitions

3.6 The Office is of the view that further disaggregation of the main business areas would increase transparency and assure competing operators that there is no discrimination in the provision of services that C&WJ's provides to its own retail arm.

3.7 The Office believes the disaggregated activities should cover the main retail downstream activities of C&WJ's fixed network. The Office is also of the view that to enable competition to flourish, there must be transparency at the retail level of C&WJ's business. Furthermore, the Office considers it appropriate to include those major activities where C&WJ will compete in niche markets with new entrants as part of the disaggregated activities. Subject to further, consultation, the Office would reserve the right to

review the level of disaggregation as set out in this document in light of relevant market growth or changes in product offerings by C&WJ.

3.8 The Office is of the opinion that for accounting purposes C&WJ should prepare separate accounts for the service categories set out below. The definitions of each service category are set out in **Annex II** to this Document.

3.8.0 *Fixed Retail Services Business*

- Intra-Parish Calls
- Inter-Parish Calls
- Fixed to Mobile Calls
- Public Payphones
- International Outgoing Calls
- International Incoming Calls
- Directory Enquiries (DQ)
- Data Communication Services
- Internet service provision
- Supplemental Retail
- Remaining Services

Question 3.2: Should C&WJ be asked to disaggregate its Retail Services Business into the nine service categories listed at 3.8.0 above? Respondents should justify their response. The definitions of each disaggregated business area are set out in Annex II of this Document.

CHAPTER 4: REGULATORY FINANCIAL STATEMENTS

Format and Content of Financial Statements

4.0 As indicated in the previous Chapter it is proposed that C&WJ split its activities into four Main Businesses. The Office also proposes that C&WJ disaggregate its Retail Business into various service categories. For each Main Businesses and where necessary for each of the disaggregated service categories making up each Business, C&WJ would be required to prepare statements of profit and loss, and mean capital employed. These statements would be reconciled with the annual statutory accounts and reports of the Company. The Office is also of the view that C&WJ should prepare statements of cost for its fixed and mobile network services, and statement of costs for some key retail services. The principles and methodologies to be used in the preparation of all financial statements are to be set out in the Accounting Documents (See Chapter 5) and these statements should be read in conjunction with the Accounting Document. The main business activity and disaggregated service categories for which C&WJ is required to prepare statements of profit & loss, and mean capital employed are set out in **Annex III**.

Question 4.1: As stated in Annex III, should these constitute the main businesses and where applicable service categories for which C&WJ should be required to prepare statements of profit & loss and mean capital employed? Justify your response.

Statement of Profit & Loss

4.1 The Office is of the view that the Statement of Profit & Loss should detail the operating result and return on capital employed per Business. Return (profit/loss) would be calculated on the same basis as the cost of capital. For example if the weighted average cost of capital is on a pre-tax and pre-interest basis the return in the accounts would be before tax and interest. The pro-forma profit & loss statement is set out in **Annex IV**.

Question 4.2: Should Return (profit/loss) be calculated on the same basis as the cost of capital? Justify your response.

Statement of Mean Capital Employed

4.2 The Statement of Mean Capital Employed is expected to show the capital employed by the firm for supplying each Main Business and, where

necessary, each of the disaggregated service categories with each Business. The figures reported in this statement are to be the average values for the period to which the statement relates. This average should ideally be a weighted average value, although a simple average value of opening and closing balances may be used initially. The statement of mean capital employed is set out in **Annex V**.

Question 4.3: Should the Statements of mean capital employed be in the format set out in Annex V? If not, propose an alternative.

Question 4.4: Should the figures reported in the statement be the average values for the period to which the statement relates?

Statements of Reconciliation

4.3 The Office is of the opinion that the statements of profit and loss, and mean capital employed of all the main businesses should be reconciled with the annual statutory report and accounts of the Company. Where the accounting principles used in preparing these statements differ from the statutory accounting principles the effects should be disclosed in this statement and notes explaining the differences should be provided. The format for the reconciliation statements for profit & loss, and mean capital employed are set out at Annex VI and Annex VII respectively.

Question 4.5: Do you share the Office's view that C&WJ's Statements of Profit and Loss, and Mean Capital Employed should be reconciled with the annual statutory financial accounts (i.e. Profit & Loss, Capital Employed) of the Company? If not, why not?

