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Ms Regina Finn
Office of Utility Regulation
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31 August 2004

By Email

Dear Regina

COMMENTS ON UPDATE OF OUR'S REGULATORY ACCOUNTING GUIDELINES FOR C&W GUERNSEY

Cable & Wireless Guernsey welcomes the proposed Draft Regulatory Accounting Guidelines (RAGs) and the opportunity to comment on the changes suggested.

Before responding to the general questions raised in document 04/15 we would like to comment specifically on certain items contained in the Draft RAGs themselves. Taking each section in turn:

- **Page 7: Transparency** – As this was one of the major areas of concern for the OUR we would like to clarify how Cable & Wireless Guernsey intends to deal with this matter. Each cost or revenue description and value will be included within the set of Visio schematics that will be submitted to the OUR with the Separated Accounts. Diagrams will cover all aspects of the associated Oros model and will clearly indicate where costs or revenues have been apportioned, by indication of a driver reference. Cable & Wireless Guernsey does not consider it feasible to include the actual percentages being driven to the next stages, as when tested, this was difficult to graphically represent and 'overcrowded' the data on each page. As the usefulness of this information is recognised by both sides, we are proposing that all boxes on each Visio page would include the appropriate value, but that the values apportioned between these boxes will be dealt with separately.

Therefore, two documents will specifically accompany these diagrams – a Detailed Attribution Methodology (DAM) and a Cost Attribution Methodology (CAM). Both of these documents will replace the existing CAM, used in 2001 and 2002/03. Cable & Wireless Guernsey has taken on board the OUR's requirements with regard to additional justification and transparency of methodologies and will therefore provide for each driver, in the DAM document:

1. A general description of the purpose/method of apportionment
2. A more detailed methodology of the calculation performed
3. The description and value of the cost or revenue being driven (which will match the relevant box on the appropriate Visio page)
4. The destinations of the apportionment and the percentage being driven to each.

As some of this information is commercially sensitive, Cable & Wireless Guernsey will make public an abridged version, the CAM, which will include only:

1. A general description of the purpose/method of apportionment
2. The description of the cost or revenue being driven
3. The destinations of the apportionment

It is this version that will appear on Cable & Wireless Guernsey's website. Example draft pages are provided in Annex 1 (DAM) and Annex 2 (CAM).

- Page 7: Consistency of treatment – To ensure that consistency can be guaranteed across the two periods disclosed in the Separated Accounts (i.e. Year X and Prior Year) Cable & Wireless Guernsey will no longer maintain separate Oros models for each year. As such, ALL changes will be restated for the prior period, not just those that are material. Where changes to methodology or treatment have taken place these will be provided in a Change Log Document (CLD), as part of Cable & Wireless Guernsey's annual submission. However, as you will appreciate, for the 2003/04 Separated Accounts only, with such a major change to the model framework currently taking place, it is not feasible to provide details of every amendment made to the restated 2002/03 results. Instead we propose to hold a workshop, at the time of review, to aid your understanding and explain the various changes. These include a revised methodology for the exhaustion of support costs (with the associated removal of the 'black box' functionality of the previous Oros model) and improved financial definition for PPP, business sustaining items and the treatment of private circuit costs.
- Page 10: Audit of the Regulatory Accounts – As discussed in recent correspondence with your office, we would be grateful if the text could be updated to confirm that the OUR has no objection to sampling techniques being used in the audit process.
- Page 12: Retail National Internet Calls – Based on previous correspondence Cable & Wireless Guernsey had understood the requirement to report these calls separately to have been removed. To date the calls have been included in 'Retail – Non geographic calls charged at a local rate' (0845 type services)

and 'Retail – Non geographic calls free to calling customer' (0800 type services). This treatment is consistent with that used by BT; the problem being that no single operator knows the full extent to which its competitors numbers are used specifically for ISP services (outside those dedicated for this purpose, such as 08440). Without this information Cable & Wireless Guernsey continues to be unable to provide data for the National Internet Calls business that you list. We therefore propose that the existing methodology is maintained until such time as this position improves.

