Office of Utilities Regulation

Accounts Separation Guidelines for the Jamaica Public Service Company Limited

OFFICE OF UTILITIES REGULATION

2019 July 15

DOCUMENT TITLE AND APPROVAL PAGE

1. DOCUMENT NUMBER: 2019/ELE/011/RUL.002

2. DOCUMENT TITLE: Accounts Separation Guidelines for the Jamaica Public Service Company Limited

3. PURPOSE OF DOCUMENT:

These guidelines have been established to ensure the smooth, efficient and transparent preparation of regulatory accounts by the Jamaica Public Service Company Limited to ensure that costs are fairly assigned in the electricity sector.

4. ANTECEDENT DOCUMENTS

Publication Number	Publication Title	Publication Date
2018/ELE/008/NPR.001	Notice of Proposed Rulemaking – Accounts Separation Guidelines for the Jamaica Public Service Company Limited	2018 April 18.
2019/ELE/010/RES.001	Accounts Separation Guidelines for the Jamaica Public Service Company Limited: OUR's Response to Comments on Responses to the Notice of Proposed Rulemaking	2019 July 15

5. Approval

This document is approved by the Office of Utilities Regulation and Guidelines herein become effective on 2019 July 15

On behalf of the Office:

Maurice Charvis
Deputy Director-General

Date: 2019 July 15

Contents

I. INTRODUCTION

Critical to the effective regulation of infrastructure services such as electricity is a framework, which facilitates the periodic publication of accounting statements that explicitly supports the regulatory function. In modern utilities, financial reporting involves the presentation of aggregate information designed primarily to meet the needs of management and shareholders. These reports, while useful in a general way, do not provide sufficient details for the regulator. Consequently, it is essential that utilities generate reports that allow for the analysis of costs and revenues as well as the evaluation of assets employed in a manner that is consistent with effective regulation.

Given the technical infrastructure involved in the provision of public utility services, service providers in many cases operate as integrated utilities. Accounts separation is a tool for disaggregating the costs and revenues associated with the component operations of the integrated service. It therefore represents the specification and presentation of regulatory accounts in a format that is transparent, cost-based and non-discriminatory. Accounts separation, therefore is a regulatory vehicle and a tool that enables and enhances the competitive process and promotes regulatory credibility and efficiency.

The objective of the accounting separation framework is to ensure fairness in the attribution of cost, transparency in record keeping and consistency in the application of the methodology established.

There are several key issues, which must inform the development and construct of an accounts separation framework. These include:

- the principles upon which the framework rests; this relates to the overarching regulatory criteria that guides the cost allocation process;
- the cost allocation methodology; this refers to the conceptual technique to be applied to the attribution of cost;
- the scope of the accounts separation obligations; this addresses the nature of the responsibility for producing separated accounts as well the components of the business that should be in the report.

II. THE ACCOUNTS SEPARATION GUIDELINES

The Accounts Separation Guidelines (Guidelines) constitute the minimum requirements necessary to achieve the goal of accounts separation by the Jamaica Public Service Company Limited (JPS).

The Guidelines specify the form and content of the regulatory accounts to be maintained by JPS and articulate the general principles applicable in the preparation of the separated accounts. In addition, JPS shall be required to prepare and maintain an Accounting and Cost Allocation Manual (ACAM), which sets out the rationale, assumptions and parameters used to allocate revenues and cost to each service.

It is the view of the OUR that the accounts prepared in accordance with the Guidelines will facilitate greater transparency, provide clear cost separation, and create a framework that will encourage greater competition, greater credibility and higher levels of efficiency within the electricity sector.

The Office hereby determines that JPS shall adhere to the Guidelines set out in Section III below.

III. ACCOUNTS SEPARATION GUIDELINES FOR THE JAMAICA PUBLIC SERVICE COMPANY LIMITED

In exercise of the powers conferred upon the Office by section 4 of the OUR Act, section 46 of the Electricity Act, 2015 and Condition 5(2) of the Electricity Licence, 2016, the following Guidelines are hereby made: -

1. Citation

These Guidelines may be cited as the Accounts Separation Guidelines for the Jamaica Public Service Company Limited.

2. Purpose of the Guidelines

2.1 Section 46 of the Electricity Act imposes an obligation on JPS to keep the accounts for its generation, transmission, distribution and supply activities separate and distinct from each other and from the accounts kept by it in respect of any other part of its undertaking or business. The section further requires JPS to furnish to the Office annually, reports relating to its activities during the respective year in such form and including such content as the Office may require.

2.2 Pursuant to Condition 2(7) of the Licence, JPS "*may engage in any other business but no profits or losses resulting therefrom shall be taken into account in the fixing of rates for the Licensed Business and shall therefore keep separate accounts for the Licensed Business as directed by the Office in accordance with Condition 5, paragraph 2.*"

2.3 Pursuant to Condition 5(2) of the Licence, the JPS "*shall maintain such regulatory accounts as may reasonably be specified by the Office consistent with generally accepted accounting principles and the EA*". Further, Condition 5(3) of the Licence also requires JPS to "*...prepare on a consistent basis from such accounting records, accounting statements which conform to generally accepted accounting practices, state the accounting policies adopted, and are in such form and in such detail as the Office may from time to time reasonably require.*"

2.4 These Guidelines are designed to ensure the availability of the information required for the effective regulation of the vertically integrated utility, JPS, and to establish the framework for the functional decoupling of the business activities in the electricity power industry. The objectives of the Guidelines are to:

1. ensure that the services provided by JPS with respect to the use of the T&D grid or other approved internal services are done on similar terms to equivalent services it would provide for itself;
2. ensure that the costs of generating units installed by JPS under competitive tender are accounted for separately from the facilities it owns;
3. ensure that the purchasers of special services from JPS are not required to pay more than a reasonable cost for the services used;
4. facilitate effective monitoring of the costs, revenues and operations of the vertically integrated company with respect to the cross-subsidization of its products or services; and
5. set up regulatory reference points that may be used to objectively assess the information provided by JPS in relation to special studies which may be required from time-to-time. These studies may include, but are not restricted to, investigations into the cost of service, discriminatory pricing, predatory pricing and other forms of anti-competitive behaviour.

3. Content of the Guidelines

Therefore, the Guidelines prescribes:

a) the accounting records that must be kept;

b) the specifications and format for reporting to the OUR, as well as the timing of the reports;

c) the methodology that should inform the allocation of cost and revenues, including those between regulated and non-regulated services or products;

d) the requirements related to reporting of business functions/segments transactions;

e) the audit requirements; and

f) the principles that must be observed and implemented to satisfy the functional unbundling and disaggregation requirements.

