



Case T-080

Regulatory Financial Reporting

Non-statutory Final Decision

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1 Executive summary

- 1.1 This document is the Jersey Competition Regulatory Authority's (**the Authority**) non-statutory Final Decision (**Final Decision**) for regulatory financial reporting, which will apply to JT (Jersey) Limited (**JT**). Regulatory accounting and financial information are important elements of telecoms regulation, and this Final Decision sets out the framework for regulatory financial reporting in Jersey.¹
- 1.2 This Final Decision should be read in conjunction with the regulatory financial reporting template (**template**) published alongside this document. In July 2023 the Authority undertook a consultation on a Draft Decision and draft template. Three responses were received to the consultation, and a meeting held with each of the respondents in order to ensure all comments and issues were considered. Further engagement has since taken place with JT on the template and on implementation matters.
- 1.3 The key objectives for implementing regulatory financial reporting are to:
 - Underpin JT's ongoing obligation to maintain appropriate accounting records, by providing additional clarity on the regulatory policy framework;
 - Incorporate regulatory reporting best practice from other jurisdictions, including small nations, whilst being tailored to reflect JT's functionality and structure; and
 - Provide information that will allow the Authority to more efficiently complete and implement market reviews and any associated remedies.
- 1.4 The consumer benefits arising from this project include additional regulatory and financial transparency, and greater stakeholder and consumer confidence that JT are effectively meeting compliance requirements. In turn, more efficient regulatory practices and increased trust in the regulatory framework, will further improve consumer outcomes.
- 1.5 A summary of the key elements of this Final Decision is set out in chapter 5, which is structured to align with the three policy areas covered in the Draft Decision.
- 1.6 While this Final Decision is the concluding step of the non-statutory process, before carrying out certain regulatory functions, the appropriate Jersey statutory process must be followed. A decision to implement the full set of proposals requires the exercise of specified regulatory functions pursuant to the Law. Therefore, the statutory process, in the form of an Initial Notice (JCRA 24/13) for JT, has been issued alongside this Final Decision. The Initial Notice sets out the directions to JT to be implemented by April 2024, this is to enable receipt of the first set of regulatory reports, for the 2023 financial year, by 31 May 2024.

¹ All case documents can be found at: [T-080 - Regulatory Financial Reporting](#)

2 Introduction

2.1 This chapter covers the:

- Background to the Final Decision;
- Process overview; and
- Structure of this document.

Background to the Final Decision

2.2 This case is a follow up to the JT accounting and cost allocation audit² completed in 2022 and was included in the Authority's 2023 Business Plan. The case was opened in April 2023 with the publication of an Information Note setting out the background, purpose and proposed timetable.

2.3 In July 2023, the Authority published a Draft Decision and a draft template, where the Authority set out its proposed approach to regulatory financial reporting. The Authority's proposals are informed by:

- Consideration of the legal and licensing framework in Jersey. JT holds a Class III Licence³; specifically for Licensees with significant market power (**SMP**). Among the provisions applicable to JT under this Licence, and relevant to regulatory financial reporting, are Licence Condition 33 and Licence Condition 34.
- A review of previous practice on Jersey, current practice in other jurisdictions, and engagement with the Small Nations Regulatory Forum (**SNRF**) on best practice in small jurisdictions. This review showed that in each case there is some form of regulatory financial reporting, whether in respect of compliance with ongoing price controls, or of a more comprehensive nature, e.g., separate annual regulatory accounts.
- Engagement with JT, which helped the Authority further understand JT's current practice and systems. Engagement was focused on understanding the accounting data, systems and processes, with a view to enabling regulatory financial reporting; and
- The support of Frontier Economics (**Frontier**), a consultancy with extensive experience in telecoms regulation, including regulatory reporting, across multiple jurisdictions. Frontier was appointed as an external resource to support the development of the template and implementation of regulatory financial reporting.

2.4 The Authority received three written responses to the Draft Decision, from JT, Sure (Jersey) Limited (**Sure**) and Jersey Airtel Limited (**Airtel**). The Authority's review of each respondent's submission is set out in chapter 3 of this document and non-confidential versions of the responses are available on the Authority's website.

² See: [T-067 - JT Accounting and Cost Allocation Audit](#)

³ See: [JT \(Jersey\) Limited Licence](#)

Process overview

- 2.5 The Authority's approach to consultations was set out in an Information Note in July 2018.⁴ The Information Note outlines the process to be undertaken before carrying out certain regulatory functions in accordance with the relevant statutory process.
- 2.6 Under the process the first stage is non-statutory. For this case the non-statutory process consisted of a Draft Decision and a Final Decision, and this document represents the conclusion of the non-statutory stage.
- 2.7 Before carrying out certain regulatory functions, following the non-statutory process, the appropriate Jersey statutory process is followed. A decision to issue a Direction to JT (to follow the regulatory financial reporting process) is the exercise of a specified regulatory function pursuant to the Telecommunications (Jersey) Law 2002. Therefore the statutory process, in the form of an Initial Notice, has to be followed and this has been issued alongside this Final Decision. The Initial Notice sets out the proposed Direction to implement regulatory financial reporting.
- 2.8 As set out in the Initial Notice, written representations to the exercise of this specified regulatory function may be made. If representations are received regarding the proposed exercise of such function, the Authority will consider them and will decide:
- Not to exercise such function;
 - To issue a new Initial Notice; or
 - To issue a Final Notice confirming the Direction.
- 2.9 The Authority's intention is to complete the statutory process by April 2024, to allow receipt of the first set of regulatory reports by 31 May 2024; in the first instance, for the 2023 financial year.

Structure of this document

- 2.10 This document is organised as follows:
- Overview of stakeholder feedback (chapter 3);
 - Overview of the template (chapter 4); and
 - Final Decision (chapter 5).
- 2.11 Note, this Final Decision does not replicate all the background and content included in previous and related published documentation. However, a high-level summary is provided for ease of reference, and cross-reference is made where relevant.