Statements of Network Costs

4.4 A primary objective of regulatory accounting is to ensure non-discrimination in charges. A system of transfer charging is appropriate for services and products provided between C&WJ's main businesses and disaggregated service categories. For example: C&WJ's fixed and mobile networks sell a range of services to meet the differing needs of competing mobile operators. All services sold by the fixed and mobile network either to the competing carriers or to its own retail businesses are built up from combinations of one or more network elements using routing factors. The payment received from other carriers for network services based on the

incumbent's or dominant carrier's Reference Interconnect Offer (RIO). The payments made by its own retail businesses are the internal transfer charges.

- 4.5 For purposes of transparency C&WJ is required to prepare a statement of network costs for its fixed as well as mobile network services as part of its accounting separation information.
- 4.6 Table 3.2 on page 22 of the Consultative Document ([Regulatory Accounts for a Dominant Carrier or Service Provider](#), March 2000) contains an illustration of the statement of interconnection service and network element costs. C&WJ argued that detailed information should be restricted to the Office. This view is not shared by the Office. It is a requirement of the Act that the charges for interconnection by a dominant carrier be transparent. In this regard C&WJ's statement of network costs would not satisfy the transparency requirement if the information is restricted to the Office. Indeed, the publication of this statement will enhance transparency and give competitors confidence that charges are appropriately derived. The Office proposed two stages in deriving cost oriented interconnect charges. In the first stage the network elements needed for supplying the service are identified along with the unit cost (including a return on capital employed). The second stage requires a determination of the usage factor for each element. Separate statements should be produced for mobile and fixed network elements. The statement of network cost elements should include the following:-
- Per minute cost of each conveyance network component
 - Per minute cost of each non-conveyance network component, for e.g., directory enquiries, operator assistance, etc.
 - Other costs split into appropriate categories (split into an average per minute cost where applicable)
 - Routing factors for traffic
 - Time of day gradients
 - Final charges
 - International out payments
- 4.7 Additionally, sufficient explanatory information should also accompany the statement to assist interested parties in fully understanding the information contained within the statement.

Question 4.6: As part of C&WJ Accounting Information, do you think that a statement of cost for its fixed and mobile network services should be produced as per the discussion above? Explain your response.

Statement of Retail Service Unit Costs

- 4.8 A Statement of Service Unit Costs detailing the unit costs of supplying certain services should be submitted on an annual basis. Cost should be split into two parts, operating cost and the cost of capital employed (i.e. capital employed times the weighted average cost of capital). A sample of this statement with the list of services for which unit cost information should be provided is set out in **Annex IX**.

Question 4.7: Should C&WJ be required to publish a statement of cost for a list of retail services and containing such particulars as set out in Annex IX?

Explanatory Notes to Regulatory Financial Statements

- 4.9 The Office and members of the public, upon review of these financial statements should be able to have a full understanding of the information contained within these accounts. For this reason, it is important that the accounts be accompanied by explanatory notes which include, but are not limited to, the following:-
- (i) a detailed statement of the regulatory accounting principles used in the preparation of the accounts.
 - (ii) definitions of the main businesses and where applicable the disaggregated service categories of each main businesses.
 - (iii) detailed statements of the transfer charging system used in the preparation of the accounts (**Annex X**).
 - (iv) details of material changes which impact on the financial statements for a given period and on comparative figures for the previous period.

CHAPTER 5: ACCOUNTING FRAMEWORK DOCUMENTS

- 5.0 Chapter 4 contains the list of financial statements to be prepared for each of C&WJ's Main Businesses. C&WJ is also required to assemble Accounting Documents detailing the general principles and methods used in the preparation of the financial statements. This would allow the Office and interested parties to check for reasonableness and consistency in the preparation of financial statements. It also promotes transparency in the preparation of financial statements.
- 5.1 The key components of the Accounting Documents are the:-
- (a) Regulatory principles;
 - (b) Attribution methods;
 - (c) Transfer Charging principle; and
 - (d) Accounting policies
- 5.2 Where there is conflict between all or some of these documents the following order of priority is proposed:-
- (a) Regulatory principles;
 - (b) Attribution methods
 - (c) Transfer charging principle; and
 - (d) Accounting policies

Question 5.1: Do you agree that the key components of the Accounting Documents should be Regulatory Principles, Attribution Methods, Transfer Charging, and Accounting Policies? If not, why not?

