

## **Proposed publication of JT's Separated Accounts**

C&WJ's comment in response to  
the JCRA's second Initial Notice

7 September 2010

## 1. Introduction

Cable and Wireless Jersey Limited (C&WJ), also trading as Sure, welcomes the opportunity to comment further on the JCRA's proposals for the regulatory accounting reporting requirements for Jersey Telecom Limited (JT).

## 2. External Audit

C&WJ is grateful to the JCRA for the recognition of the importance of an external audit requirement. In order for the JCRA and other interested parties to have confidence in JT's Separated Accounts this audit should be subject to the relevant rules of Jersey's legislation and be in accordance with international best practice.

It should ideally cover:

- the scope of revenues and costs included in the model and the scope of costs allocated to regulated products
- the reconciliation between JT's costing model and its statutory accounts
- the correctness of figures, including operational data e.g. volumes and technological parameters
- the appropriateness of methodologies used regarding amortisation, cost capitalisation and apportionment and for the evaluation of the assets (e.g. current costs, when applicable)
- transfer charges within the Separated Accounts.

The JCRA may also wish to determine the type of audit that should be performed. C&WJ's sister company, C&WG, currently has a 'properly prepared' audit opinion requirement and this is deemed to be cost effective with regards to the work involved and the outputs that are required by the Office of Utility Regulation. An alternative type of audit would be one that 'fairly presents' the results.

With the above in mind C&WJ considers that it would be beneficial for the JCRA to provide guidance regarding the focus and type of the regulatory audit that it will require for compliance purposes.

## 3. Format of the Separated Accounts

C&WJ considers that there may currently be some ambiguities regarding the requirements for the format of the Separated Accounts. C&WJ's particular concerns are discussed below:

### 3.1 JT's Mobile Business

The JCRA intends to determine that the format of the Separated Accounts shall be that proposed in its 2005 Direction<sup>1</sup>, but with recognition that JT no longer needs to report its disaggregated Mobile businesses. However, according to the list provided by the JCRA in the new Initial Notice<sup>2</sup> (issued on 12 August 2010) there is no specific requirement to report Mobile Termination, although the need for this was acknowledged by the JCRA in its Final Notice<sup>3</sup> (also issued 12 August 2010).

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<sup>1</sup> [www.jcra.je/pdf/050511%20Direction%20to%20JT%20re%20Separated%20Accounts.pdf](http://www.jcra.je/pdf/050511%20Direction%20to%20JT%20re%20Separated%20Accounts.pdf)

<sup>2</sup> [www.jcra.je/pdf/100812%20SEPARATED%20ACCOUNTS%20second%20INITIAL%20NOTICE.pdf](http://www.jcra.je/pdf/100812%20SEPARATED%20ACCOUNTS%20second%20INITIAL%20NOTICE.pdf)

<sup>3</sup> [www.jcra.je/pdf/100812%20SEPARATED%20ACCOUNTS%20FINAL%20NOTICE.pdf](http://www.jcra.je/pdf/100812%20SEPARATED%20ACCOUNTS%20FINAL%20NOTICE.pdf)

The JCRA intends to require JT to report its non-SMP telecommunications business activities separately from its **other** [emphasis added] unlicensed business activities. C&WJ suggests that if a business is classified as non-SMP it does not automatically follow that the service(s) is unlicensed. In the case of JT's Mobile Business the only elements that C&WJ would expect to be reported as unregulated would be the rental/sale of mobile handsets and accessories – items that can be provided by any supplier in Jersey without the need for a telecommunications licence. JT's Mobile Business should continue to be reported separately (but with just two sub-businesses - one for Mobile Termination and one for Remaining Activities) so as:

- not to distort the financial results of JT's fixed network business
- to provide visibility that no cross-subsidisation is occurring between JT's fixed and mobile networks

### **3.2 Core Network Summary**

The JCRA acknowledges that one of the potential uses of separated accounts is for the setting of interconnect pricing, but there appears to be no allowance for a Core Network Summary within the proposals. This is different to the statement of costs of network services (shown as Table 5.6 within the proformas) in that it is used to define the required breakdown of components by:

- operating costs
- CCA adjustments (where applicable)
- capital employed
- applicable rate of return

As it stands the JCRA will have no visibility of the elements included in the average costs (pence/minute) of each of the network components in Table 5.6 and will therefore not be able to make direct comparisons, either year on year, or to other operators' equivalent data. In Section 11 of its Initial Notice (issued 12 August 2010) the JCRA reiterates the potential uses of separated accounts as:

- Monitoring of the operator's performance for purposes of regulated product price control
- Informing on costs for the purpose of setting wholesale access charges
- Setting interconnection pricing
- Aiding the NRA in detecting anti-competitive behaviour such as unfair cross subsidisation and undue discrimination at levels of disaggregation appropriate to the relevant market
- Assisting in comparative competition (the process of benchmarking a company's performance in relation to other companies' performance).

