

DETERMINATION

Batelco's Compliance with the Accounting Separation Regulation

**Determination issued by the
Telecommunications Regulatory Authority to
Bahrain Telecommunications Company B.S.C.
pursuant to the Accounting Separation Regulation**

ERU/0205/019

5 February 2005



هيئة
تنظيم
الاتصالات
Telecommunications
Regulatory
Authority

DETERMINATION

Batelco's Compliance with the Accounting Separation Regulation

1. Background

On 2 October 2004 the Bahrain Telecommunications Company B.S.C. ("Batelco") submitted an accounting procedures manual ("the Manual") to the Telecommunications Regulatory Authority ("TRA") for approval in accordance with section 1.1(c) of the Accounting Separation Regulation ("Regulation").

On 5 December 2004, the TRA wrote to Batelco (reference ERU/DC/840) notifying that the TRA had decided not to approve the Manual as it did not comply with specific requirements of the Regulation. In that letter, the TRA set out its specific concerns with the Manual and requested Batelco to review each of the TRA's concerns and to make representations as appropriate in response. In addition, the TRA advised Batelco that it intended to issue a Determination on the Manual stating the amendments required and the timeframe by which Batelco would be expected to make such amendments.

On 22 December 2004, Batelco made representations to the TRA (reference CL/466/04) in response to the TRA's letter of 5 December 2004. In that letter, Batelco indicated that it would submit a revised accounting procedures manual to the TRA reflecting most of the required changes by mid February.

2. Determination

Having reviewed the Manual and having considered the representations made by Batelco in relation to the specific concerns about the Manual raised by the TRA, the TRA determines that Batelco shall make appropriate amendments to the Manual as are specified below and shall provide an amended accounting procedures manual to the TRA before 5.00 pm on 7 March 2005 such date being 30 calendar days from the date of this Determination. This Determination is issued by the TRA pursuant to section 1.2 of the Regulation.

This Determination works sequentially through the specific concerns about the Manual that were raised by the TRA in its letter of 5 December 2004. As appropriate, each concern is raised with supporting justification, Batelco's response is addressed and the TRA's final determination is made. These concerns are addressed under six main headings as follows:

DETERMINATION

Batelco's Compliance with the Accounting Separation Regulation

- Requirement to produce an Accounting Procedures Manual;
- Accounting Separation Requirements;
- CCA Methodology;
- FAC Methodology;
- LRAIC Methodology; and
- Transfer Charging Methodology.

3. Requirement to Produce an Accounting Procedures Manual

3.1 Accounting Policies

In accordance with section 1.1 (a) and (b) of the Regulation, Licensees should produce Fully Allocated Cost ("FAC") and Long Run Average Incremental Cost ("LRAIC") Regulatory Accounts that fulfil "good practice principles" relating to financial reporting. In addition, section 1.1(c) provides that an accounting procedures manual should include a detailed listing of accounting policies.

It is evident that a statement of accounting principles has not been clearly set out in Manual. Batelco's response indicates that it agrees with the TRA's view and that it will provide a comprehensive statement of accounting policies in the Manual.

Accordingly, the TRA determines that the Manual shall contain a statement of Regulatory Accounting Principles which shall include cost causality, objectivity, consistency of treatment, use of International Accounting Standards, transparency, sampling, listing of revised asset lives and the depreciation method used, which shall all be in line with common practice.

3.2 Audit Arrangements

In accordance with section 1.3 of the Regulation, an auditor that has been approved by the TRA shall audit all Regulatory Accounts and issue an opinion on a "properly prepared" basis. On the basis of international practice and in order for the audit process to work effectively, audit arrangements should be set out in the Manual.

It is evident that the Manual does not include details of the proposed audit process. Batelco's response indicates that it will provide a pro-forma audit opinion statement and will set out the details of the scope of the regulatory audit in the Manual.

DETERMINATION

Batelco's Compliance with the Accounting Separation Regulation

Accordingly, the TRA determines that the Manual shall contain (and shall be in line with common practice) (i) a pro forma audit opinion statement and (ii) the details of the scope of the regulatory audit which must cover Batelco's FAC and LRAIC Regulatory Accounts.

3.3 Regulatory Accounts

In accordance with section 10.1 of the Regulation, Regulatory Accounts will comprise (i) a profit and loss statement detailing the composition of revenues, transfer charges, transactions with other licensed operators, operating costs and margins; and (ii) a balance sheet differentiating between fixed assets, investment, current assets and current liabilities, and assets and liabilities arising from transfer charges.