4.0 Definitions

In these Guidelines:

"Accounts separation" means the de-construction and disaggregation of a company's accounts in a form that enables the costs and revenues associated with each production and/or service unit to be identified, functionalized and allocated appropriately.

"Accounts Separation Statements" means the statements prepared by JPS in accordance with the provisions of sections 5 and 6 of the Guidelines.

"Accounting and Cost Allocation Manual" or "ACAM" means a document prepared by JPS and approved by the OUR, that sets out in detail the accounting policies and principles employed in the preparation of the company's Accounts Separation Statements.

"Auditor" means a member of the Institute of Chartered Accountant of Jamaica (ICAJ) in good standing and authorized to independently and objectively examine the financial records to ensure that they are compliant with generally accepted accounting principles.

"Board of Directors" means the governing body of JPS, which has the ultimate decision-making authority.

"Business functions" shall be defined as specified in Annex 1 hereof.

"Business segment" means the functional component of the utility that provides a single product or service or a group of related products and services and is subject to risks that are different from those faced in other functional components of the business.

"Common cost" means costs, which cannot be directly assigned to a particular product or service.

"Cost driver" means any factor which causes a change in the cost of an activity.

"Direct cost" means a cost associated with inputs that can be traced directly and unambiguously to a specific good or service and which are recorded against the relevant product or service in the operator's accounting system.

"Directly Attributable cost" means a cost, which is directly and unambiguously related to a service or product but is not recorded in the financial accounts against the product or service to which it is related.

"Distribution system" means the component of the national grid that is dedicated to the conveyance of electricity at comparatively low voltage levels and delivering it to end users. Distribution system includes poles, transformers, lines, insulators and other equipment on the national grid that allows for the transportation of power below 69KV.

"Electricity Act" or "EA" means the Electricity Act, 2015, and any subsidiary legislation enacted thereunder and in force, as amended from time to time.

"Electricity Sector" means energy industry, which provides for the electrification needs of the economy through the generation, transmission and distribution of electricity via the national grid.

"Fixed cost" means a cost that remains unchanged irrespective of the output level or sales revenue of a firm although, in the long run, no costs are fixed.

"Fully Distributed cost" means a method in which the cost of a product or service is determined by allocating to it direct costs, indirect costs and non-attributable common costs, so that no costs are left unallocated.

"General Information Sheet" means a document, submitted along with the Accounting Separation Statements, which is signed by the Chief Executive Officer of JPS and approved by a resolution of the Board of Directors that sets out information on the companies within the Corporate Group which owns the utility along with charts on the ownership structure and relevant transactions within the group.

"Indirectly Attributable cost" means a cost which is shared by more than one service or product, but can be allocated between services on a non-arbitrary basis.

"Jamaica Public Service Company Limited" or "JPS" means the licensee under the Licence, its successors or assigns.

"Joint cost" means a cost that cannot be traced directly to any particular good or service, but can be linked to the cost of inputs associated with a well-defined set of the goods and services produced by the firm.

"kWh" means Kilowatt-hour, which is the unit of energy used to measure electricity consumption. A kWh is the product of electrical power and time.

"Licence" means the Electricity Licence, 2016 together with any variations or amendments, which authorizes JPS to generate, transmit, distribute and supply electricity in Jamaica.

"Licensee" means the Jamaica Public Service Company Limited, which is a vertically integrated utility and holder of the Licence.

"MWh" means Megawatt-hour, which is the unit of energy used for electricity production or consumption. A MWh is the product of electrical power and time. A Megawatt hour is equal to 1000 kilowatt hours.

"Management Responsibility Statement" means a declaration signed by the Chief Executive Officer of JPS and approved by a resolution of the Board of Directors indicating that the management of the company accepts full responsibility for the accuracy of the information presented in the relevant Accounts Separation Statements.

"MW" means Megawatt, which is the unit of electrical power equivalent to one million watts.

"National grid" means a network of high, medium and low voltage power lines and other associated power system equipment that connect major generating plants and end users.

"Office" or "OUR" means the Office of Utilities Regulation as defined in the Office of Utilities Regulation Act, 1995 and amendments thereto.

"OUR Act" means the Office of Utilities Regulation Act, 1995 and amendments thereto.

"O&M" means the operation and maintenance of the utility plant as a part of the process of supply of generating, transmitting, distributing and supplying electricity.

"Statement of Mean Capital Employed" means a statement, which sets out the arithmetic average values of capital over the reporting period for the relevant business segments.

"Terms of reference" means a set of instructions or guidelines given to a consultant, auditor or any other person contracted to do a specific investigation or project. It describes the purpose, scope, structure and deliverables associated with the assignment.

"Transfer price" means the accounting value assigned to a product sold in a transaction between divisions of a company, or companies belonging to the same corporate group.

"Transmission system" means the component of the national grid that is dedicated to the conveyance of bulk electricity from power stations at comparatively high voltage levels across the network to the distribution grid. The transmission system includes poles, structures, transformers, lines, insulators and other equipment on the national grid that allow for the transportation of power at 69 KV and above.

"Transmission and Distribution system or "T&D system" means poles, lines, transformers, insulators, substations along with protective devices and monitoring equipment, for overhead and underground installations, owned by JPS and are actively engaged in the movement of electric power from generating stations to consumers. The transmission and distribution system does not include equipment or plant employed in power generation, general administration or customer service.

"Un-attributable common cost" means a cost, which is incurred but cannot be assigned directly or indirectly to any specific product or service. Un-attributable common costs are generally allocated on the basis of a general allocator.

"Variable cost" means a cost that varies with the changes in the production output of a firm.

"Vertically Integrated Utility" means a company that provides a utility service for which the business structure is such that it controls every aspect of the supply chain related to the product or service it produces. A vertically integrated electric utility possess responsibility for the generation, transmission, distribution and delivery of electricity to the end user.

5.0 GENERAL PRINCIPLES FOR ACCOUNTS SEPARATION

5.1 Cost Accounting Methodology

5.1.1 The methodology that informs the approach to accounts separation is predicated on the principle of cost causation. The cost causation or attribution process involves the proper identification and quantification of the costs of inputs such that they can be properly linked to the goods and services produced by a company. In addition to accounting for direct costs, the utility's accounts shall show costs that include an assignment and allocation of joint and common costs (i.e. fully distributed costs).