⁴ See: [Regulatory Consultation Process, Information Note](#)

3 Overview of stakeholder feedback

3.1 This chapter broadly follows the structure of the Draft Decision and is organised as follows:

- Template and approach;
- Approach to implementation;
- Publication requirements; and
- JT engagement.

3.2 Within the first three sections of this chapter a consistent approach is adopted to the different sub-sections, where each sub-section refers to an element of the Draft Decision, for example the proposed template and approach. The structure within each sub-section is as follows:

- Draft Decision proposals;
- Draft Decision responses;
- Authority analysis; and
- Authority conclusion.

3.3 The fourth section of this chapter, on JT engagement, provides an overview of the necessary engagement with JT on the template, and on practical and other matters relating to implementation.

Template and approach

Draft Decision proposals

3.4 Chapter 3 of the Draft Decision set out the proposed market groupings and scope of outputs within the template, and the approach to an explanatory note (to accompany the template). These were reflected in the draft template that was published alongside the Draft Decision.

3.5 The proposed market groupings are shown in Figure 1 below. They reflected a balance between the requirement for information consistent with the Authority’s key objectives and a proportionate approach, and are split between markets where JT has been designated to have Significant Market Power (**SMP**), and those where it has not (non-regulated markets).

Figure 1: Proposed market groupings

Markets where JT has SMP				Non-regulated markets		
Wholesale voice access	Wholesale broadband access	Wholesale on-island Leased Lines	Wholesale voice interconnect	Wholesale residual	Mobile	Other
<ul style="list-style-type: none"> • Wholesale Line Rental for voice only customers • Both own use and wholesale 	<ul style="list-style-type: none"> • Broadband Rental + Wholesale Line Rental for Broadband customers • One-off charges • Ancillary services • Both own use and wholesale 	<ul style="list-style-type: none"> • Both own use and wholesale • Rental and one-off charges. 	<ul style="list-style-type: none"> • Wholesale Call Origination, • Wholesale Call Transit, • Wholesale Call Termination markets (fixed and mobile) 	<ul style="list-style-type: none"> • Off-island Leased Lines • Inbound Roaming • Sponsored roaming 	<ul style="list-style-type: none"> • Included: Jersey retail mobile services • Not included: roaming in & out or anything else sold by mobile division, such as content, and handsets 	<ul style="list-style-type: none"> • All other Jersey activities, for reconciliation purposes

3.6 For each proposed market grouping, the draft template included the following four groups of outputs:

- Group 1. Costs by market - including operating costs (Opex), and various forms of capital costs, i.e. annual depreciation, Net Book Value (NBV), Gross Book Value (GBV), and Mean Capital Employed (MCE).
- Group 2. Income Statement by market - in the form of a P&L (profit and loss) account.
- Group 3. Volumes and unit costs / revenues - average unit revenue, and average unit costs for fixed access products, with average unit costs calculated as the 'Fully Allocated Cost' divided by the relevant volumes.
- Group 4. Reconciliation - for revenues, costs, returns and year-end capital employed to JT's Statutory Accounts.

For each group the draft template included indicative expected data, noting that the list of operating and capital cost categories were subject to change, and likely to be determined and finalised based on continued engagement with JT and on the structure of JT's accounts.

- 3.7 It was noted that when producing the outputs above, JT should treat wholesale and retail services as standalone businesses. This is to ensure that the costs are recovered in a non-discriminatory way from access seekers, JT's own retail branch and/or JT's own use to produce other services. Further detail was provided on each of these groups of outputs in the Draft Decision.
- 3.8 To complement the proposed template, the Draft Decision set out a proposal that JT submits an explanatory note. The explanatory note should enable a clear understanding of the approach, data, systems and processes used by JT to generate the template outputs, while also verifying the robustness of the outputs. The Draft Decision also proposed that the explanatory note accompanying the first regulatory financial template (year 1), would provide a comprehensive explanation of the submitted information, while in subsequent years, the explanatory note would focus on explaining any material changes to the calculation approach underlying the production of the template, changes to the format of template outputs (e.g. the set of cost categories in the outputs), and on explaining any year-to-year changes to the results.
- 3.9 Question 1 of the Draft Decision asked whether respondents agreed with the proposed template and suggested approach to regulatory financial reporting.

Draft Decision responses

- 3.10 Across the three responses, there was overall broad support for the draft template, with specific points of concern, and in some cases, a request for greater financial detail to be provided.
- 3.11 With respect to specific comments, JT agreed with the suggested approach, and had provided feedback on the template during initial engagement.
- 3.12 Sure also noted it's support for the use of a simplified reporting template, but made specific comments on:
- The absence of Retail Fixed Access from the set of SMP markets in the market grouping. Sure suggested this would be inconsistent with current SMP findings from the Authority's last full review of SMP in telecoms markets (in April 2010).⁵ Sure were concerned that the

⁵ See: [T09J – Decision](#)

proposed market groupings would appear to rescope the market definitions and SMP designations, and its view was this should only take place following a review of that market.