Regulatory Principles

- 5.3 These are the rules to be used in the preparation of the financial statement, in the application of the attribution methods, the transfer charging system, and the accounting policies. The applicable regulatory principles are Priority, Definitions, Causality, Objectivity, Consistency, Transparency, and Sampling. For example, the attribution of revenues, costs, etc should be transparent. This means that the allocation of costs and revenues to Main Businesses and where applicable, each of the disaggregated service categories of that Business would be separately distinguished from those that cannot be directly allocated. A Detailed discussion of these principles is set out in **Annex XII** of this Document. Additionally, where there is a conflict between the requirements of any or all of the regulatory principles, the principles should be applied in the

following order of priority: Priority, Definitions, Causality, Objectivity, Consistency, Transparency, and Sampling.

Attribution Methods

- 5.3 The methods for attributing revenue (including transfer charges), costs (including transfer charges), assets and liabilities to each Main Business, network elements, and service categories comprising each Business should be in accordance with the Regulatory principles.

Transfer Charges

- 5.4 As part of its accounting information the Office is of the view that C&WJ should provide detailed description of the process and methods used for deriving internal transfer charges between its network business (fixed and mobile) and its other Businesses or service categories. The objective is to provide transparency for all intra C&WJ activities. Annex XII set out the relevant principles governing the proposed transfer charging regime. For example the transfer charges for internal use and charges to other carriers or service providers should be determined by the product of usage and unit charges.

Accounting Policies

- 5.5 These are the accounting conventions to be used in the preparation of financial statements. The minimum list of items on which detailed documentation is to be provided is:-
- (a) principles of asset valuation (intangible and tangible);
 - (b) depreciation method, rates, and asset lives;
 - (c) inventories;
 - (d) interest;
 - (e) foreign currencies;
 - (f) account receivables;
 - (g) fixed asset investments;
 - (h) redundancy costs;
 - (i) pension schemes;
 - (j) bad debts; and
 - (k) financial instruments
- 5.6 The Office is of the opinion that three months from the publication date of the final determination notice is reasonable to assemble the Accounting Documents and submit them to the Office for consultation and review.

Question 5.2: Is three months from the publication date of the final determination notice a reasonable time period to assemble the Accounting Documents and submit them to the Office for consultation and review?

CHAPTER 6: PUBLICATION OF FINANCIAL INFORMATION

Publication of Financial Statements

6.0 The financial statements are to be made public, as is the best practice elsewhere, for example the United Kingdom and Ireland. While there are additional costs involved in the publication, the Office considers that the benefits of publications are likely to exceed the cost. Such benefits include:-

- ensuring that interconnection charges are appropriately derived and that C&WJ is not unduly favoring its retail business.
- allowing other operators to understand the relationship between revenues and costs of the interconnecting provider.
- giving other operators confidence that the interconnection arrangements are equitable, that is, there is no under or over-recovery of network costs.
- increasing and raising the confidence of competitors that there are no unfair cross subsidies.

Publication of Related Information and Notes

6.1 In addition to the publication of the financial statements C&WJ should also publish the Accounting Documents, detailing, the methodologies used in preparing separate accounts. Explanatory notes detailing, among other things any material changes which impact on the financial statements for a given period and on comparative figures for the previous period should also be provided. The publication of the Accounting Documents along with explanatory notes would allow interested parties to check for reasonableness and consistency in the preparation of regulatory accounts, as well as to promote transparency in the preparation of regulatory accounts. The Office and members of the public, upon review of these accounts, should be able to come to a full understanding of the information contained within these accounts.

Question 6.1: Should the Accounting statements along with related information and notes be published?

Timeframe for Publication

6.2 Regulatory accounts should be published on a timely basis. Undue delays in publication would render the accounts useless as this would serve to negate the positive effects of reviewing the information in separated accounts. The previous consultative document proposed that C&WJ submit regulatory accounts to the Office and make copies available to interested parties within three (3) months after the end of each financial

year, i.e. June each year. C&WJ pointed out that three months might not be feasible “since regulatory accounts depend on the finalization of the statutory accounts, regulatory accounts should not be required to be published until 3 months after the publication of the statutory accounts.” In other words, if C&WJ publishes its statutory accounts in September then it would have up until December to publish its regulatory accounts. This would be three months short of the next financial year. The Office considers this unacceptable and is of the view that regulatory accounts should be published no later than six (6) months following the financial period to which they relate.