5.2 General Allocation Principles

5.2.1 In the process of accounts separation, the allocation of costs shall be informed by the following principles:

a) *Cost Basis:* Subject to variations permitted or directed by the OUR, separated accounts shall be prepared on the historical cost accounting basis in accordance with Condition 15(3) of the Licence. The value of assets that are subjected to fair value accounting treatment shall be adjusted from time to time to reflect their current market value pursuant to generally accepted accounting principles subject to the framework of the Licence.

b) *Cost Causality*: Revenue recovery is based on the principle of cost causality. This involves the disaggregation of the cost incurred in the business, in relation to the activities performed and the assets utilized in the production process, so that they might be incorporated into the pricing of the specific goods and services to which they are attributed. The cost causality principle is generally regarded as an effective approach to tariff design as it transmits price signals that encourages rational decision making in relation to present and future consumption and production of the commodity in question. The OUR recognizes that in order to ensure full cost recovery, including joint and common costs, prices may need to be set at levels above economic (direct) cost. In order to help inform pricing decisions, and illuminate areas of concern in relation to cross subsidies or transactions with affiliated entities, the separated accounts should show the costs for activities and services that include an assignment and/or allocation of joint and common costs.

c) *Procedural Consistency*: The cost allocation basis and assumptions employed shall be reasonable and shall be applied in a predictable manner. Parameters used to allocate costs should be corroborated by way of historical data, usage pattern, organizational research, plant studies or some other valid empirical device. There should also be consistency in allocation over time. Changes in allocation parameters and assumptions may be implemented if and only if the observed differences are material and are to be corroborated by clear evidence and sound arguments.

d) *Methodological Fairness:* The attribution of cost shall be impartial and should not be designed in a way that gives JPS the opportunity to cross-subsidize its costs throughout its various businesses. The cost allocation process should therefore not include cross-subsidies and care should be taken to ensure that costs are not misallocated.

e) *Statistical Representativeness:* In the process of determining the accounting for joint and common costs, based on sampling, the assignment and allocation factors may be derived from generalizations about the population.

The samples should be unbiased and of a size that is consistent with sound statistical analysis.

5.3 General Accounting Policies

5.3.1 The Accounts Separation Statements prepared by JPS, shall:

a) be compliant with the Accounting and Cost Allocation Manual prepared by JPS and approved by the OUR;
b) be consistent with generally accepted accounting principles;
c) provide information that is reliable, cost reflective and relevant;
d) capture all relevant material items and transactions; and
e) be prepared on an annual basis to coincide with the year-end accounts, or for a specific period as defined by the OUR.

5.3.2 The Accounts Separation Statements presented to the OUR by the Licensee shall not be a substitute for its other statutory financial reporting obligations. The presentation of these statements is an additional requirement to existing obligations.

5.4 Documentation of Accounting Policies

5.4.1 The Licensee is required to prepare an Accounting and Cost Allocation Manual, which should properly and comprehensively set out the policies and principles used to prepare the Accounts Separation Statements. Among other things, the ACAM must contain:

a) *the methodologies used to apportion costs, revenues, assets and liabilities to and between business functions and segments*, including:

   i. details of the basis, methodology and formulae applicable to each cost and revenue item;
   ii. the rationale for the selection of the basis, methodology and formulae; and
   iii. the allocation factors to be employed in the quantification of un-attributable costs and revenues. All allocation factors must be consistent with the principles delineated in section 4.2.1.

b) *the methodology and policy pertaining to the depreciation of each class of assets*. Depreciation charges computed based on the stated methodology and policy should be consistent with Schedule 4 of the Licence;

c) *the policies applicable to transfer pricing*. This should inform the allocation of costs and revenues associated with transactions between business segments as well as activities between companies in the same business group. These policies must be compliant with the requirements set out in section 6.4 hereof.

5.4.2 JPS shall submit the ACAM for approval to the OUR no later than six (6) months after the effective date of these Guidelines. The OUR will provide a response to the ACAM within three (3) months of JPS' submission of the document.

5.4.3 The ACAM at minimum shall include the following:

A. Introduction

B. Summary of Corporate Structure

C. Code of Conduct

D. Description of Services

E. Cost Assignment and Allocation Process

F. Service Agreement List

G. Guidelines for Transactions between Affiliates

H. Shared Services Cost Distribution Details

I. Guidelines and Procedures for Charging Affiliates for services provided by the Utility

J. Guidelines and Procedures for Costs Originating with JPS' regulated business

K. Guidelines and Procedures for Charging Non-regulated Affiliates or Activities for services provided

L. Signature page signed and dated by the Chief Financial Officer (CFO)

5.5 Changes to the Accounting and Cost Allocation Manual

5.5.1 The OUR will set up and chair an ACAM Review Committee which shall review and approve changes to the ACAM. The ACAM Review Committee will include two (2) representatives from the OUR, two (2) from JPS, one (1) member from the Ministry with responsibility for Energy and one (1) representative from the Consumer Advisory Committee on Utilities. The Committee will meet to review changes to the ACAM if a change request is made from any one of the stakeholders comprising the Committee. Changes to the ACAM if deemed necessary or appropriate can be made at any time but must be approved by the ACAM Review Committee. Changes made to the ACAM will come into effect at the next five-year rate review period and will be made prospectively. If a change is deemed necessary by the ACAM Review Committee and is approved by the Committee, notification to make the change will be sent to JPS within five (5) days of the decision being made. After receiving such notification, JPS shall thereupon make the required changes to the ACAM and submit the amended ACAM to the OUR for approval within the time stipulated by the OUR.

5.5.2 If JPS fails to submit the amended ACAM to the OUR in keeping with the stipulated time, the OUR shall determine the appropriate changes to be made and make the changes to ACAM as determined, and notify JPS and stakeholders of the amendment and the effective date thereof.

5.5.3 JPS may initiate changes to the ACAM by way of a submission to the OUR, setting out:

a) the details of the proposed change;
b) the rationale for the change; and
c) the effect of the changes on the Accounts Separation Statements.

5.5.4 The OUR will indicate its receipt of the amended ACAM within five (5) days of submission by JPS and indicate its decision in writing and set out the reasons therefor within three (3) months of the receipt of the amended ACAM.

5.5.5 The ACAM shall be "version controlled" by the OUR with each version being uniquely identified by version number and effective date.

5.6 Materiality

For the purposes of section 5.3.1(d), an item of cost shall be deemed material if:

(a) its non-disclosure, misrepresentation or omission is potentially prejudicial to the interpretation of the financial position of the Licensee, or;
(b) when the relevant Accounts Separation Statements are read, the item of cost, as presented, is likely to distort the understanding of the nature of the business activities that the Licensee or entities within its business group are engaged.
(c) If it conforms with the materiality principles and guidelines laid out in International Standard on Auditing, IAS 320.

5.7 Determination of Substance

In relation to the assessment of the JPS transactions, particularly with regard to the section 5.3.1 (c), the determination of substance shall be the basis on which the appropriateness of a transaction is judged. To determine the substance, all aspects of the transaction and events connected to the transaction shall be taken into account.