- Sure also raised a number of queries on the approach to costs:
 - Sure recommended that more granular information be provided in the context of regulatory compliance, in two areas:
 - ‘Transfer charges’, where Sure noted that there is proposed to be separate revenue reporting for internal services (self-supply from another part of JT’s business) and external services (from services provided to customers outside of JT’s business) within the template, but appeared to be no recognition of the associated costs (or ‘transfer charges’) for internal services; and
 - A more detailed breakdown of operating costs, for example into ‘Network Costs’ and ‘Wholesale Operating Costs’.
 - Sure also queried the accounting basis that JT would be required to use to prepare the regulatory accounts, for example either on the basis of historic costs or current costs. It was noted that Sure would accept preparation on a historic cost basis.
 - Sure further noted that in simplistic cost models, there is a risk that residual costs (which do not have a clear allocation key or cost driver) can be material. Sure proposed a cap for JT’s residual (unattributable) costs of 10% of JT’s total Jersey costs, to minimise the use of revenue-based ‘proxy drivers’.
- On reconciliation of the reporting outputs to JT’s statutory accounts, Sure supported the Authority’s proposal for the regulatory accounts to be reconciled to the ‘statutory financial statements of the Jersey entity’.
- On the weighted average cost of capital (**WACC**), Sure supported the Authority’s proposal to compare reported returns to JT’s relevant WACC, but set out a view that JT should submit a new WACC calculation (ahead of the first submission), and that the WACC calculation should then be updated at least every three years.
- On the explanatory note, Sure suggested a more formalised document, or a pro-forma, to avoid any mismatch of expectation as to the type and level of detail required.

3.13 Airtel’s response agreed the general approach to separate reporting for currently regulated markets where JT has SMP. However, Airtel did not agree with the proposed market grouping, arguing that financial outputs should be separately provided within the template for products which are not currently regulated. The products Airtel identified include inter-island connectivity, off-island connectivity, internet service provider feed and service provider interconnect. This was linked to Airtel’s request that these markets be regulated, and Airtel submitted that *‘SMP should not be qualifying parameter for regulating markets as it is favourable for JT. JCRA [the Authority] should regulate all the markets / services with the objective of enabling ‘transparency, effective competition and level playing field.’*

3.14 Airtel also requested that the Authority require JT to publish the cost efficiency measures it has put in place to reduce cost in each area (which will have an impact on the wholesale cost).

3.15 Airtel's response was also framed within the context of its wider concerns around competition in the Jersey market, including respective market shares, the role of bundles, and the role of pricing notifications.

Authority analysis

3.16 The Authority notes JT's support for the template and notes that further engagement has taken place with JT subsequent to the Draft Decision, as set out in section below on JT engagement. This engagement has helped further refine the template and ensure it is consistent with a practicable and proportionate solution.

3.17 With respect to the comments raised by Sure (paragraph 3.12), the Authority notes:

- On 'Retail Fixed Access':
 - Consistent with the T09J – Decision document, JT is deemed to have SMP in relation to retail fixed line voice services to residential and non-residential customers, including access and call origination (outgoing calls). The Authority has included in the template an additional market group of 'Retail Voice', which covers both fixed voice access and outgoing calls, for both residential and non-residential customers. Fixed voice access would cover both one-off and rental charges.
 - The Authority notes that the SMP designations cannot be reviewed without a formal market review. To this end, in November 2023 the Authority issued a call for information for the Telecoms Market Review. This review will seek to inform the Authority's understanding of respective markets, and to consider and review current SMP designations (including how these may need to be amended).⁶
- On the approach to costs:
 - The Authority agrees that transparency is important, and in designing the template has sought to provide transparency whilst implementing a proportionate approach. In relation to costs, this means that the breakdown of costs within the template should be sufficient to understand the main drivers and components of JT's costs in each market grouping, and in turn to understand which cost categories drive any material changes in costs over time. The Authority would however have the ability to request a more granular breakdown of costs if deemed necessary as part of its review of the reporting outputs. The Authority therefore considers it disproportionate to separately split out costs that are not material and not easily separated out within JT's underlying accounting systems. In this context:
 - On transfer charges, there are two main forms:
 1. 'Internal' payments from JT's retail to wholesale business (where a retail service is provided based on a JT wholesale product).
 2. Transfer charges between certain wholesale services (where one wholesale product is used as an input to another).

⁶ The Authority notes, that to be consistent with the outcome of this Review, it is likely that a revised regulatory reporting template will be required, for example, to account for changes in non-regulated and SMP markets. In line with the published timetable for the review it is likely this would take place in 2026, once the review has been finalised.

- The Authority notes that for the first category, the internal payments by the JT retail business were proposed to be captured within the ‘cost of sales (wholesale cost and call termination)’ category in the template, but now considers it would be appropriate to split out these internal payments from this category, given the materiality of these payments. On the second category, however, we consider it disproportionate to split out transfer charges between wholesale services, given these are likely to be small and not readily available.
- With respect to a greater breakdown in operating costs, this proposal has been explored with JT. JT’s analysis highlighted that wholesale operating costs are, in any event, relatively small and the splits are not readily available. Given this, the Authority does not propose to require JT to further disaggregate operating costs to separately present wholesale operating costs.
- The Authority however notes that the provisional list of cost categories within the template have been updated following further engagement with JT, to reflect the structure and functionality of JT’s accounting systems.
- The Authority can confirm that the regulatory financial information will be supplied on a historic cost basis. Under this approach the value of an asset reflects the original cost of the asset when deployed in the network.
- The Authority notes Sure’s proposal on imposing a cap on residual costs. However, it considers such an approach would be arbitrary, for example selecting the target level of residual costs could potentially lead to unintended consequences, e.g., the distortion of a reasonable cost allocation. In particular, given the nature of telecoms businesses, it is likely that even with a ‘reasonable’ cost allocation, residual costs (i.e. costs for which there is no clear suitable allocation across markets) could be relatively high. This is because the nature of telecoms networks and businesses means a large proportion of network costs support multiple services, and JT will incur ‘common costs’ (such as overheads) which are by definition not related directly to the provision of particular services. Given this, under a cap as proposed by Sure, any ‘reasonable’ cost allocation may need to be adjusted in a given year in order to meet the cap, which would result in the cost allocations being distorted.

