The Hashemite Kingdom of Jordan

Telecommunications Regulatory Commission (TRC)

Instructions on the top-down Fully Allocated Cost accounting system

Issued by TRC Board Decision No. (5-22/2014) dated (4/12/2014)

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TRC Board Decision No. (5-22/2014) Date (4/12/2014)

Article (1) Aim and scope

a) The TRC regulatory decisions on the market review on dedicated capacity markets and the fixed narrowband markets review of 21 December 2010 and 1 November 2011 designated Orange Fixed as dominant licensee in the retail markets for (1) local and national retail dedicated capacity services up to/including 2 Mbps, (2) international retail dedicated capacity services up to/including 2 Mbps, (3) the market for retail fixed telephony access connections and (4) the market for retail fixed domestic telephony calls.

b) Amongst other obligations, chapter VI point 2.3 of the decision on dedicated capacity market obliged Orange Fixed,
   1. to charge cost-based prices for retail local/national DC up to/including 2 Mbps and for retail international DC up to/including 2 Mbps, based on fully allocated costs (FAC); and
   2. to establish a suitable top-down cost accounting system based on accounting rules and reporting formats specified by the TRC.

c) Amongst other obligations, chapter VI point 4.3 of the decision on retail fixed telephony access and retail fixed domestic telephony calls contains obligations on price regulation and the obligation for Orange Fixed to provide a top-down cost accounting system for
   1. connection and monthly fees for the following types of telephony access services (PSTN, ISDN-BRA and ISDN-PRA); and
   2. call tariffs for local, national, fixed to mobile calls, and calls to service providers (including dial up connections to internet service providers).

d) TRC may decide to apply this decision to other markets and Obliged Licensees.

e) These instructions contain the accounting rules and reporting formats for the top-down cost accounting system and shall come into effect as of the date of its approval by the Board of Commissioners.

Article (2) Definitions

The following terms and expression shall have the meanings assigned thereto hereunder, unless the context indicates otherwise. Any words and phrases not defined hereunder shall have the meanings ascribed thereto in the Telecommunications Law and the Regulations issued pursuant thereto.

“Activity based costing” is a cost method that identifies activities in an organization and assigns the cost of each activity with resources to all products and services according to the actual consumption by each.

“Asset register” is a listing of information relating to various aspects of an asset portfolio used for accounting purposes.

“Cost accounting system” is a system which enables the determination of costs derived from each service and, within a service, the costs concerning the different forms of service provision and the costs concerning the different stages of the production process including cost models and cost assessments.

“Cost assessment” is the determination of costs for products or services based on a cost model using a set of predefined inputs.

“Cost model” is an electronic calculation tool into which inputs are inserted and which calculates costs based on the inserted inputs using various algorithms.

“Current Cost Accounting (CCA)” is an accounting convention based on current values, where assets are valued and depreciated according to their current replacement cost.

“Dominant Licensee” is a Licensee which has been designated as having a dominant position in a market.

“Equi-proportionate mark-up” is the allocation of the costs to services based on each service’s proportion (share) of the total costs.

“Fully Allocated Costs” is a costing methodology where the costs are categorized as direct and indirect costs which are split into joint and common costs; then those are divided among a firm’s various products and services where the direct costs are directly assigned to the cost-causing service.

“Licensee” is a person who has acquired a License in accordance with the provisions of the Telecommunications Law.

“Modern Equivalent Asset (MEA)” is a valuation method based on what it would cost to replace an old asset with a new one that is technically up to date and state of the art. This asset has the same service capability, allowing for any differences both in the quality of output and in operating costs. For the replacement cost valuation to be appropriate it is not necessary to expect that the asset will actually be replaced.

“Obliged Licensee” is the licensee who has the obligation to provide a top-down cost accounting system to be decided by TRC in the future with regard to FAC models or according to TRC’s fixed narrowband markets review decision (No 9-15/2011), published 1 November 2011 or the TRC decision on the dedicated capacity markets review published 21 December 2010.

“Profit & Loss statement” is a financial or accounting statement that indicates how the revenue is transformed into net income. It displays the revenues recognized for a specific period, and the cost and expenses charged against these revenues, including depreciation and amortization of various assets and taxes.