5.8 Verifiability of Information

The information in Accounts Separation Statements must be verifiable. The Licensee is therefore required to maintain records and relevant accounting data so that Accounts Separation Statements may be rigorously and independently verified. Accounting data must be kept for a minimum period of seven (7) years. The OUR however, reserves the right to specify from time to time or direct JPS to keep certain accounting records for a longer period if these are deemed to be material to a pending litigation or for any purpose as it deems necessary.

5.9 Management Responsibility Statement

5.9.1 Accountability for the accounts separation process and output must be accepted by the management of JPS. Thus, as evidence of the management's responsibility for the information contained in the Accounting Separation Statements, JPS is required to duly complete and submit to the OUR the form of the Management Responsibility Statement set forth in Annex 5.

5.9.2 The Management Responsibility Statement must be:

a) signed and dated by the Chief Executive Officer, the Chief Financial Officer or any other authorized officer; and
b) approved by a resolution of the Board of Directors no more than fourteen (14) days before the date of the Management Responsibility Statement.
c) prepared on the company's approved letter head.

4.9.3 The submission of the Accounts Separation Statements must include a certified copy of the Board Resolution attached to the Management Responsibility Statement.

5.10 Supporting Records and Audit Trail

5.10.1 JPS must ensure that accounting records are:

a) properly kept and are of such clarity that they accurately explain the transactions and financial position of each of the business segments;
b) structured in a way that facilitates the construction of an opinion by an independent auditor with respect to the accounts separation statements vis-à-vis these Guidelines; and
c) contains adequate information concerning the transactions within and between business segments to enable an independent auditor to arrive at an opinion with respect to JPS' compliance with these Guidelines.

5.10.2 The authenticity and accuracy of the accounts separation process must be maintained. JPS is therefore required to maintain an audit trail with respect to:

a) all information used to prepare the Accounts Separation Statements including the allocation of costs to business segments and data which, captures the company's transaction with related parties;

b) all relevant records, including but not restricted to copies of contracts, memoranda of understanding and commercial agreements with related parties.

5.11 Audit Requirements

5.11.1 JPS shall, at its own expense, appoint an independent and reputable auditor to audit the Accounts Separation Statements.

5.11.2 The OUR may request meetings with the auditor to discuss the auditor's findings. JPS shall ensure that appropriate provisions that allow the OUR access to the auditors, are included in the Terms of Reference, the Letter of Engagement and/or the Contract with the auditor.

5.11.3 JPS shall grant the auditor or its authorized representatives the right of access to its accounting data or any other relevant information that may assist in the timely and proper execution of the audit of the Accounts Separation Statements. For the purpose of the audit, JPS is also required to make available to the auditor or its designees, appropriate personnel on its staff to provide relevant information and explanations in relation to its accounts and operations.

5.11.4 The auditor shall gather audit evidence to substantiate the reliability of the Accounts Separation Statements. The auditor should provide an opinion with respect to whether the Accounts Separation Statements are fairly presented based on these Guidelines and are consistent with the requirements of the Licence and the ACAM. Among other things, the Auditor's Report shall examine:

a) the appropriateness and adequacy of the procedure used in the disaggregation of cost and revenue;

b) the relevance and accuracy of the data and parameters employed in the allocation of costs to regulated products;

c) the reconciliation between JPS' regulatory accounts and its statutory accounts;

d) the appropriateness of methodologies used regarding cost allocation in relation to the evaluation of the assets; and

e) the accuracy and appropriateness of transfer charges in separated accounts.

5.11.5 All Accounts Separation Statements must be accompanied by the Independent Auditor's Report. The report, which must be signed and dated by the auditor, shall:

a) declare the auditor's opinion as to whether the Accounts Separation Statements have been fairly presented and complies with the requirements of these Guidelines;

b) point out any defect in the Accounts Separation Statements caused by material non-compliance with the ACAM in relation to its preparation, as well as any other failures or inadequacies discovered;

c) identify exceptions clearly, if any exist, and the effect each exception noted would have on the Accounts Separation Statements;

d) highlight any other issues pertaining to the Accounts Separation Statements that would detract from a fair presentation of the statements, including but not restricted to failure by the auditor or its authorized representatives to obtain from JPS, all necessary information as well as explanations that are required to perform and execute the audit exercise.

5.11.7 The Auditor's Report must be accompanied by an Auditor's Statement in the format provided in Annex 6.

5.11.8 The OUR has the right to appoint a separate (second) independent auditor or request that the independent auditor appointed by JPS re-audit, in whole or in part, the accounts, if:

(a) the Auditor's Report is deemed by the OUR to require further work for the purpose of regulatory certainty, or;

(b) the Auditor's Report does not, in the OUR's view; provide a sound basis for confidence in the Accounts Separation Statements.

(c) based on the evidence in the Auditor's Report or directly from the information in the Accounts Separation Statement, there is:

i. material non-compliance with these Guidelines or the ACAM;

ii. a failure or deficiency in the Accounts Separation Statement; or

iii. any other material issues in relation to the Accounts Separation Statements that in the opinion of the auditor and/or the OUR should have been reported and was overlooked or omitted.

5.11.9 Regardless of whether the original auditor appointed by JPS or a separate (second) auditor appointed by the OUR is requested to conduct a re-audit, all such audit costs shall be borne by the Licensee.

5.12 General Information Sheet

5.12.1 For the purpose of these Guidelines, the Licensee's Account Separation submissions to the OUR must be accompanied by a General Information Sheet that:

a) lists the names of the companies in the Corporate Group that owns JPS and name of entities owned by JPS;

b) contains an organizational chart that shows the ownership relationship and corporate nexus between the relevant members in the Corporate Group; and

c) describes the activities undertaken by each member of the Corporate Group and how the activities affects JPS.

5.12.2 The General Information Sheet must be:

a) signed by the JPS' Chief Executive Officer or by such other person explicitly designated (in writing) by the Board of Directors to do so.

b) approved by a resolution of the Board of Directors passed no more than a period up to three (3) months prior to the date that the Accounts Separation Statement submission is made to the OUR. Up to fourteen (14) days prior to submission to OUR, JPS' CEO or designated representative approved by the Board shall sign and approve that there have been no changes to the information included in the General Information Sheet as of the date of the Board approval.

5.13 Reporting Requirements

5.13.1 For the purpose of these Guidelines, the reporting period shall be in relation to the activities and transactions undertaken in each financial year.

5.13.2 JPS, within four (4) months of the end of its financial year, is required to prepare and submit in accordance with these Guidelines, the following:

a) the Accounts Separation Statements for each business segment for the reporting period;

b) the Management Responsibility Statements that must accompany the Accounts Separation Statements, in accordance with section 5.9 of the Guidelines;

c) the Auditor's Report on the Accounts Separation Statements for the reporting period, in keeping with section 5.11 of these Guidelines;

d) the General Information Sheet that must accompany the Accounts Separation Statements in accordance with section 5.12 of these Guidelines.