That said, the Authority recognises the importance of cost allocation, and with the support of Frontier, will undertake a review of JT’s cost allocation methodology as part of the review of the first submission. This review will help ensure JT’s approach is appropriate, including ensuring that for the most material cost items for which there is a clear cost driver, an allocation key reflecting this driver is used to allocate costs between markets. This addresses potential concerns on cost drivers and other factors.

- The Authority notes Sure’s support for its approach to reconciliation and this is reflected in the final template.
- With respect to the WACC, the Authority has previously used this in setting regulated prices for JT, with the most recent determination of the WACC being produced for the wholesale

broadband access services price review.⁷ Estimating and determining the WACC is a non-trivial exercise, and the Authority's view is that it would be disproportionate to estimate it for the purposes of regulatory financial reporting. Instead, consistent with current practice, the WACC will be re-estimated when required to provide inputs to any required price controls (or other remedies).

- On the explanatory note, the Authority recognises Sure's concerns around a potential mismatch of expectations. In forming its proposals, the Authority considered the approach adopted in other jurisdictions and noted that, in a few jurisdictions, these are sometimes accompanied by detailed methodological documents. However, consistent with the Authority's regulatory approach, it was felt that such a requirement would not be proportionate. Reflecting this, an explanatory note approach is preferred, drawing on precedent and wider best practice. Further detail on the expectations of the Authority on this note are set out in Chapter 4 of this Final Decision.

3.18 With respect to the comments raised by Airtel, the Authority notes Airtel's concerns around the non-regulated markets. However, absent SMP designations, the Authority is not in a position to require JT to report and publish detailed information on these additional markets. This is both consistent with best practice and the Telecommunications (Jersey) Law 2005, which sets out the Authority's role and duties under this Law.

3.19 On efficiency measures, the Authority notes this is a helpful suggestion. Although not in direct scope of regulatory reporting, going forward, the Authority would expect the explanatory note accompanying the template to explain material changes in costs between years, and indirectly, efficiencies and other matters. Moreover, cost efficiency should also be a focus of Airtel and wider OLO engagement with JT through its wholesale relationship. The Authority notes this would be consistent with JT's Wholesale Customer Charter, which sets out how it will approach its relationship with its wholesale customers.

3.20 Finally the Authority notes Airtel's response also covered a number of other points outside the scope of regulatory financial reporting. The Authority's view is that, where relevant, these are considered through the Telecoms Market Review, and looks forward to discussing these areas further during the Review process.

Authority conclusion

3.21 In light of the analysis in the Draft Decision, stakeholder responses and engagement, the Authority has decided the template and approach to regulatory financial reporting should be as follows:

- The following market groupings will be reported on:
 - Markets where JT is designated as having SMP:
 - Wholesale voice access
 - Wholesale broadband access
 - Wholesale on-island leased lines
 - Wholesale voice interconnect

⁷ See: [Case T-011 Wholesale Broadband Access Services Price Review](#)

- Retail Voice
- Markets where JT is not designated as having SMP:
 - Wholesale residual
 - Mobile
 - Other
- For each market grouping JT will report the following:
 - Group 1. Costs by market - including operating costs (Opex), internal transfer charges, and various forms of capital costs, i.e. annual depreciation, Net Book Value (NBV), Gross Book Value (GBV), and Mean Capital Employed (MCE).
 - Group 2. Income Statement by market – in the form of a P&L (profit and loss) account.
 - Group 3. Volumes and unit costs / revenues - average unit revenue, and average unit costs for wholesale fixed access products, with average unit costs calculated as the 'Fully Allocated Cost' divided by the relevant volumes.
 - Group 4. Reconciliation - for revenues, costs, returns and year-end capital employed to JT's Statutory Accounts.
- Alongside the template, JT shall produce an explanatory note. The explanatory note should enable a clear understanding of the approach, data, systems and processes used by JT to generate the template outputs, while also verifying the robustness of the outputs, including an explanation of material year-on-year changes in the outputs.

3.22 The template has been published alongside this Final Decision, and Chapter 4 of this document provides further explanation on the requirements of the template and explanatory note.

Approach to implementation

Draft Decision proposals

3.23 Chapter 4 of the Draft Decision set out the proposed approach to implementation.

3.24 It was noted that to implement regulatory financial reporting the Authority would issue a Direction to JT. The Direction would be framed within the relevant Licence Conditions, that is Licence Condition 33 and 34, and set out clearly the expectations on JT. This Direction would be published alongside the Final Decision.

3.25 With respect to timing, it was proposed the regulatory reports (template and explanatory note) should be provided on an annual basis by the end of May. This is timed to be a month after the publication of JT's statutory accounts and aimed to strike the right balance between providing JT with sufficient time to produce the reporting outputs, and ensuring that the Authority receives this information in a timely manner for use in its decision-making.

3.26 It was further noted that the reports would be reviewed by the Authority, and where needed, follow-up clarification questions or additional information requested. It was proposed that particular emphasis would be placed on the first annual set of data, with a detailed review to be carried out to ensure there is a firm foundation for future submissions.

3.27 With respect to audit requirements, it was proposed that a formal external audit of the regulatory reports would not be required on a routine basis. This was because a key requirement

of the template is that it must reconcile to the statutory accounts. Rather, it was noted that any audit would be by exception, and in response to concerns around data integrity/quality, and this would be carried out in-line with the relevant provisions in JT's Licence.⁸

- 3.28 Question 2 of the Draft Decision asked whether stakeholders agreed with the proposed approach to implementation of regulatory financial reporting.

Draft Decision responses

- 3.29 JT's response supported the proposed approach.
- 3.30 Sure also supported the proposed annual timeframe (of May). It noted this will be consistent with JT's previous experience of regulatory accounts. Sure further noted that while JT's cost methodology will be reviewed, ideally JT should be subject to an annual external audit. Sure recognised however, that proportionality is important and that the timeliness of data availability would be at risk of being slowed by an external audit. Therefore, Sure indicated that it supports the proposal to audit by exception only.
- 3.31 Airtel also supported the approach but asked the Authority to consider points made in response to question 1 (on cost transparency and efficiency) and on the approach to regulation.