In relation to the last three bullet points C&WJ considers that the JCRA's position could be weakened by the omission of a requirement for the provision of a Core Network Summary. C&WJ monitors the Separated Accounts of operators in four jurisdictions - Ireland, UK (excluding Hull), Hull and Guernsey. All of them have a Core Network Summary (or equivalent). The following links provide this summary for each operator:

- <http://home.eircom.net/html/pdfs/2009CCALRICFinancialStatement.pdf> - 17th page of PDF (page 15 of written document)

- <http://www.btplc.com/Thegroup/RegulatoryandPublicaffairs/Financialstatements/2010/CurentCostFinancialStatements2010.pdf> - example on 97th page of PDF (page 93 of written document)
- [http://www.kcomplc.com/aboutus/regulatoryinformation/docs/final\\_statements.pdf](http://www.kcomplc.com/aboutus/regulatoryinformation/docs/final_statements.pdf) - example on page 14
- <http://www.surecw.com/guernsey/PDF/Statements%20291009.pdf> – 15<sup>th</sup> page of PDF (page 5 of written document)

C&WJ suggests that JT should be required to provide a Core Network Summary within its Separated Accounts, so that the JCRA is not disadvantaged in this regard when compared to regulators in other jurisdictions.

### 3.3 Financial Reporting

To help alleviate these (and any other) ambiguities in the interpretation of the Separated Accounts requirements the JCRA may wish to update its Accounting Separation and Costing Methodologies document. Re-publication of such a document would no doubt be helpful to JT, its auditors and other interested parties. In the meantime C&WJ suggests that the JCRA includes a listing of the specific financial reporting requirements, which would include a definitive list of Business Activities.

C&WJ's proposes that the reporting requirement should follow a format as shown below:

#### **Core Network:**

- Profit & Loss Account
- Balance Sheet information
- Return on Mean Capital Employed
- Summary Statement of Costs
- Statement of costs of Network Services (usage factors & average costs)

#### **Local Access Network:**

- Profit & Loss Account
- Balance Sheet information
- Return on Mean Capital Employed

#### **Retail Fixed:**

- Profit & Loss Account
- Balance Sheet information
- Return on Mean Capital Employed

For each disaggregated business listed below:

- Profit & Loss Account
- Balance Sheet information
- Return on Mean Capital Employed

**Retail – Exchange Line Rental & Connection**

**Retail – Local Calls**

**Retail – National Calls**

**Retail – International Calls**

**Retail – Calls to Jersey Mobiles**

**Retail – Non-geographic Calls free to calling customer**

**Retail – Non-geographic Calls charged at local rates**

**Retail – Non-geographic Calls charged at national rates**

**Retail – Non-geographic Calls charged at premium rates**  
**Retail – Internet Calls**  
**Retail – Directory Enquiry**  
**Retail – Public Payphones**  
**Retail – Leased Lines (private circuits)**  
**Retail – Remaining Activities**

**Broadband:**

- Profit & Loss Account
- Balance Sheet information
- Return on Mean Capital Employed

**Mobile:**

- Profit & Loss Account
- Balance Sheet information
- Return on Mean Capital Employed

For each disaggregated business listed below:

- Profit & Loss Account
- Balance Sheet information
- Return on Mean Capital Employed

**Mobile – Calls to Mobile (Mobile Termination)**  
**Mobile – Remaining Activities**

**Other Activities:**

- Profit & Loss Account
- Balance Sheet information
- Return on Mean Capital Employed