5.13.3 Notwithstanding the reporting period, the OUR reserves the right to require JPS to provide interim or additional information it may reasonably specify from time to time, including but not limited to:

a) information to augment and support the reporting requirements set out in these Guidelines.

b) supplemental financial and accounting information as well as information of a non-financial nature deemed necessary for the determination of the actual cost of the services provided by the company; and

c) other information that may be required from time to time by the OUR in order to effectively carry out its regulatory responsibilities.

JPS shall furnish the information to the OUR within a reasonable specified time.

5.14 Modification of the Guidelines

5.14.1 These Guidelines may from time to time be revised to:

a) reflect changes in practices and industry conditions;

b) address new products and the introduction of new technologies; and

c) facilitate the refinement of practices and principles.

5.14.2 The OUR may, from time to time, require JPS to amend its procedures used regarding compliance with these Guidelines. In such an event, the OUR shall notify the company by way of written instructions on the matter. The OUR shall clearly identify the date upon which such amendment would become effective.

5.14.3 In the event that JPS wishes to initiate changes to these Guidelines, the Licensee must observe the following procedure:

a) a submission clearly identifying the desired amendments and the associated reasons shall be made to the OUR.

b) an analysis that illustrates the full financial implications of the amendment(s) shall be included in the submission. In order to show the impact of the proposed change, the analysis shall reflect the impact of the proposed changes in the current reporting period, as well as, the last two (2) financial years immediately preceding the current reporting period.

c) JPS shall provide the additional information requested by the OUR for the purpose of reviewing the proposed change.

5.14.4 Where a JPS initiated change to these Guidelines will result in modifications to an associated procedure, the OUR shall, at the time of assessing the merits of the proposed change, consider and determine the consequential modification to the associated procedure.

5.14.5 Subject to sections 5.14.6 and 5.14.7, a modification to these Guidelines should become effective six (6) months after the effective date of the decision of the Office.

5.14.6 Notwithstanding the time specified in section 5.14.5, the Office, with reasons for so doing and after consultation with JPS, may deem it necessary to implement the changes at an earlier or later date and the Licensee shall act in accordance with the Office's determination.

5.14.7 In determining the timeframe for the implementation of changes to these Guidelines, the OUR shall consider the nature of the change, the urgency of implementation and the likely impact of the change on the Licensee's reporting procedures.

5.15 Confidentiality

Where commercially sensitive information is provided in compliance with these Guidelines, the OUR shall:

a) restrict the disclosure of such information to its technical staff, legal advisors and the relevant consultants on a need to know basis;

b) employ the information only with regard to its regulatory considerations, statements and the fulfillment of its statutory duties;

c) disclose information only if the OUR deems it necessary for the fulfillment of statutory obligations and in accordance with law governing such information. In such an event, the OUR will, prior to the OUR's final decision on the disclosure, notify the Licensee and allow JPS a reasonable opportunity to present its position.

6.0 INFORMATION REQUIREMENTS FOR ACCOUNTS SEPARATION

6.1 Accounts Separation Statements for Business Functions

6.1.1 JPS is required to maintain separate accounts for each business function. The definition of each of the business functions is set out in Annex 1B.

6.1.2 The accounts maintained under each business function (see Annex 1A) must be of such that each function is treated as if it were a separate company. This is to ensure that cost and revenues, assets and liabilities, as well as the reserves and provisions of each business function are individually identifiable in the accounts.

6.1.3 JPS is required, in accordance with these Guidelines, to prepare and submit the following:

a) Income Statements for each business function;

b) Statements of Mean Capital Employed (assets and liabilities) for each business function (see Annex 4B);

c) Cash Flow Statements for each business function (see Annex 4C);

d) a Consolidated Cash Flow Statement that aggregates in a single statement all the individual business functions' Cash Flow Statements;

e) A Consolidated Income Statement that aggregates in a single statement all the individual business functions Income Statements (see Annex 2). This statement should contain the following reports:

   i. a summary of revenues, operating costs and the return for each business function;

   ii. consolidated adjustments, with separate identification of each adjustment item; and

   iii. a reconciliation to the Licensee's audited Income Statement.

f) A Consolidated Mean Capital Employed Statement that aggregates in a single statement all the individual business function Mean Capital Employed Statements (see Annex 3).

6.2 Income Statements

6.2.1 Income statements shall be provided for each business function listed in Annex 1A. Each statement should show the revenues, costs and operating result (i.e. profit or loss) for the segment (see Annex 4A, 4D and 4E).

6.2.2 In reporting revenues, the following should be separately identified:

a) revenues from external sources;

b) revenues from the company's internal businesses; and

c) revenues from entities controlled by JPS and/or related entities (including overseas parents and/or subsidiaries, if applicable).

6.2.3 A similar treatment should be given to the treatment of costs in each function. The following costs as described in Annex 7 should be clearly identified:

a) fixed costs;

b) variable costs;

c) direct, directly attributable and indirectly attributable costs;

d) allocated un-attributable common costs;

e) charges paid to the company's internal businesses;

f) charges paid to the company's controlled entities and/or related entities (including overseas parents and/or subsidiaries, if any); and

g) charges paid to other operators.

6.3 Statements of Mean Capital Employed

6.3.1 The Licensee must prepare and submit a Statement of Mean Capital Employed for each business function. This statement must set out the arithmetic average values of capital over the reporting period (see Annex 3 & 4B). The Mean Capital Employed refers to the total written down value of non-current assets and working capital. It is therefore the company's total assets less current liabilities, excluding corporate taxes, dividends payable and long term liabilities. In the Statement of Mean Capital Employed for each business function, JPS must clearly identify the following:

a) Current assets by major line item

b) Non-current assets by major line item

c) Current liabilities by major line item

d) Non-current liabilities by major line item

e) Total mean capital employed

f) Return on capital employed

6.3.2 The return on the capital for each item in the Statement of Mean Capital Employed for the respective business segment should be consistent with the weighted average cost of capital as defined in the Licence.

6.4 Transfer Pricing

6.4.1 Transfer pricing refers to the process by which accounting values are assigned to a product sold in a transaction between divisions of a company, or companies belonging to the same corporate group. This may lead to price distortions that unfairly favours a monopolist provider at the expense of its competitor. In order to minimize the likelihood of this occurrence, the following principles shall be applied to the pricing of the resources and products associated with transactions between business functions, divisions of the Licensee, or companies belonging to the same corporate group that owns the Licensee:

a) Electricity services shall be charged at the applicable tariffs specified in the current Rate Schedules.

b) Competitive services shall be charged at the prevailing market rates.

c) Shared services within JPS shall be valued at full cost of provision based on usage.

d) Asset transfers from one division to another shall be valued at the realisable value of the resource.

e) Allocation of the capitalised value of assets jointly used by two or more divisions within the company shall be based on service usage.