Authority analysis

- 3.32 The Authority notes the broad support for the proposed timeframe and discussion on external audit requirements. The Authority is maintaining the approach set out in the Draft Decision and this includes a detailed review of JT's first regulatory financial report to be received in May 2024. To support this exercise the Authority will continue to be supported by Frontier, and will draw on the extensive engagement that has taken place with JT to date.
- 3.33 As noted by Sure, under the relevant provisions in JT's Licence, the Authority will have the ability to carry out further audits of the template, if there are concerns around data integrity/quality. It is expected that this will be by exception only, but nevertheless it remains as an incentive on JT to ensure regulatory financial reporting is timely, efficient and consistent with its regulatory obligations.
- 3.34 In addition to this, the Authority has also provided greater clarity on its expectations with respect to the Explanatory Note and the governance associated with the regulatory reports i.e. a 'Director statement' confirming accuracy. This builds on the precedent often seen in other jurisdictions and would be consistent with JT's own governance processes. Further details on this is set out in chapter 4.
- 3.35 With respect to Airtel's points, which refer back to question 1, these are addressed in paragraphs 3.18 to 3.20.

Authority conclusion

- 3.36 In light of the analysis in the Draft Decision, stakeholder responses and engagement, the Authority has decided the implementation of regulatory financial reporting should be as follows:

⁸ In particular, Licence Condition 4.3 and 4.4 sets out the process that the Authority would follow.

- The template and explanatory note should be provided to the Authority by 31 May of each year. The data in the template should refer to the previous financial year.
- The template and explanatory note will be reviewed by the Authority. The first year's regulatory financial report (to be received May 2024), for 2023 financial year data, will be subject to a detailed review, supported by Frontier.
- External audit of the template will be by exception only, and if required, it will be undertaken consistently with the relevant provisions in JT's Licence.

3.37 Consistent with these points, further detail on the approach to implementation of regulatory financial reporting is set out in the Initial Notice published alongside this Final Decision.

Publication requirements

Draft Decision proposals

3.38 Chapter 4 of the Draft Decision discussed the approach to publication requirements. It was noted that while the template will contain confidential data, it is common practice in other jurisdictions for data to be published as a matter of course. This has the benefit of both transparency and ensuring stakeholder and consumer confidence that JT are effectively meeting their compliance obligations.

3.39 The Draft Decision noted that the Authority did not have a firm view on what level of information should be published, if at all, and so would welcome feedback from stakeholders on this point. Question 3 of the Draft Decision asked for stakeholder views on the level of information - within the template - that should be published.

Draft Decision responses

3.40 Respondents took different positions on the level of information that should be published.

3.41 JT's view was that regulatory financial reporting is a specialist area and that the only parties that would be interested in this detail would be the Authority, and the other Jersey telecom operators. Further, it considered the sections in the template on operating costs, capital expenditure and unregulated markets are commercially sensitive information and should not be available to other Jersey telecom operators. Reflecting this, JT set out its view that the information in the templates should not be published and should be provided to the Authority only.

3.42 Sure's response noted that publication is often a feature of regulatory obligations around financial reporting, and that operators will often assert that their results are commercially confidential. Within this context it considered the onus should be on the operator to prove that the release of the information could be unfair or harmful to its business.

3.43 Reflecting a need for balance, Sure suggested that publication should be focused on markets where JT has SMP, within the following categories as set out in Figure 2.

Figure 2: Sure’s proposed publication requirements

Spreadsheet tab name	Obligation to publish	No obligation to publish
Statement of Income	JT SMP markets	Unregulated markets
MCE	JT SMP markets	Unregulated markets
OPEX	JT SMP markets	Unregulated markets
Capital costs	JT SMP markets	Unregulated markets
Average Cost and Revenue	All contents (being SMP specific)	-
Reconciliations	-	Contents (no direct SMP relevance)

3.44 Airtel’s view was that the template should be published in full, across both SMP and unregulated markets. Airtel argued that this would support ‘100% transparency’.

Authority analysis

3.45 The Authority has given very careful consideration to this matter, noting the wide range of viewpoints from respondents. Publication is important for transparency, and to maintain trust in the information and regulatory process, and is also consistent with best practice across other jurisdictions. However the approach also needs to be balanced (and consistent with a proportionate approach and the stated objectives).

3.46 The Authority’s view is that it would not be appropriate for the template and documentation to be only supplied on a confidential basis (to the Authority). That said, the Authority recognises JT’s concerns around commercial confidentiality, e.g., for non-regulated markets where it would unlikely be appropriate to publish the full set of information in the template. This concern was recognised by Sure, who set out a proposal for publication to be focused on SMP markets.

3.47 The Authority’s view is that a key benefit of publication is greater stakeholder confidence that JT are effectively meeting its compliance obligations. Consistent with this, the Authority’s publication requirements are targeted at the markets where JT has SMP and active pricing regulation (or other economic remedies).

3.48 Similarly, the publication requirements on the cost breakdown by market are targeted at operating costs (Opex), internal transfer charges, annual depreciation, and MCE i.e. the requirements do not include the breakdown of GBV, NBV, and assets lives. This is because Opex, internal transfer charges, depreciation and MCE are the cost elements which feed into the calculation of JT’s returns (ROCE), meaning a breakdown of these elements are the most important in allowing external stakeholders to understand the drivers of JT’s returns in each market grouping.