Question 6.2: Do you agree that the Publication of C&WJ’s regulatory accounts should not exceed six (6) months from the end of the financial year to which they relate.

Annex I: Definitions of Main Businesses

Fixed Access Business

Business containing all the revenues (installation, rental, relocation, reconnection, etc) from access, as well as the costs, assets and liabilities associated with supplying connections and maintenance of ordinary business and residential exchange lines, including the low user tariff or any special tariff plan, domestic and international toll free lines, foreign exchange lines, and direct inward dialing lines and other access line technologies such as Integrated Services Digital Network (ISDN).

Costs cover the non-traffic sensitive, i.e., the line sensitive cost including the cost of the local loop, and line card, and maintenance expenses incurred in providing access to customers up to the Network Termination Point (NTP). Other elements of costs are billing, bad debt, and a reasonable apportionment of common costs.

Fixed Network Business

Business containing the costs, revenues, assets and liabilities associated with the provision of network services to other operators and downstream Businesses provided by C&WJ. Revenues are chiefly the amount due from interconnected operators for use of C&WJ's fixed network and the transfer charges from C&WJ's other Businesses. Costs are capital and operating costs for switching, transmission and other apparatus and system used in supplying services. Costs should be built up from network component costs such as local switching, tandem switching, and transport.

Mobile Business

Business containing the revenues, costs (including a reasonable return on capital employed), assets and liabilities associated with the provision of mobile network services to other operators and C&WJ's own downstream Businesses and mobile retail services. The service categories making up Mobile Business are interconnection services, such as call termination, connection charges, roaming, subscription charges, rental, lease and sale of equipment and handsets calls originated on mobile network but terminating overseas, or to a fixed (mobile to fixed calls) or mobile subscriber in Jamaica (mobile to mobile calls). It also contains revenues and costs associated with incoming calls to mobile subscribers.

Fixed Retail Services Business

Business containing the costs, revenues, assets, and liabilities associated with the provision of retail calls over the fixed network, i.e. calls originating from a connection to the fixed network but terminating either on the fixed or mobile network. Revenues are payments to the company by users of plain old telephone service (POTS) including revenues from calls made from a fixed connection to

mobile customers. Costs are the non-access line related switching costs, and transmission links between switches (transfer charges from Network Business). Added to these costs are retail costs and a reasonable apportionment of common or joint costs.

Annex II: Definitions of Disaggregated Service Categories

Below are the disaggregated service categories making up the Fixed Retail Services Business:

Intra-Parish Calls

Calls from a connection to the fixed network originating in one parish to a connection to the fixed network in the same parish.

Inter-Parish Calls

Calls from a connection to the fixed network originating in one parish to a connection to the fixed network in another parish.

Fixed to Mobile Calls

Calls originating from a connection to the fixed network but terminating on any mobile network

Public Payphones

Calls originating from a public telephone to a telephone connected to the fixed network within the same parish (intra-parish) or to another parish (inter-parish) or to a mobile network and that are charged at a published standard tariff.

Data Communications

Business containing the revenues, costs (including a reasonable return on capital employed and expenses incurred for repair and maintenance), assets, and liabilities associated with the provision of circuits and packet switched services. Revenues are the one time installation charges, monthly rental and payments for domestic and international usage.

Rental, maintenance, installation, relocation of domestic and international leased circuits. The costs and revenues should be recorded.

Rental, maintenance, installation, relocation of domestic and international connectivity to database and other high volume applications such as radio broadcasts, electronic file transfer, electronic mail, video conferencing, etc. At present CWJ offers two categories of service: National Packet Switch Services (NDAS), and International Packet Switch Service (IDAS)

Directory Enquiries (DQ)

Intra and Inter-parish calls placed with C&WJ's operator to obtain information about Jamaican and overseas telephone numbers, whether made from business or residential exchange lines or from public payphones and includes calls made to the Directory Enquiry database.