6.4.2 The Licensee shall be required to provide a detailed description of the process, as well as the cost build up and the methodology employed, to derive transfer prices between divisions within the company or those affecting its costs based on transactions between itself and companies within its Corporate Group.

6.5 Accounts Separation Statements for Business Segments

6.5.1 As it pertains to the following business segments (i.e. System Operations, Transmission Connection Services, and Distribution Connection Services), the Licensee shall be required to provide the following schedules segment identified in Annex 1A. The business segments are:

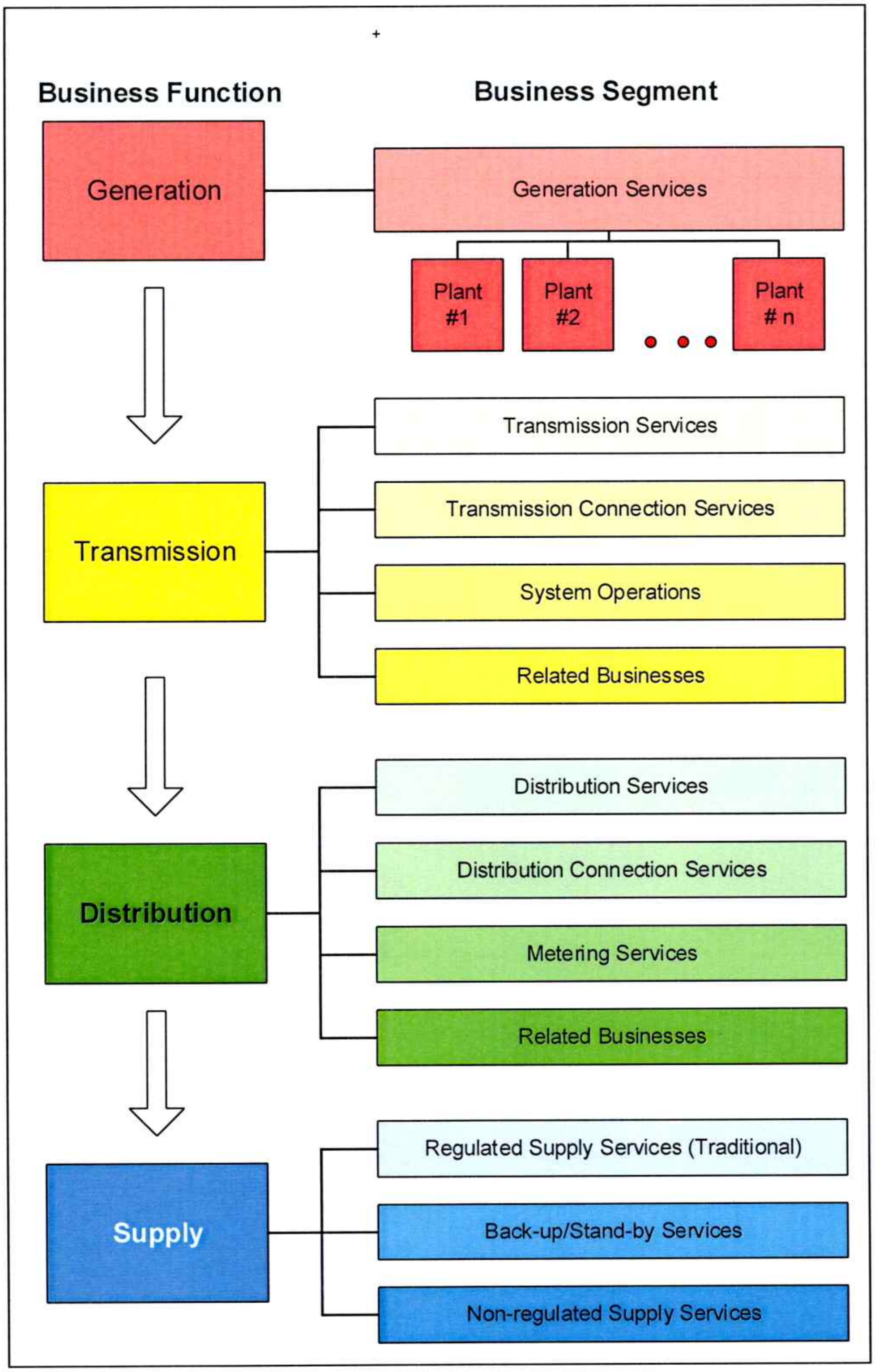
a) Statement of Mean Capital Employed (assets and liabilities) for each business segment;

b) Cost Schedule Statement for each business segment that clearly identifies:

i. fixed costs;
ii. variable costs;
iii. direct, directly attributable and indirectly attributable costs;
iv. allocated un-attributable common costs.

ANNEXES

ANNEX 1A: The Relationship between Business Functions and Segments



ANNEX 1B: The Business Functions, Segments and Components

Function	Segment	Components
Generation	Generation Services	• Generation of electricity (Rate base) • Generation of electricity (Utility owned IPPs e.g. Munro, Maggotty "B" and South Jamaica Power Company) • Generation of electricity (purchases) • Planning, maintenance and operation of generation system
		• Provision of ancillary services
Transmission	Transmission Services	• Provision of regulated transmission services • Provision of ancillary services • Planning, maintenance, augmentation and operation of distribution system
	Transmission Connection Services	• Provision of access services • Planning, maintenance, augmentation and operation of transmission connection assets
	System Operations	• Provision of system operation services
	Related Businesses	• Related businesses that uses transmission assets, facilities and staff (e.g. telecommunication business)
Distribution	Distribution services	• Provision of regulated distribution services • Provision of ancillary services • Planning, maintenance, augmentation and operation of distribution system
	Distribution Connection Services	• Provision of access services • Planning, maintenance, augmentation and operation of transmission connection assets
	Metering Services	• Provision of metering services (i.e. installation, commissioning, testing, repairs and maintenance of meters and meter reading, etc.)
	Related Businesses	• Related businesses that uses transmission assets, facilities and staff (e.g. provision of pole service for telecommunication business)
Supply	Supply Services	• Provision of regulated supply services (i.e. billing, collection, customer services, energy trading, etc.)
		• Provision of back-up/stand-by services
		• Provision of non-regulated supply services (i.e. Billing, collection, customer services, energy trading, etc. for customers with special