3.49 This approach has been reflected in the template, with the information that would not be published identified. The explanatory note, accompanying the template, is less likely to cause direct concerns around confidentiality given its primary role is to set out the approach, systems and processes used by JT to generate the template outputs and verify the robustness of these outputs. Therefore, the Authority expects JT to also prepare a publishable version of this note, to publish alongside the published version of the template. Both of these documents would be hosted by the Authority on a suitable page on its website, with the expectation that JT would also host the information on its wholesale portal to enable easy access to wholesale customers.

3.50 On timing, the Authority recognises that for the first year, it is planning to undertake a detailed review of JT's submission. Reflecting this, the Authority considers that the publicly available information should be released after this review is complete. This is expected to be by the end of summer of 2024. For later years, it would be expected that the publishable version of the template and explanatory note would be published at the same time as they are supplied to the Authority.

Authority conclusion

3.51 In light of the analysis in the Draft Decision, stakeholder responses and engagement, the Authority has decided the publication requirements for regulatory financial reporting should be as follows:

- JT will supply, for each year, a publishable and full version of the template.
- JT will also supply, for each year, a publishable and full version of the explanatory note.
- For the first year the publishable template and explanatory note will be published after review by the Authority of the main submission. In subsequent years it will be published at the same time it is supplied to the Authority i.e. by 31 May of each year.
- The publishable template and explanatory note will be hosted on both the Authority and JT Wholesale Portal.

3.52 Consistent with these points, publication requirements for regulatory financial reporting are set out in the Initial Notice published alongside this Final Decision.

JT engagement

3.53 Consistent with the Authority's proposals, more engagement has taken place with JT and its advisors on the template and on matters of implementation. This engagement has supported the refinement of the template, for example the refinement of operating and capital cost expenditure categories, and to ensure JT has the necessary infrastructure and processes in place to efficiently deliver the regulatory financial reporting.

3.54 Table 2 overleaf provides an overview of the engagement that has taken place to support the development of regulatory financial reporting.

Table 2: Overview of engagement with JT

Date	Engagement	Detail
17 February 2023	Kick-off meeting with Officers of the Authority/Frontier and JT	Background and objectives of the project, suggested approach, proposed timetable and next steps
20 March 2023	Presentation by Officers /Frontier to JT regarding on-site visit	Objectives and high-level proposed content of the on-site visit, next steps and timeline
3 April 2023	On-site visit to JT by Officers/Frontier	Review of the JT system and discuss the practicalities of a potential template
15 May 2023	Workshop held by Officers/Frontier on Regulatory accounting with JT	Discussion of the context and progress on the project; template: objectives, scope, key outputs and further information required; explanatory note: objectives and content; and next steps
20 September 2023	Cost Allocation review meeting at JT offices with Officers/Frontier	Review of the draft template in its current form, the granularity and practicalities for JT
3 October 2023	Meeting with JT and Officers/Frontier re Draft Decision responses	Review of the key points raised from the responses to the Draft Decision and discussion of JT's own response
21 November 2023	Template and model meeting with Officers/Frontier and JT	Discuss the progress of the template, requests to JT for more detail on operating and capital cost allocation and categorisation. Initial detail supplied on underlying cost allocation model and cost allocation keys
December 2023 – January 2024	Email correspondence between JT and Officers/Frontier	Provision by JT of information requested and updates on those outstanding
31 January 2024	Meeting between JT, Officers/Frontier	Discussion with JT on the Opex and Capex categories, Officers to provide update on the final draft template, and JT to provide overview of their cost allocation approach and allocation keys

3.55 The Authority notes that further engagement will be taking place with JT throughout quarter one and two of 2024, to support the first detailed review of the regulatory reports.

4 Overview of template

4.1 This chapter provides sets out further details on the:

- Market groupings within the template;
- Scope of outputs in the template; and
- Explanatory note.

Market groupings

4.2 The template includes market groupings, which are how the Authority expects the different services provided by JT should be grouped together. The template covers all services provided by JT in Jersey, including both its wholesale and retail services, and the proposed market groupings are set out in Figure 3. The groupings are split between areas where JT has been designated to have SMP, and those where it has not (non-regulated markets).

Figure 3 : Markets groupings

Markets where JT has SMP					Markets where JT does not have SMP		
Wholesale voice access	Wholesale broadband access	Wholesale on-island Leased Lines	Wholesale voice interconnect	Retail voice	Wholesale residual	Mobile	Other activities
<ul style="list-style-type: none"> • Wholesale Line Rental for voice only customers • Both own use and wholesale 	<ul style="list-style-type: none"> • Broadband Rental + Wholesale Line Rental for Broadband customers • One-off charges • Ancillary services • Both own use and wholesale 	<ul style="list-style-type: none"> • Both own use and wholesale • Rental and Connection 	<ul style="list-style-type: none"> • Wholesale Call Origination, • Wholesale Call Transit, • Wholesale Call Termination markets (fixed and mobile) 	<ul style="list-style-type: none"> • Retail access to fixed telephone line • Retail call origination (outgoing calls) 	<ul style="list-style-type: none"> • Off-island Leased Lines • Inbound Roaming • Sponsored roaming 	<ul style="list-style-type: none"> • Included: Jersey retail mobile services • Not included: roaming in & out or anything else sold by mobile division, such as content, and handsets 	<ul style="list-style-type: none"> • All other Jersey activities, for reconciliation purposes

4.3 The groupings reflect a balance between the requirement for sufficiently detailed information, and proportionality.

4.4 The markets where JT has SMP draw on previous Authority decisions on market definition and SMP/remedies in market reviews. In particular:

- Wholesale voice access is consistent with decision CIRCA 14/36⁹;
- Wholesale broadband access is consistent with decision JCRA 21/22;
- Wholesale on-island leased lines is consistent with decision JCRA 22/35;
- Wholesale voice interconnect services (origination, transit and termination), which are grouped together as previous decisions suggest a high level view across interconnection services is proportionate. For example, mobile termination is based on cost orientated prices (as per the decision CICRA 20/11) and for fixed termination, remedies were not deemed necessary (as per decision CICRA 17/25); and
- Retail voice, consistent with the T09J – Decision document.