International Calls

Calls originating from a connection to the fixed network and mobile network connection in Jamaica to a connection outside of Jamaica, as well as wholesale minutes (including sale to mobile service providers) to a connection outside of Jamaica. It also includes calls originating from a connection overseas to a connection within Jamaica. The revenues, cost, liabilities and assets relating to international call origination should be separate from international call termination.

International Outgoing Call (origination): The service of originating a telephone, fax or other telecommunication call from the calling party to a called party outside of Jamaica.

International Incoming Call (termination): The service of terminating a telephone, fax or other telecommunication call from the calling party to a called party in Jamaica.

Internet service provision (dial-up, and ADSL)

Internet service is provided by dial-up access via the local loop (telephone line) or ADSL High Speed Internet Service which converts the existing local loop into a high speed Internet connection.

Supplemental Retail Services

Business containing the revenues, costs (including a reasonable return on capital employed), assets, and liabilities associated with the provision of downstream services not covered in Retail Services Business. This Business comprises various services for which there are no legal barriers to entry, for example international pre-paid calling cards. The retail services are Magic Touch (call waiting, three way calling, call forwarding), Teleclass (caller identification, automatic busy redial, priority ring, automatic callback, selective call rejection, selective call forwarding), emergency calls and national & international freephone, etc.

Remaining Services

Business containing the revenues, costs (including a reasonable return on capital employed), assets, and liabilities not covered under the other six Businesses. These include the activities of, and dividends received from INTELSAT, etc.

- Pre-paid calling cards (domestic & international);
- Voicemail (In Touch Personal, In Touch Family, In Touch Extended Family, and In Touch Executive)
- New and existing data services

Annex III: Main Businesses & Disaggregated Service Categories

Main Business Areas	Disaggregated Service Categories
Fixed Access Business	-
Fixed Network Business	-
Fixed Retail Services Business	Intra-Parish Calls Inter-Parish Calls Fixed to Mobile Calls Public Payphones International Outgoing Calls International Incoming Calls Directory Enquiries (DQ) Data Communication Services Internet service provision (dial-up, and ADSL) Supplemental Retail Remaining Services
Mobile Business	-

**Annex IV: Statement of Profit & Loss
for Year Ended**

Business/Service Category	Notes	Previous Year	Current Year
Turnover			
Transfer charges to other Business			
From other operators			
Other Revenue			
<hr/>			
Total Turnover			
<hr/>			
Operating costs			
Transfer charges to other CWJ Businesses			
Payments to other operators			
Other operating costs			
<hr/>			
Total operating costs			
<hr/>			
Return (\$)			
<hr/>			
<hr/>			
RETURN ON MEAN CAPITAL EMPLOYED			
<hr/>			
Return on mean capital employed			
<hr/>			
Return (%)			
<hr/>			

Annex V: Statement of Mean Capital Employed
for year ended.....

Business/Service Category	Notes	Previous Year	Current Year
Fixed assets			
Tangible fixed assets			
Intangible fixed assets			
Total Fixed Assets			
Current assets			
Stocks			
Debtors			
Cash at bank & in hand			
Total current assets			
Creditors			
Other liabilities & charges			
Mean Capital Employed			

Annex VI: Reconciliation – Statement of Profit & Loss
for year ended.....

Turnover Operating Return
 Costs

Businesses

Fixed Access

Fixed Network

Fixed Retail Services

Mobile Business

Total Regulatory Accounts

Reconciling items & Adjustments

“

“

“

As in the Annual Report & Statutory Accounts

Annex VII: Reconciliation – Statement of Mean Capital Employed
for year ended.....

	Previous Year	Current Year
<hr/> Mean Capital Employed of the Businesses <hr/>		
Fixed Access		
Fixed Network		
Fixed Retail Services		
<hr/>		
Mobile Business		
<hr/>		
Total Regulatory Accounts		
<hr/>		
Shareholders' funds as in Annual Statutory Accounts		
Reconciling items & Adjustments		
“		
“		
“		
<hr/>		
Total as in Annual Statutory Accounts		
<hr/>		

Annex VIII: Statement of Costs for Fixed Network Services

	Network elements				Unit service cost
	Local switch	Tandem switch	Transport	Others (to be specified)	
Unit network element cost	A	B	C	D	
Interconnection services (to be specified)	Usage factors				
1	E	F	G	H	$a*e + b*f + c*g + d*h$
2	I	J	K	L	$a*i + b*j + c*k + d*l$
Etc					etc