“Telecommunications Law” is the Telecommunications Law No. (13) of 1995 and its amendments.

“Top-down” is the method of modelling costs based on the historic statutory accounts for the Licensee as a starting point.

“Transfer charge” is the price for internal usage of the dominant operator network that shall be equivalent to the charge that would be levied if the product or service (network usage) were sold externally rather than internally.

“TRC” is the Telecommunications Regulatory Commission.

Article (3) General specifications

a) The Obliged Licensee is obliged to establish top-down cost accounting system for retail narrowband markets and the retail dedicated capacity markets. The cost accounting system shall include a cost model and cost assessment and shall be based on the rules and principles specified in these instructions.

b) The cost accounting system must be capable of reporting regulatory financial information to TRC in order to demonstrate full compliance with regulatory obligations. The following general financial reporting principles are proposed: relevance, reliability, comparability, materiality, causality, objectivity, transparency and auditability.

c) The Obliged Licensee is obliged to provide the cost model as an electronic tool provided in MS Excel including:

   1. Input fields which can be altered by the user. Any changes to the input fields must be reflected in the output of the cost model.

   2. Algorithms used to calculate costs based in the input parameters inserted in the model.

   3. Output fields including at a minimum the total costs of the relevant services and costs per unit charged for.

d) The Obliged Licensee is obliged to provide a sufficient model documentation including a manual. This shall contain the description of the cost model provided and include text, graphs, pictures, diagrams etc. showing how the cost model calculates the costs, definitions of the input and the output variables of the model, and the stages of the flow of data from being inputs to becoming outputs. When the cost model is updated by the Obliged Licensee, a description of the changes shall be included in the model documentation.

e) The Obliged Licensee is obliged to provide a cost assessment based on the cost model. It shall be provided as a text document including graphs, pictures, diagrams etc. providing evidence for all the inputs used as well as the output of the cost model including the total costs of the assessed services and the cost per charging unit for the assessed services.

f) The cost accounting system shall be based on FAC.

g) The Obliged Licensee must model the costs in two stages:

1. Classification of costs: The classification of costs shall be based on the Obliged Licensee’s accounts. The first step is to identify the relevant costs in that Obliged Licensee’s cost shall not include any cost related to irrelevant business entities. Then the Obliged Licensee’s cost shall be separated between wholesale and retail services. After that the retail cost is derived to calculate the cost of the regulated retail services only. While the classification of costs is made, the annual costs from Obliged Licensee’s accounting information, including annual operational expenditures (OPEX) and assets shall be identified and classified. A detailed classification of retail assets and OPEX into predefined categories shall be performed based on the cause of the cost items specified in the asset register and the profit and loss statement. The costs for the network shall be separated from the costs for providing the retail services and common costs.

2. Calculation of service costs. The retail model will calculate the retail cost for the regulated retail services by allocating the costs of the retail activities (e.g. marketing, sale, customer care and its support assets) into all retail services. Thereafter the calculated retail cost of the regulated services is added to the network costs based on transfer prices where applicable. The types of retail costs included in this calculation are, i.e. OPEX and the cost of capital.

h) The Obliged Licensee must establish the top-down model by applying the following steps:

1. Determine homogenous cost categories.

2. Transform the asset register from historic cost accounting into current cost accounting.

3. Determine the depreciation and the cost of capital.

4. Group cost category by activity. Thereby, activity based costing (ABC) is to be used as the basis for the allocation stages.

5. Determine service allocation keys, applying these and calculating the costs of each of the services.

Article (4) Asset valuation, capital maintenance and annualisation of costs

a) The Obliged Licensee must prepare the cost accounting system based on historic cost accounting and current cost accounting (CCA) as cost base, with valuation of the assets according to the modern equivalent asset valuation (MEA), absolute valuation, indexation and the book values.

b) The Obliged Licensee must prepare the cost accounting system measuring the value of the operator's capital according to the financial capital maintenance (FCM) approach.

c) The main adjustments to be made under FCM are:

   1. Revaluation of fixed assets: The gross book value of assets is valued to take account of specific price changes in the price of assets and changes in technology.