4.5 For markets where JT is not designated as having SMP, there is a group of all residual wholesale products. This is required to have a clear separation of upstream (wholesale) and downstream

⁹ Note the reference to ‘decision’ in this sub-section can refer to either a Final Decision (non-statutory) and/or Final Notice (statutory). All documents can be found on the Authority’s website.

(retail) markets. With respect to the retail markets, mobile is split out, as many network and support costs are shared between fixed products where JT has SMP and mobile services, so it is important to have visibility of this. The final grouping of other is included in order to be able to reconcile this information with JT's statutory accounts.

Scope of outputs

- 4.6 For each market grouping, the draft template includes the following four groups of outputs:
1. **Costs by market** - including operating costs (**Opex**), internal transfer charges, and various forms of capital costs, i.e. annual depreciation, Net Book Value (**NBV**), Gross Book Value (**GBV**), and Mean Capital Employed (**MCE**).
 2. **Income Statement by market** - in the form of a P&L (profit and loss) account.
 3. **Volumes and unit costs / revenues** - average unit revenue, and average unit costs for wholesale fixed access products, with average unit costs calculated as the 'Fully Allocated Cost'¹⁰ divided by the relevant volumes.
 4. **Reconciliation** - for revenues, costs, returns and year-end capital employed¹¹ to JT's Statutory Accounts.
- 4.7 When producing the outputs above, JT should treat wholesale and retail services as standalone businesses. This is to ensure that the costs are recovered in a non-discriminatory way from access seekers, JT's own retail branch, and/or JT's own use to produce other services.
- 4.8 Further detail on each of the four areas is set out under each respective heading below.

Costs by market

- 4.9 This information will provide the Authority with the base cost information needed to develop appropriate remedies in the relevant markets where required. For example, data on Opex, depreciation, NBV and GBV will support the Authority in developing cost-based prices in relevant markets if required as a remedy. The data on Opex, annual depreciation, and MCE also enables the returns in each market to be estimated.
- 4.10 The costs by market are broken down into cost categories, which will help demonstrate the robustness of the data. For example, it will allow the Authority to identify if the costs in relation to particular categories appear lower or higher than expected, and to understand the key drivers of changes in costs over time.
- 4.11 These costs should include 'direct costs' (i.e. costs that are incurred solely to provide the services in the given market), 'joint costs' (i.e. cost that support the provision of services across multiple markets), and 'common costs', which are not directly attributable to a given service, but still need to be recovered by JT (such as corporate overheads). The joint and common costs will need to be attributed to services using a cost allocation methodology. The costs should also include

¹⁰ This is based on the actual costs incurred by the regulated operator. Under this approach joint and common costs are allocated to each service using allocation keys.

¹¹ JT's capital employed at the end of the financial year, rather than MCE (which is the average capital employed throughout the year), is used for reconciliation purposes, as it is year-end values that are produced within JT's statutory accounts. The MCE outputs within the template are calculated by taking the average of the year-end figures in the current and previous financial year.

internal payments (transfer charges) where JT's business in one market uses a JT product in another market.

Income Statement by market

4.12 This statement includes JT's returns in each market (calculated as revenues minus operating costs, internal transfer charges, and annual depreciation), and its percentage Return on Capital Employed (ROCE), calculated as the return divided by MCE. The ROCE allows the Authority to directly compare returns to JT's relevant cost of capital (WACC) in each market, and to compare returns across markets in a comparable way. This will support compliance with the key Licence Conditions with respect to provision of information¹², and help provide an indicative view on the effectiveness of competition/regulation in different market segments.

Volumes and unit costs / revenues

4.13 Volumes by market (along with costs by market above) are useful to inform price controls, as this is a key input into calculating cost-based prices (i.e. relevant costs are divided by volumes to calculate service unit costs, which are then used to inform these prices). Similarly, the average unit revenue and unit cost provide an indicative view on the effectiveness of competition/regulation in different market segments.

4.14 The Authority proposes that the volumes, average revenues, and average costs are only provided for JT's regulated wholesale fixed access markets (voice access, broadband access, and on-island leased line access), and only for rental services within that (i.e. not including volumes / revenues / costs associated with one off charges). This is a proportionate approach, as it is consistent with the current focus of price controls, where volume information is particularly needed.¹³

Reconciliation

4.15 The reconciliation statements represent a further check on the robustness of the information in the template, as this will show that the information is consistent with that in JT's statutory accounts. For the avoidance of doubt, when referred to JT with respect to reconciliation, the relevant entity is JT (Jersey) Limited.

4.16 It is important to be able to trace and justify the differences between the regulatory reports and statutory accounts. The Authority proposes to allow JT to propose the appropriate granularity of adjustments explaining the differences between the accounts.

4.17 As a further aid to reconciliation, the Authority proposes that in each submission of the template, the template should include the outputs for both the current financial year and the previous year. This will again allow the Authority to test the robustness of the outputs, by investigating whether changes in outputs from one year to the next are justified. To ensure proportionality, the Authority proposes that the previous year's outputs don't need to be

¹² Section 4 of Licence for JT (Jersey) Limited.

¹³ Note, this doesn't preclude the Authority conducting specific investigations in relation to one-off charges, or one-off charges and rental services in other markets, as information for such investigations can be gathered as part of separate information requests.

restated (i.e. updated to reflect any changes to the underlying development of the accounts) unless these would result in material differences in the outputs.