**Transfer Charge Statement**

**Inter-Business Cost Summary**

**Reconciliation Statement for the Profit & Loss Account**

**Reconciliation Statement for the Balance Sheet**

### **3.4 JT's Reporting Error**

C&WJ, in Section B (Additional Comments) of its response to document JCRA 2009-T4<sup>4</sup>, highlighted that JT appears to be non-compliant regarding the JCRA's requirement to prepare a separate account (business) aggregating activities that are undertaken outside Jersey that are wholly unconnected with its Jersey businesses. The JCRA has not offered an opinion on this matter, but C&WJ continues to be concerned that the stated results of JT's business activities will be distorted by the incorrect treatment of its 'JT Global' and 'Wave Telecom' subsidiaries. C&WJ would urge the JCRA to revisit Section B of C&WJ's response in order to better understand the potential magnitude of JT's action.

C&WJ proposes that the JCRA should require JT to adopt a methodology in which JT's Separated Accounts relate solely to the trading activities of its operations in Jersey. Costs and revenues relating to JT Global and Wave Telecom should therefore be actioned on the same basis as those of Other Licensed Operators, i.e. as 'Other Operators' within the Accounts.

C&WJ would be happy to discuss this matter with the JCRA to help clarify the issue.

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<sup>4</sup> [www.jcra.je/pdf/100209%20CWJ%20T4.pdf](http://www.jcra.je/pdf/100209%20CWJ%20T4.pdf)

### **3.5 Allocation Methodology Documentation**

The proposed revised Direction to JT (as part of the fresh Initial Notice) makes no mention of the need for JT to publish its Accounting Separation Methodology as part of its Separated Accounts documentation. Regulaid highlighted many issues in its report<sup>5</sup>, particularly in the key area of network cost allocations. For JT's Separated Accounts to gain maximum credibility readers will need to know what progress has been made in solving the likes of:

- 45 errors (of 70 allocations) in the allocation of network elements
- 51 errors (of 185 allocations) in the allocation of assets, mainly in the network area
- 11 errors (of 42 allocations) in the allocation of network activities

JT's Accounting Separation Methodology should discuss the areas where known weaknesses have been rectified and also highlight any aspects that have yet to be resolved (and may therefore impact on reported financial results).

For regulatory purposes in Guernsey C&WG publishes both an Accounting Document (containing general methodologies)<sup>6</sup> and a Cost Attribution Methodology (containing specific methodologies)<sup>7</sup>. The JCRA and other interested parties would benefit from access to a greater level of detail of JT's cost allocation logic and the provision of a document similar to C&WG's Cost Attribution Methodology would facilitate this.

C&WJ therefore proposes that the JCRA Directs JT to submit and publish annual details of its specific costing methodologies, along with its Accounting Separation Methodology.

### **3.6 Submission and Publication**

C&WJ notes that there is no timeframe provided for JT to submit its Separated Accounts. As C&WJ mentioned in its last response<sup>8</sup> (14 July 2010) the generally accepted time-line for an operator to submit its Separated Accounts is within six months of the company's financial year end. C&WJ requests that the JCRA includes a timeframe requirement within its Final Notice.

C&WJ is still unsure why the JCRA Board requires a month between receipt of JT's Separated Accounts and JT's publication of this data on its website, but in the interests of moving matters forward it does not intend to raise further questions at this time.

## **4. Summary**

C&WJ considers that good progress is being made in moving towards a more transparent regulatory reporting process in Jersey. However, as the points above indicate there is still some way to go before the level of transparency reaches that provided in other jurisdictions.

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[www.icra.je/pdf/090817%20Regulaid%20Review%20of%20Jersey%20Telecom%20Ltd%20REDACTED.pdf](http://www.icra.je/pdf/090817%20Regulaid%20Review%20of%20Jersey%20Telecom%20Ltd%20REDACTED.pdf)

<sup>6</sup> [www.surecw.com/quernsey/PDF/Accounting%20Documents%20291009.pdf](http://www.surecw.com/quernsey/PDF/Accounting%20Documents%20291009.pdf)

<sup>7</sup> [www.surecw.com/quernsey/PDF/CAM%20291009.pdf](http://www.surecw.com/quernsey/PDF/CAM%20291009.pdf)

<sup>8</sup> [www.icra.je/pdf/100719%20CWJ%20response%20JT%20licence%20re%20SA%20publication.pdf](http://www.icra.je/pdf/100719%20CWJ%20response%20JT%20licence%20re%20SA%20publication.pdf)

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