   2. Supplementary depreciation: The depreciation charge for the period is calculated on the basis of the current asset valuations.

   3. Holding gains/losses: Treatment in terms of profit and loss needs to be further adjusted to take account of holding gains or losses that arise due to the effect of asset-specific price changes on the current cost value of assets and the effect of general inflation on shareholders' funds.

d) The capital expenditures and one-time costs shall be annualised based on the tilted annuity formula.

e) The cost of capital rate shall be as determined by TRC.

Article (5) Networks and services

a) The cost accounting system must provide cost results for all services and price positions that are offered in the markets mentioned in Article (1)a.

b) The Obliged Licensee must provide a cost accounting system which is based on network and technologies as implemented to provide the relevant services. With regard to network costs for which wholesale tariffs exist, these shall be used as the relevant input for the cost accounting system.

Article (6) Operational expenditures and common costs

a) The Obliged Licensee must provide a cost accounting system which including operational and common costs considering:

1. The operational expenditures and the common costs shall be those of the Obliged Licensee's operations.

2. The operational expenditures and the common costs shall be determined directly or based on an activity based costing methodology if possible, otherwise if not possible

3. the operational costs shall be determined based on mark-ups on direct costs.

Article (7) Procedure

a) The Obliged Licensee is obliged to submit the cost accounting system including the cost model and the cost assessment and eventual other supporting documentation to TRC for the year 2013 within three calendar months from the issuing of these instructions. For the subsequent years, The Obliged Licensee shall submit updated versions within six months after the year end (31^{st} of December) .

b) TRC will examine the submitted cost accounting system and will either approve the submission or may require changes, if the submission is not compliant with the requirements set out in these instructions.

c) TRC may require Obliged Licensee to answer questions on the submitted cost accounting system documents, to provide access to all relevant accounting documents or to prepare additional supporting documents, whenever this is necessary to examine compliance with regulatory obligations. TRC may require Obliged Licensee to submit documents or data in electronic form.

d) When TRC requires changes or additional information, it will set a deadline of one month to submit the amended version or the required information. TRC may set a shorter or longer deadline, if this is adequate considering the amount of work needed to fulfil the request.

e) In procedures where TRC has to decide on the prices that the Obliged Licensee may charge for retail narrowband and dedicated capacity services. TRC shall use the data of the cost accounting system as a basis for its calculations.

f) As long as the Obliged Licensee has not submitted a cost accounting system which is fully compliant to the requirements set out in these instructions, TRC may use alternative methods to calculate the Obliged Licensee's retail charges for dedicated capacity and to determine the price cap for retail narrowband services. Thereby, TRC shall predominantly use the prices or costs of operators in other countries, which provide similar services in comparable markets (benchmarking).

Article (8) Publication and Confidentiality

a) TRC treats the cost accounting system and related information, in particular numerical data about costs, and other undisclosed business issues as confidential.

b) With regard to descriptive documents about the applied methodologies and principles, the Obliged Licensee shall inform TRC whether such documents contain information that shall be treated as confidential business issues. In such cases, the Obliged Licensee shall also provide a version without confidential information that is suitable for publication.

c) After TRC has examined the provided cost accounting system as submitted according to these instructions ("model principles"), TRC publishes a statement informing market players that the Obliged Licensee has submitted the cost accounting system and the outcomes of the cost modelling assessments with regard to costs of the services relevant for tariff regulation. TRC also publishes descriptive documents without confidential information as far as necessary to inform market players about the applied principles and methodologies.

d) In exception of the principle of confidentiality set out here, TRC may publish general costing data directly related to services and products for which the Obliged Licensee is required to charge cost-based prices or for services for which a price cap regulation is applied. When TRC applies this exception, it has to take into account the economic and legal interests of the Obliged Licensee versus the interests of other market players and the public interest to ensure fair competition.

Article (9) Records

The Obliged Licensee shall preserve sufficient records to provide an adequate explanation of all information as submitted according to these instructions for a period of four years from the date on which the documents have been delivered to TRC. The records can be kept in electronic or in paper form as adequate.