Explanatory note

- 4.18 Alongside each iteration of the template, the Authority will require JT to submit an explanatory note. The objective of this note is to enable a clear understanding of the approach, data, systems and processes used by JT to generate the template outputs, while also verifying the robustness of the outputs.
- 4.19 In the first year in which the template is submitted, the Authority's expectation is that the explanatory note will include information to allow the approach used to calculate the contents of the template to be reviewed. This should include the following¹⁴:
- The accounting principles that JT used in the production of the completed template, covering the cost basis on which it has been produced (i.e. HCA), and the general rules JT has followed (including transparency, objectivity, consistency, and accuracy).
 - A high-level description of the JT's products and activities within each of the market groupings in the template.
 - An overview of the raw data that JT has used in the production of the template, and the source of that raw data (i.e. the JT database or system from which the data has been extracted).
 - The list of revenue and cost categories within the template, and an associated description of each.
 - An overview of the calculations performed on the raw data in order to generate the outputs in the completed template, covering:
 - The allocation methodology used to attribute costs (including operating costs, transfer charges, capital costs and elements of MCE), and where relevant revenues, to market groupings – this will include a high-level description of the structure of the allocation calculations, the set of allocation keys used for each cost and revenue category, and the rationale for the choice of allocation key.
 - Transfer charges – the set of transfer charges calculated, and a high-level description of the calculation approach for each.
 - Any other material adjustments or calculations applied to the raw data, such as valuation of stock, exchange of foreign currency, and treatment of leases.
 - The Authority would not expect the note to be significantly more than 10 pages in length.
- 4.20 In subsequent years, JT would then provide updates to the explanatory note, which:
- Reflects the calculation approach used for that year's submission, including the allocation approach; and

¹⁴ Where any of this information is already included in JT's statutory accounting documentation, this can be cross-referred to within the explanatory note.

- Includes an overview of key changes versus the previous financial year, and the rationale for those changes. This should cover:
 - Any changes to the set of products and activities within each market grouping;
 - Any changes in the set of cost and revenue categories in the template outputs;
 - Any changes to the underlying calculation approach used to generate the template outputs, including changes in the cost (and where relevant revenue) allocation methodology and allocation keys used; and
 - Material changes in ‘outputs’. This should include an explanation where there is a percentage change of greater than +/-10% in the following outputs in a given market grouping, relative to the previous financial year: (i) total revenues, (ii) total operating costs (including transfer charges); (iii) total annual depreciation; and (iv) total Mean Capital Employed (MCE).

4.21 To capture the assurance that has been built into the preparation of the regulatory financial reporting the explanatory note should also include a Directors Statement. This should set out that:

- JT is required to provide regulatory reporting in accordance with the requirements set out in this Final Decision and the associated statutory notice; and
- Confirmation that to the best of their knowledge the submitted regulatory reports have been produced in accordance with these requirements.

The Authority’s expectation is this would be signed by JT’s Chief Financial Officer (or equivalent) who also signs the statutory accounts on which the regulatory reports are based.

4.22 The published version of the explanatory note should include all of the above information, with the exception of information that relates solely to the outputs of the template that are not in the publishable version. The excluded information covers:

- A description of the data and calculation approach for elements of the template that are not included from the published version i.e. GBV, NBV and asset lifetimes; and
- The overview and rationale of key changes in outputs for the market groupings (and template elements) not included in the published version.

4.23 The use of an explanatory note is consistent with best practice elsewhere and builds on JT’s own internal processes and reporting, which the Authority understands will require it to produce a significant proportion of the above information (before it is submitted to the Authority).

5 Final Decision

5.1 This chapter sets out the Authority's Final Decision on each element of regulatory financial reporting. This Final Decision is implemented in the Initial Notice issued alongside this document.

Template and approach

5.2 With respect to the template and approach:

- The following market groupings will be reported on:
 - Markets where JT is designated as having SMP:
 - Wholesale voice access
 - Wholesale broadband access
 - Wholesale on-island leased lines
 - Wholesale voice interconnect
 - Retail Voice
 - Markets where JT is not designated as having SMP:
 - Wholesale residual
 - Mobile
 - Other
- For each market grouping JT will report the following:
 - Group 1. Costs by market - including operating costs (Opex), internal transfer charges, and various forms of capital costs, i.e. annual depreciation, Net Book Value (NBV), Gross Book Value (GBV), and Mean Capital Employed (MCE).
 - Group 2. Income Statement by market – in the form of a P&L (profit and loss) account.
 - Group 3. Volumes and unit costs / revenues - average unit revenue, and average unit costs for wholesale fixed access products, with average unit costs calculated as the 'Fully Allocated Cost' divided by the relevant volumes.
 - Group 4. Reconciliation - for revenues, costs, returns and year-end capital employed to JT's Statutory Accounts.
- Alongside the template, JT shall produce an explanatory note. The explanatory note should enable a clear understanding of the approach, data, systems and processes used by JT to generate the template outputs, while also verifying the robustness of the outputs, including an explanation of material year-on-year changes in the outputs.

5.3 The template has been published alongside this Final Decision, and Chapter 4 of this document provides further explanation on the requirements of the template and explanatory note.

Approach to implementation

5.4 With respect to the approach to implementation:

- The template and explanatory note should be provided to the Authority by 31 May of each year. The data in the template should refer to the previous financial year.

- The template and explanatory note will be reviewed by the Authority. The first year's regulatory financial report (to be received May 2024), for 2023 financial year data, will be subject to a detailed review, supported by Frontier.
- External audit of the template will be by exception only, and if required, it will be undertaken consistently with the relevant provisions in JT's Licence.

Publication requirements

5.5 With respect to publication requirements:

- JT will supply, for each year, a publishable and full version of the template.
- JT will also supply, for each year, a publishable and full version of the explanatory note.
- For the first year the publishable template and explanatory note will be published after review by the Authority of the main submission. In subsequent years it will be published at the same time it is supplied to the Authority i.e. by 31 May of each year.
- The publishable template and explanatory note will be hosted on both the Authority and JT Wholesale Portal.