Annex IX: Inter Business Costs Summary

From/To → ↓	Fixed Access	Fixed Network	Fixed Retail Services	Mobile Business	Total
Fixed Access		X	X	X	X
Fixed Network	X		X	X	X
Retail Services	X	X		X	X
Mobile Business	X	X	X		X
Total	X	X	X	X	X

Annex X: Statement of Transfer Charges

Costs/Services	Fixed Retail Services	Intra-Parish	Inter-Parish	Calls to Mobile	Public Payphones	Directory Enquiry	International Outgoing Call	International Incoming Call	Data Circuits	Internet Serv.	Supplemental Retail	Remaining Services	Mobile Business
Fixed Access	X	X	X	X	X	X	X	X	X	X	X	X	X
Fixed Network	X	X	X	X	X	X	X	X	X	X	X	X	X
Fixed Retail Services	X	X	X	X	X	X	X	X	X	X	X	X	X
Mobile Business	X	X	X	X	X	X	X	X	X	X	X	X	X
Total	X	X	X	X	X	X	X	X	X	X	X	X	X

Annex XI: Statement of Selected Service Unit Costs
for year ended

	<i>Operating costs</i>	<i>Cost of capital employed</i>	<i>Total</i>	<i>Volume</i>	<i>Unit cost</i>
Fixed Access					
Intra-parish calls					
Inter-parish calls					
National DQ					
International DQ					
Fixed to mobile Calls					
International Outgoing					
International Incoming					

Annex XII: Regulatory Accounting Principles

Priority

Within the Regulatory Accounting Principles, insofar as there is conflict between the requirements of any or all of these Principles, the Principles are to be applied in the same order of priority as that in which they appear in this document.

Definitions

Any word or expression used in the Accounting Documents shall, unless the context otherwise requires, have the same meaning as it has in the Telecommunications Act (rules, regulations, etc?).

Causality

Revenue (including transfer charges), costs (including transfer charges), assets and liabilities shall be attributed to cost components, services and businesses or disaggregated businesses in accordance with the activities which cause the revenues to be earned or costs to be incurred or the assets to be acquired or liabilities to be incurred.

Objectivity

The attribution shall be objective and not intended to benefit the dominant carrier or service provider or any other carrier, product, service, component, business or disaggregated business.

Consistency

There shall be consistency of treatment from year to year. Where there are material changes to the Regulatory Accounting Principles, the Attribution Methods, or the Accounting Policies that have a material effect on the information reported in the Financial Statements the information affected by the changes shall be restated.

Transparency

The Attribution Methods used should be transparent. Costs and revenues, which are allocated to Businesses and activities, shall be separately distinguished from those that cannot be directly allocated.

Sampling

The sample shall be constructed to meet the following principles:-

- (i) it is unbiased/objective
- (ii) the sample size has been assessed to be statistically significant
- (iii) it is representative of the entire population
- (iv) it is not skewed by seasonal or other factors
- (v) it is based on either generally accepted statistical techniques or other methods which should result in the accurate attribution, and

- (vi) it will be updated annually.

Where sampling is used to derive the attribution of costs, revenues, assets, liabilities, etc it shall be based either on generally accepted statistical techniques or other methods designed to deliver equivalent results of revenue (including transfer charges), costs (including transfer charges), assets and liabilities.

Annex XIII: Transfer Charging Principles

- (i) Transfer charges (revenues and costs) shall be attributed to cost components, services and main business areas or disaggregated businesses in accordance with the activities which cause the revenues to be earned or costs to be incurred.
- (ii) The attribution shall be objective and not intended to benefit any business or disaggregated business.
- (iii) There shall be consistency of treatment of transfer charges from year to year.
- (iv) The transfer charging methods used should be transparent. There should be a clear rationale for the transfer charges used and each charge should be supportable.
- (v) The transfer charges for internal usage should be determined as the product of usage and unit charges.
- (vi) The charge for internal usage should be equivalent to the charge that would be levied if the product or service were sold externally rather than internally. For accounting separation purposes, it should be assumed that the retail business pays the same interconnection charge for the same service as set out in the Reference Interconnect Offer. If different this charge must be appropriately justified.
- (vii) The separated accounts shall disclose the transfer charges between businesses and disaggregated businesses.