- Page 13/14: Local Access Network – As agreed on 11 October 2002 (re switch port allocation), the text 'line cards and ports located at concentrators and/or switches' is not factually correct, when referring to the Access Network framework in Guernsey. We would be grateful if the wording could be amended to read 'line cards and customer facing ports at concentrators'.
- Page 26: Table 2.1, Maintenance and repair costs: We appreciate that the table has been taken from EU documentation, but would like to confirm that where the method of allocation refers to 'time spent carrying out installation work' it is appropriate for Cable & Wireless Guernsey to continue to use data for maintenance and repair time, not installation time.
- Page 34: Transfer Charging – Clarification has been requested both in writing and verbally as to how Cable & Wireless Guernsey should treat its own retail and mobile business with regard to transfer charging of call minutes from the core network. The text states that 'For accounting separation purposes, it should be assumed that the Retail business pays the same interconnection or access charge for the same service as set out in the Reference Offer, if different this charge must be justified.' Hopefully, within the near future, Cable & Wireless Guernsey's revised RO rates from its new Oros structure (named RAC model) will be accepted by the OUR as suitable for use within the marketplace. Until such time, it is unlikely that the costs transferred from the Core Network (within Oros) will match the RO rates that have been stipulated by the OUR. Cable & Wireless Guernsey intends to continue transferring its calculated cost based charges, as to do otherwise would provide a distorted view to the OUR. Please would you confirm whether this is the accepted way forward at this time.
- Page 37: Definitions of Disaggregated Retail Services – In line with the OUR's response of 13 November 2002, we would be obliged if Annex 3 could be updated with the outcome agreed for the following:
 - **Retail – Exchange Line Rental and Connection:** Connection charges and monthly or quarterly rental of fixed exchange lines. (Costs and revenues for Star Services rental, remote call forwarding, CLI, admin reconnection fees and other minor related services to be included in Retail – Remaining Activities.)
 - **Retail – Local Calls:** Local dialled calls originating from ordinary and ISDN exchange lines, including untimed and timed local calls, timed Shortcall calls and ISDN local calls - Note we have added "timed" local calls to the definition.

- **Retail – Local Internet Calls:** Local internet dialled calls originating from ordinary and ISDN exchange lines to specific 0800 and 0845 number ranges allocated to local ISPs.
- **Retail – National Internet Calls:** - As discussed above, it is not possible to provide information for this category.
- **Retail – Jersey Calls:** Jersey dialled calls to fixed and mobile networks (excluding non geographic numbers) originating from ordinary and ISDN exchange lines - In line with agreement for international and later for national, call termination from Jersey to local fixed lines has been included here.
- **Retail – National Calls:** Dialled calls to fixed geographic and mobile networks originating from ordinary and ISDN exchange lines - Slight change of wording suggested from that agreed in November 2002. Call termination from National to local fixed lines has been included here.
- **Retail – International Calls:** - Needs updating to refer to call termination from International being included here.
- **Retail – Non-geographic Calls charged at a local rate:** - Needs rewording to include local (but excluding local ISPs), Jersey and National 0845 type services. It is not appropriate to refer to these services as 'charged at the same rate as a local dialled call', as Guernsey's local call charges are on a different basis to those in the UK.
- **Retail – Non-geographic Calls charged at national call rate:** - This category represents calls to 0870 type services, which are now differently rated to standard UK national calls. Therefore, the existing wording needs amending.
- **Retail – Non-geographic Calls charged at premium rate:** - Cable & Wireless Guernsey has included local information service calls here and proposes to continue doing so. The OUR may wish to update the definition.
- **Retail – Remaining Activities:** - Cable & Wireless Guernsey does not include calls from private payphones in this category. This kit is simply customer premises equipment. Cable & Wireless Guernsey has no direct control over what equipment a customer chooses to plug into an exchange line at their premises. Any call made from this type of equipment cannot be separately identified from a call made from a private telephone. Cable & Wireless Guernsey would also question the usefulness of such information, even if it were available.
- With regard to Cable & Wireless Guernsey's implementation of Current Cost Accounting, this is subject to separate ongoing correspondence and discussion and as such, is not dealt with in this letter.

Document 04/15 – Cable & Wireless Guernsey response to specific questions

Question 1: Do respondents consider that the expanded guidance on the application of the Regulatory Principles is appropriate, useful and in line with international practice? If not what changes would you propose and why?

With the exception of the clarifications sought above, Cable & Wireless Guernsey considers the revised RAGs to provide a well-structured and useful framework in which to carry out its accounting separation requirements for the OUR. It is also appreciated that these guidelines have been considered within the context of international regulatory affairs and the possible changes to the European Commission document on accounting separation.

Question 2: Do respondents consider that the proposed audit guidance provides interested parties with confidence in C&WG's regulatory accounts? If not, please explain what additional guidance would be helpful, with reasons for your position.

Cable & Wireless Guernsey has no comment on this matter.

Question 3: Do respondents consider that the grouping and expansion of the issues in this section is appropriate, useful and in line with international practice? If not, what changes would you propose and why?

Cable & Wireless Guernsey has no comment on this matter.

Question 4: Do respondents consider that the grouping of these issues in Annexes is appropriate, useful and in line with international practice? If not, what changes would you propose and why?

For ease of use and clarity it is useful to have separate annexes, as proposed in the draft document.

Kind regards



JANE LANGLOIS
Regulatory Adviser