It is evident that the Manual does not set out profit and loss statement or balance sheet *pro formas*. In line with international practice, profit and loss statements and balance sheet (or statement of capital employed) *pro formas* should be set out in the Manual. Batelco's response indicates that it will provide a description of the required Regulatory Accounts and will provide profit and loss statement and balance sheet *pro formas* in the Manual.

Accordingly, the TRA determines that the Manual shall provide a description of the Regulatory Accounts and shall contain a *pro forma* for the profit and loss statement and balance sheet (or statement of capital employed) all of which shall be in line with common practice.

3.4 Profit and Loss Statement and Balance Sheet

In accordance with section 10.2 of the Regulation, the profit and loss statement and balance sheet shall be supplemented with (at a minimum):

- (i) a brief statement of the accounting policies applied;
- (ii) a summary of transfer charges between Units and services and product classifications;
- (iii) a statement of costs disallowed by the TRA;

DETERMINATION

Batelco's Compliance with the Accounting Separation Regulation

- (iv) a statement of adjustments required by the TRA;
- (v) a reconciliation between aggregated Regulatory Accounts and published Financial Accounts;
- (vi) an audit certificate; and
- (vii) a statement by the CEO of the licensee that there is no additional information that should be brought to the attention of the TRA in relation to the submitted accounts.

It is evident that the Manual does not set out *pro forma* statements for these items. Batelco's response indicates that it will add *pro forma* statements for the items that are required by the Regulation in the appendices of the Manual.

Accordingly, the TRA determines that the Manual will contain *pro forma* statements produced for the items as specified in section 10.2 of the Regulation which shall be in line with common practice.

4. Accounting Separation Requirements

4.1 Separate Regulatory Accounts for each Unit

In accordance with section 2.1 of the Regulation, licensees with multiple licenses ("Multiple Licensees") (which applies to Batelco) are required to prepare separate Regulatory Accounts for each Unit on the basis of historical cost accounting ("HCA") - FAC unless deemed to have Significant Market Power ("SMP"). A "Unit" is defined in the Regulation under section 5.1 as "all activities carried out under a single license". Multiple Licensees may apply for dispensation under section 9.3 of the Regulation from separating accounts for each Unit, i.e., to adopt "combined accounting".

It is evident that the Manual does not make it clear for which services Batelco proposes to produce separate Regulatory Accounts, nor whether these will match the nine Units, as defined by the nine licenses that Batelco has been issued by the TRA. In its response, Batelco indicates that it will add a list of Units and services for its licensed businesses for which it is required to produce a set of Regulatory Accounts along with a definition of each Unit. Batelco also indicates that the Manual will list the non-

DETERMINATION

Batelco's Compliance with the Accounting Separation Regulation

major licenses for which it will apply for dispensation under section 9.3 of the Regulation.

In relation to this matter, the TRA determines that the Manual shall set out the list and definition of the Units for which Batelco is currently required to prepare separate Regulatory Accounts which (unless dispensation has been granted in advance of the submission of the Manual under section 9.3 of the Regulation by the TRA) shall include the nine licenses that Batelco has been issued by the TRA.

4.2 National Fixed Services License Units

In accordance with section 5.2 of the Regulation, Multiple Licensees with a National Fixed Services License or which have been declared to be dominant or have been deemed to have SMP in a market licensed under a National Fixed Services License shall separate fixed line activities into four Units, as defined in the Regulation:

- (a) core network services;
- (b) local access network services;
- (c) retail; and
- (d) other activities.

It is evident that the Manual does not clearly set out how Batelco will separate its National Fixed Services into these four Units. Batelco's response indicates that the table in section 1.3 of the transfer charging methodology provides a definition of network and retail Units that meets the requirement of section 5.2 of the Regulation. The TRA considers that the table in section 1.3 of the Manual is not sufficiently clear to fulfill a fundamental requirement of the Regulation.

Accordingly, the TRA determines that the Manual shall clearly show the separation of National Fixed Services into the four Units at the beginning of the Manual so as to make it clear for the reader which services are to have separate Regulatory Accounts produced and that the Manual will also provide a clear definition of each of these Units and exactly what they comprise, all of which shall be in line with common practice.

DETERMINATION

Batelco's Compliance with the Accounting Separation Regulation

4.3 Licensees Determined to Have SMP

In accordance with section 4 of the Regulation, if a licensee is determined by the TRA to have SMP, the licensee must account separately for those services and products in which they are determined to have SMP. In addition, under section 7.1 of the Regulation, those licensees with SMP in any one market shall produce FAC Regulatory Accounts and LRAIC Regulatory Accounts that reflect the LRAIC associated with the relevant services and products.