ANNEX 2: THE CONSOLIDATED INCOME STATEMENT REPORTING FORMAT

Jamaica Public Service Company Limited
Total Statement of Income for the year ended ______________

Description	Revenue (US$'000)	Operating Costs (US$'000)	Profit before Interest & Tax (US$'000)	Interest & Tax Costs (US$'000)	Extraordinary Items (US$'000)	Operation Profit after Interest, Tax and Extraordinary Items (US$'000)
Generation*						
Transmission*						
Distribution*						
Supply*						
Elimination of Inter-company Transactions						
Total						
RELATED BUSINESSES						
Total revenue[1] Total costs[2] Other adjustments[3]						
Elimination of Inter-company Transactions						
Total as per audited General Purpose Financial Statements						

[1] Specify by type of revenue (account heading)
[2] Specify by type of cost (account heading)
[3] Specify by type (account heading)

ANNEX 3: THE CONSOLIDATED MEAN CAPITAL EMPLOYED STATEMENT FORMAT

Jamaica Public Service Company Limited
Total Statement of Income for the year ended ____________________

Description	Total Assets	Total Liabilities	Net Assets (Liabilities)
Generation*			
Transmission*			
Distribution*			
Supply*			
Elimination of Inter-company Transactions			
Long term borrowings			
Provision for deferred tax			
Provision for dividends payable			
Unallocated dividends receivable			
Unallocated interest payable			
Unallocated interest receivable			
Unallocated assets/liabilities[2]			
Total			
RELATED BUSINESSES Assets & Liabilities for Related Businesses			
Shareholders' Equity as per audited General Purpose Financial Statements			

*Complete for each Business Segment that the JPS is engaged in

ANNEX 4A: BUSINESS FUNCTION INCOME REPORTING FORMATS

Jamaica Public Service Company Limited
Total Statement of Income for the year ended ______________

Account code or reference	Description	Generation (US$'000)
	Revenue from the sale of electricity and provision of ancillary services Revenue from the sale of assets Other revenue (analyzed as appropriate)	
	Total Revenue	
	Maintenance Operating expenses (analyzed as appropriate) Depreciation – Historic cost Depreciation – Appraisal increment	
	Total operating costs	
	Profit before interest and tax	
	Interest	
	Profit before tax and extraordinary items	
	Tax Extraordinary Revenue items[1] Extraordinary Expense items[1]	
	Profit after interest, tax and extraordinary items	

ANNEX 4B: BUSINESS FUNCTIONS/SEGMENTS MEAN CAPITAL REPORTING FORMATS

Jamaica Public Service Company Limited
Statement of Mean Assets and Liabilities as at __________________________

Account code or reference	Description	US$'000
	NON-CURRENT ASSETS	
	Utility plant and equipment – Historic cost	
	Buildings and improvements – Historic cost	
	Information technology – Historic cost	
	Motor vehicles – Historic cost	
	Other Assets (please specify) – Historic cost	
	Total Historic Cost	
	Utility plant and equipment – Accumulated Historic depreciation	
	Utility plant and equipment – Accumulated Historic depreciation	
	Buildings and improvements – Accumulated Historic depreciation	
	Buildings and improvements – Accumulated Historic depreciation	
	Information technology – Accumulated Historic depreciation	
	Motor vehicles – Accumulated Historic depreciation	
	Other Assets (please specify) – Accumulated Historic depreciation	
	Total Accumulated Depreciation	
	Investments and advances	
	Land and development	
	Total non-current assets	
	CURRENT ASSETS	
	Cash and cash equivalents	
	Receivables	
	Investments	
	Prepayments	
	Materials and supplies	
	Other current assets	
	Total Current Assets	
	TOTAL ASSETS	
	NON-CURRENT LIABILITIES[1]	
	Provisions[2]	
	Loans	
	Total non-current liabilities	
	CURRENT LIABILITIES	
	Trade payables and accrued expenses	
	Loans	
	Provisions	
	Total current liabilities	
	TOTAL LIABILITIES	
	NET ASSETS/(LIABILITIES)	

ANNEX 4C: BUSINESS FUNCTIONS CASH FLOW FORMATS

Jamaica Public Service Company Limited
Cash Flow Statement for the year ended as at ________________________

Account code or reference	Description	US$'000
	Cash Flows from Operating Activities Net income before tax and extraordinary items Adjustments for depreciation – Historic cost Adjustments for depreciation – Appraisal increment Adjustments for foreign exchange loss / (gain) Investment loss (income) Interest expense (income)	
	Operating income before working capital charges	
	Decrease / (increase) in trade and other receivables Decrease / (increase) in inventories Increase / (decrease) in trade payables	
	Cash generated from operations	
	Interest paid Income taxes paid	
	Cash flow before extraordinary items	
	Extraordinary gain / (loss)	
	Net cash from (used in) operating activities	
	Cash flows from Investing Activities Acquisition of subsidiary Purchase of plant and equipment (analyzed as appropriate) Purchase of land and buildings Interest received Dividends received Purchase of Other Investment Activities Sale of Other Investment Activities	
	Net cash used in (from) investment activities	
	Cash Flows from Financing Activities Proceeds from insurance of stock Proceeds from Long Term Debt (analyzed as appropriated) Payment of financial lease liabilities Dividends paid	
	Net cash used in (from) financing activities	
	Net Change in Cash Equivalents	
	Cash and Cash Equivalents at Beginning of Year Cash and Cash Equivalent at End of Year	

ANNEX 4D: BUSINESS FUNCTIONS REVENUE SCHEDULE FORMAT

Jamaica Public Service Company Limited
Revenue Schedule for the year ended ______________________

Account code or reference	Description	US$'000
	Direct revenue Revenue from the sale of electricity and ancillary services Revenue from the sale of assets Other revenue (analyzed as appropriate)	
	Total direct revenue	
	Indirectly attributable revenue Revenue from the sale of electricity and ancillary services Revenue from the sale of assets Other revenue (analyzed as appropriate)	
	Total indirectly attributable revenue	
	Un-attributable revenue allocated Revenue from the sale of electricity and ancillary services Revenue from the sale of assets Other revenue (analyzed as appropriate)	
	Total un-attributable revenue	
	Total revenue	

Note: In addition to the above, it is mandatory to produce for each revenue item that has been allocated to the Business Function a supporting work paper that includes:

(a) The amounts that have been indirectly attributed to the Business Function
(b) The amounts that have been allocated to the Business Function
(c) A description of the allocation basis
(d) The numeric quantity of each allocation factor

ANNEX 4E: BUSINESS SEGMENTS COST SCHEDULE FORMAT

Jamaica Public Service Company Limited
Cost Schedule for the year ended ____________________

