

Regulatory Accounting and Cost Modeling Strategy

Jamaican Experience

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(OUR)**

Jamaica



Jamaica: A small island state in the Caribbean



Area: 10,991 sq. km
Population: 2.8 million

**Two fixed operators (\approx 300 K):
Cable and Wireless Jamaica (LIME); and
Flow.**

**Three mobile operators (\approx 3.1 million):
Cable and Wireless Jamaica (LIME);
Digicel; and
Claro.**

Cost Basis

- Incumbent fixed operator treated as dominant from outset (can apply to be declared non-dominant).
- Mobile operators declared dominant for termination services.
- Interconnection charges for dominant operators must be cost oriented.

Telecom Act (Requirements)

- **Prices for interconnection shall be established between the total long run incremental cost and the stand alone cost of providing the service:**
 - **Prices must be non-discriminatory.**
 - **Recovery of common costs must not be disproportionate.**
 - **There should be no unfair cross subsidy.**

Costing for Fixed Network

- **OUR accepted validated Fully Distributed Costs with Current Cost Accounting which satisfies requirements of the Ac**
- **Long Run Incremental Cost Model has not been implemented due to the cost and time complexities arising from: population distribution, terrain, geology and engineering design.**

Fixed Network Issues

- **This raises a number of Issues:**
 - **How often should the values of drivers be refreshed?**
 - **Can be expensive to do annually so OUR opted for “as needed basis”**
 - **There may have to be a trade off between frequency of report and auditing standard given the adverse effects of infrequent refreshing of cost drivers – OUR requires annual submissions and periodic update of cost drivers.**
- **Since traffic on fixed network is declining due to mobile substitution. How much, if any, of the resulting stranded costs should interconnection services bear?**

Fixed Network Proposed Solution

Proposed solution for declining traffic is for company to do a Modern Equivalent Asset study to determine current asset needs for the provision of services.

This is a costly venture however and so costs remain an issue.

Mobile services

- All three mobile operators have submitted Reference Interconnection Offers on being declared dominant in termination services.
- Proposals contain three different rates with three models.
- Regulatory thinking is to have symmetric rates with independent LRIC model.
- Consultation on mobile rate now underway

Issues to be resolved

- **Top-down or bottom-up model? Need to have an independent model is suggesting a bottom-up approach.**
- **What demand parameters should be used? That of operator with the largest number of customers or the smallest or an average?**
- **Where prices are above cost, what adjustment mechanism should be used i.e. one-time or glide path?**

Challenges foreseen

- **Obtaining detailed information on existing operations.**
- **Designing the optimal network.**
- **Obtaining current equipment prices.**
- **Forecasting demand.**

Thank You



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