In its Determination of 9 August 2003, "Dominance in Interconnection Markets" the TRA has determined that Batelco has SMP in the markets for:

- (i) call termination on fixed networks;
- (ii) mobile call termination and retail service; and
- (iii) international correspondent services (including international switching and conveyance).

It is evident that the Manual does not clearly list and state that LRAIC Regulatory Accounts will be provided for these services. Batelco's response indicates that these services are LRAIC based and are summarized in the transfer charging methodology. In addition, Batelco indicates that it will add a reference in the Manual to those services in which it is deemed to have SMP. Batelco will provide definitions and indicate which services require the use of LRAIC based transfer charges.

Accordingly, the TRA determines that the Manual shall contain in an introductory section a clear listing and definition of SMP services and products and that Batelco is therefore required to produce LRAIC Regulatory Accounts for these services using LRAIC based transfer charges which shall be in line with common practice.

5. CCA Methodology

5.1 Year 2003 LRAIC Regulatory Accounts

In accordance with section 7.3 of the Regulation, current cost accounting ("CCA") adjustments must reflect the full calendar year

DETERMINATION

Batelco's Compliance with the Accounting Separation Regulation

2003. It is evident that the Manual focuses on valuation dates of 1 January 2004 and 31 December 2004. This is inconsistent with the requirement of the Regulation to produce LRAIC Regulatory Accounts for the year ending 31 December 2003. Batelco's response on this matter is unclear. However, in other correspondence with the TRA, Batelco has indicated that it does not consider that it should prepare LRAIC Regulatory Accounts for the year ending 31 December 2003. The TRA is of the view that the requirement of the Regulation makes it clear that Batelco is required to produce LRAIC Regulatory Accounts for the year ending 31 December 2003. Moreover, such Regulatory Accounts are required to verify the charges for Batelco's services as set out in its Reference Interconnection Offer.

Accordingly, the TRA determines that Batelco shall produce LRAIC Regulatory Accounts for the year ending 31 December 2003 and that the Manual should explicitly state this.

5.2 CCA Adjustments

In accordance with section 7.3 of the Regulation, CCA Regulatory Accounts "shall include adjustments to reflect Current Cost Accounting". The Manual sets out in the CCA Methodology section how Batelco intends to make CCA adjustments which include:

- (i) revaluations;
- (ii) modern equivalent asset ("MEA") adjustments; and
- (iii) depreciation and Financial Capital Maintenance ("FCM") adjustments.

However, it is evident that the Manual does not provide a complete and thorough description of relevant CCA adjustments for each cost/revenue category including the following:

- (i) valuation method (indexation or absolute valuation);
- (ii) depreciation method (roll forward or ratio method);
- (iii) MEA adjustments (including operating cost adjustments and functionality abatements);
- (iv) whether any equipment optimisation has been used; and
- (v) inclusion of installation and planning costs.

DETERMINATION

Batelco's Compliance with the Accounting Separation Regulation

In addition, it is evident that the Manual does not provide a mapping of CCA asset categories to the HCA categories and the method of re-engineering the fixed asset register is not fully described.

Batelco's response indicates that it will:

- (i) add a table to the Manual showing the valuation methods for each asset category;
- (ii) provide more explanation in the Manual on depreciation methods;
- (iii) provide more explanation in the Manual on MEA adjustments;
- (iv) provide more explanation in the Manual regarding equipment optimisation;
- (iv) add more detail in the Manual to explain the inclusion of installation costs and other relevant costs in the capitalized value of assets;
- (vi) provide more information in the Manual about re-engineering the fixed asset register; and
- (vii) provide a mapping of asset categories from HCA to CCA.

Accordingly, the TRA determines that the Manual shall contain a complete and thorough description of the following CCA adjustments which shall be in line with common practice:

- (i) the valuation method (indexation or absolute valuation);
- (ii) the depreciation method (roll forward or ratio);
- (iii) the MEA adjustments (including operating cost adjustments and functionality abatements);
- (iv) whether any equipment optimisation has been used; and
- (v) the inclusion of installation and planning costs.

In addition, the TRA determines that the Manual shall provide a mapping of CCA asset categories to the HCA asset categories and that the method of re-engineering the fixed asset register shall be fully described in the Manual which shall be in line with common practice.

DETERMINATION

Batelco's Compliance with the Accounting Separation Regulation

5.3 Adjustments to Historical Cost Accounts

In order to comply with section 7 of the Regulation concerning CCA adjustments, the Manual should present clearly all the required adjustments to historic cost accounts in order to prepare a CCA set of accounts on an FCM basis. It is evident that the Manual does not address backlog depreciation, adjustments to shareholders' funds and the FCM reserve.