Account code or reference	Description	Generation US$'000
	Direct costs Maintenance Operating expenses Depreciation – Historic cost Depreciation – Appraisal increment Other costs (analyzed as appropriate)	
	Total direct costs	
	Indirectly attributable costs Maintenance Operating expenses (analyzed as appropriate) Depreciation – Historic cost Depreciation – Appraisal increment	
	Total indirectly attributable costs	
	Un-attributable costs allocated Maintenance Operating expenses (analyzed as appropriate) Depreciation – Historic cost Depreciation – Appraisal increment	
	Total un-attributable common costs allocated	
	Total operating costs	
	Direct extraordinary items Indirectly attributable extraordinary items Un-attributable extraordinary items allocated	
	Total Extraordinary Items	

Note: In addition to the above, for each revenue item that has been allocated to the Business Segment, it is mandatory to produce a supporting work paper that included:

(a) The amounts that have been indirectly attributed to the Business Segment
(b) The amounts that have been allocated to the Business Segment
(c) A description of the allocation basis
(d) The numeric quantity of each allocation factor

ANNEX 5 – MANAGEMENT RESPONSIBILITY STATEMENT

To: The Office of Utilities Regulation

The management of the Jamaica Public Service Company Limited (JPS) accepts responsibility for all information and representations contained in the Accounts Separation Statements for the year ended [_____]. The Accounting Separation Statements have been prepared in accordance with the provisions of the Accounting Separation Guidelines for the Jamaica Public Service Company Limited dated [______] (the Guidelines) and satisfies the requirements stipulated by the Office of Utilities Regulation, (OUR).

As such, we hereby state that:

(a) The relevant systems of accounting and reporting are maintained in a manner so as to ensure that the necessary internal controls of assets, liabilities and transactions are recognized and maintained;

(b) Financial activities, transactions and events are properly recorded; and that costs and revenues are appropriately allocated in accordance with the Guidelines; and

(c) The accounting policies applied strictly conforms with the requirements of the Guidelines and the policies and principles set out in the Accounting and Cost Allocation Manual.

This Management Responsibility Statement has been approved by a resolution of the Board of Directors of JPS, dated [______], a certified copy of which is attached to this Statement.

Signature________________________________

Name ________________________________

Date ________________________________

ANNEX 6: AUDITOR'S STATEMENT

To: The Office of Utilities Regulation

Scope

We have audited the Accounts Separation Statements prepared by Jamaica Public Service Company Limited (JPS) in the attached regulatory financial report for the year ended [ ].

Management Responsibility for the Accounts Separation Statements

The management of JPS is responsible for the preparation and fair presentation of the Accounts Separation Statements in accordance with Accounting Separation Guidelines for the Jamaica Public Service Company Limited (Guidelines) issued by the Office of Utilities Regulation (OUR). The management has determined that the Accounts Separation Statements satisfies the requirements of the Guidelines, including that:

- the system of accounting and reporting maintained by the management, which provides for the necessary internal controls to ensure that assets, liabilities and transactions are appropriately recorded and recognized and that revenues and costs are properly allocated, have been implemented and maintained; and

- the accounting policies used are consistent with the requirements of the Guidelines and the approved Accounting and Cost Allocation Manual.

Auditors' Responsibility

Our responsibility is to express an opinion on the Accounts Separation Statements based on our audit. In the audit conducted no opinions are expressed as to the appropriateness of accounting policies applied by the OUR.

These Accounts Separation Statements have been prepared by the Jamaica Public Service Company Limited in keeping with the reporting requirements of the Guidelines established by the OUR. We disclaim any assumption of responsibility for any reliance on this report, or on the Accounts Separation Statements to which it relates, to any person other than the OUR, or for any purpose other than that for which was prepared.

This audit has been executed in compliance with generally accepted auditing standards in Jamaica. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the Accounts Separation Statements and the evaluation of significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the Accounts Separation

Statements are presented fairly in accordance with the requirements of the Guidelines and the approved Accounting and Cost Allocation Manual.

Opinion

[To be completed by Auditors]

Name:
Signature:
Date:

Audit Opinion

It is our opinion that the Accounting Separation Statements have been correctly constructed in accordance with the Accounting Separation Guidelines, and that the Accounting and Cost Allocation Manual (ACAM) prepared by the Jamaica Public Service Company and provided to the Office of Utilities Regulation in all material respects, present fairly the following:

(i) The Statements of Income for each Business Segment;

(ii) The Total Statement of Income of the Jamaica Public Service Company;

(iii) The Statement of Assets and Liabilities for each Business Segment;

(iv) The Statement of Assets and Liabilities of the Jamaica Public Service Company; and

(v) The Cash Flow Statement for each Business Segment.

Material exceptions and their respective effects on the Accounting Separation Statements are as follows:

[Describe any material exceptions]

Date: ______________________________

Firm: ______________________________

Partner: ____________________________

Address: ___________________________

ANNEX 7: THE STRUCTURE AND ALLOCATION OF COST

Type of Costs

Cost in a firm may be broken down into two types of cost, fixed costs and variable costs:

1. *Fixed costs*: refer to costs that are independent of the quantity of output in the production of a product. These costs are not directly attributable to a single product when multiple products are produced in the production process. In general, these costs are associated with the infrastructural facilities and are shared by several products in the production process.

2. *Variable costs:* pertains to costs that vary with the level of output. In the case where a company produces a single product then the variable costs are directly attributable to a product generated. If on the other hand, the company produces multiple products then these costs indirectly attributable to each product generated.

Costs Attribution

In assigning cost or revenue to a specific business segment, it is important that a distinction is made between the various classes of costs. As such accounting items should be classified as follows:

a) *Direct cost/revenue*: refers to costs incurred or revenues generated exclusively by a specific product and are recorded in accounts assigned to that particular product.

b) *Directly attributable cost/revenue:* refers to costs incurred or revenues generated by a specific product but are recorded in accounts not exclusively assigned to the product in question.

c) *Indirectly attributable cost/revenue:* refers to costs incurred or revenues generated collectively by a group of products or service, but can be traced to a particular product by an objective process based on cause and effect relationships.

d) *Unattributable cost/revenues:* refers to costs conjointly incurred or revenues collectively generated that cannot be objectively linked by way of a causal relationship to a particular product.

Cost Allocation Process

The company shall be required to record the costs incurred and revenues generated in its accounts in such a manner that it can be directly allocated to products/services. In situations where direct allocation is not possible, costs and revenues should be attributed on the basis of causation such that assignments can be made to the appropriate business segments.

The allocation of costs/revenues shall be based on clear and rational rules developed in the company's allocation manual. As shown in the Figure below, the cost allocation process starts with the deconstruction of cost/revenue in order to facilitate their allocation to their respective business segments.