In its response, Batelco indicates that it will:

- (i) provide more explanation on supplementary depreciation in the Manual;
- (ii) provide more explanation on holding gains and losses and backlog depreciation in the Manual; and
- (iii) explain in the Manual its approach to adjustments to shareholders' funds and the FCM reserve.

Accordingly, the TRA determines that the Manual shall contain a complete and thorough discussion of Batelco's treatment of the following, which shall be in line with common practice:

- (i) supplementary depreciation;
- (ii) holding gains and losses and backlog depreciation; and
- (iii) adjustments to shareholders' funds and the FCM reserve.

5.4 Asset Valuations

In order to comply fully with section 7 of the Regulation concerning CCA adjustments and to make the intent clear, the Manual should contain a clear indication of which assets are valued using the indexation method and which are valued using the absolute method. It is evident that the Manual does not show which of Batelco's assets are valued using the indexation method and which are valued using the absolute method. In its response, Batelco indicates that it will provide a table in the Manual showing the valuation methods for each asset category.

DETERMINATION

Batelco's Compliance with the Accounting Separation Regulation

Accordingly, the TRA determines that the Manual shall set out a clear indication of which assets are valued using the indexation method and which ones are valued using the absolute method which shall be in line with common practice.

5.5 Fully Depreciated Assets

In order to comply fully with section 7 of the Regulation concerning CCA adjustments and to make the intent clear, the Manual should contain a clear statement on Batelco's approach to fully depreciated assets. Common international practice is that the Manual should contain a short statement setting out:

- (i) that fully depreciated assets, in which there has been no change in asset life when assessed on an MEA basis, remain fully depreciated;
- (ii) whether the MEA has a different asset life and the rationale for the change; and
- (iii) if the MEA has a different asset life, a clear explanation of how historic cost depreciation is to be adjusted.

It is evident that Batelco has not set out in the Manual what its proposed approach is to fully depreciated assets. In its response, Batelco indicates that it will set out the treatment of fully depreciated assets in line with the TRA's request.

Accordingly, the TRA determines that the Manual should set out a clear statement on Batelco's approach to fully depreciated assets which shall be in line with common practice.

5.6 Depreciation Method

In order to comply fully with section 7 of the Regulation concerning CCA adjustments and to make the intent clear, the Manual should contain a clear statement on the choice of depreciation method. It is evident that Batelco use both the roll forward and ratio method to calculate depreciation. It is not clear which method is used for which asset or whether all assets use straight line depreciation in the first place.

DETERMINATION

Batelco's Compliance with the Accounting Separation Regulation

Batelco's response indicates that it will provide more explanation on this matter in the Manual and that it will provide an indication concerning straight line depreciation.

Accordingly, the TRA determines that the Manual shall contain a clear indication of which asset uses which depreciation method and shall clearly indicate that the straight line depreciation method is used.

5.7 Re-engineering of Asset Register

In order to comply fully with section 7 of the Regulation concerning CCA adjustments, the Manual should contain an explanation concerning how and whether, in re-engineering its fixed asset register, Batelco has accounted for different asset price trends within asset categories and how the re-engineering fixed asset register has been reconciled back to the HCA fixed asset register.

It is evident that the Manual does not clearly indicate (i) that Batelco has taken into account different asset price trends within asset categories, (ii) what the review process comprises, and (iii) by whom this review has been undertaken. Moreover, the Manual does not address reconciliation back to the HCA fixed asset register.

Batelco's response indicates that it will provide more explanation detailing the re-engineering process and target dates for when to finalise fixed asset register mapping issues. Moreover, Batelco indicates that it will add in a new section in the Manual explaining the fixed asset reconciliation process.

Accordingly, the TRA determines that the Manual shall contain and which shall be in line with common practice:

- (i) clarification that the approach to re-engineering the fixed asset register has taken into account different asset price trends within asset categories; and
- (ii) details of how the re-engineering fixed asset register has been reconciled back to the HCA fixed asset register.

DETERMINATION

Batelco's Compliance with the Accounting Separation Regulation

5.8 Capitalized Costs

In order to comply fully with section 7 of the Regulation concerning CCA adjustments, the Manual should clearly show how installation and other relevant costs have been treated in the capitalization of assets. It is evident that the Manual does not show clearly whether asset valuations include installation and other relevant costs. In its response, Batelco indicates that it will provide additional detail to explain the approach taken regarding the capitalization of installation and other costs.

Accordingly, the TRA determines that the Manual shall contain and which shall be in line with common practice a clear indication of whether asset valuations include installation and other relevant costs and for each asset the Manual should contain a *pro forma* table setting out which of the following associated costs are included in the asset valuation:

- (i) planning costs;
- (ii) installation costs;
- (iii) asset specific costs; and
- (iv) other costs.

5.9 Redundant Floorspace Policy

In order to comply fully with section 7 of the Regulation concerning CCA adjustments, the Manual should clearly state Batelco's policy concerning redundant floorspace in exchange buildings. It is evident that the Manual does not mention what Batelco's policy is in relation to redundant floorspace in its exchange buildings. In its response, Batelco indicates that it will add a section in the Manual on this matter.

Accordingly, the TRA determines that the Manual shall contain a clear statement concerning Batelco's policy on redundant floorspace in exchange buildings which shall be in line with common practice.

5.10 Modern Equivalent Assets

In order to comply fully with section 7 of the Regulation concerning CCA adjustments, the Manual should clearly state the basis on

DETERMINATION

Batelco's Compliance with the Accounting Separation Regulation

which assets are revalued. It is evident that the Manual does not provide the rationale for the MEA valuation of assets, in particular where new technologies are available. In its response, Batelco indicates that it will include a section in the Manual providing more explanation and justification on this matter.

Accordingly, the TRA determines that the Manual shall contain the rationale for the basis on which each asset is being revalued which addresses the choice of MEA which shall be in line with common practice. This should include a clear statement that Batelco has adopted an X-year forward view.

5.11 Switch Hardware and Software

In order to comply fully with section 7 of the Regulation concerning CCA adjustments, the Manual should treat switch hardware and software separately on the basis that each component may have different age profiles and different depreciation rates. The Manual is not clear on how hardware and software valuations are treated.

Batelco's response on this matter is not clear. It indicates that in the valuation of fixed assets, hardware and software are split and that it may undertake the creation of a CVR for software.

The TRA determines that Batelco shall treat hardware and software separately with different CVRs and asset valuations which reflect different age profiles and different holding gains and losses and that the Manual should clearly explain how hardware and software valuations are treated which shall be in line with common practice.

5.12 Equipment Optimisation

In order to comply fully with section 7 of the Regulation concerning CCA adjustments, the Manual should address equipment optimisation in the revaluation of assets. It is evident that the Manual does not do this. Batelco's response indicates that it will provide a statement setting out the rationale for not undertaking equipment optimisation in the valuation of assets.

Accordingly, the TRA determines that the Manual shall address Batelco's position on equipment optimisation which shall be in line with common practice.

DETERMINATION

Batelco's Compliance with the Accounting Separation Regulation

6. FAC Methodology

6.1 Cost Allocation Methodology

In accordance with section 1.1(c) of the Regulation, an accounting procedures manual should set out the cost allocation methodology (including allocation of indirectly attributable costs). In accordance with section 2.3 and international practice, common costs should be allocated based on a transparent attribution and apportionment methodology itself based on cost causality. While the Manual does provide an FAC methodology with the allocation of costs set out in Appendices the Manual does not provide a clear description of how common costs are to be attributed and apportioned for each cost category.

Batelco's response indicates that it will provide a clear mapping from the support activity list to the common costs and a list of indirectly attributable cost categories in the Manual. In addition, Batelco indicates that the Manual will include a table listing all cost centres, specific material cost categories and assets along with the category which describes whether costs are directly attributable, indirectly attributable or unattributable.

Accordingly, the TRA determines that the Manual shall contain a clear description of how common costs are to be attributed and apportioned for each cost category which shall be in line with common practice.

6.2 Cost Categories

In accordance with section 6.2 of the Regulation, costs shall be grouped and allocated in the following categories:

- (i) direct and directly attributable costs;
- (ii) indirectly attributable costs;
- (iii) unattributable costs (which must be less than 10% of overall costs); and
- (iv) disallowed costs.

DETERMINATION

Batelco's Compliance with the Accounting Separation Regulation

It is evident that Batelco has not clearly categorised costs in this way in the Manual. In particular, there appears to be no unattributable costs. In its response, Batelco indicates that details of the allocation process will be added to the Manual. In addition, Batelco indicates that the mapping of costs to the cost categories will be added.

Accordingly, the TRA determines that the Manual shall contain a clear mapping of costs to the categories specified in section 6.2 of the Regulation and a detailed description of the allocation process which shall be in line with common practice.

6.3 Equal Proportionate Mark Up

In accordance with section 6.2.3 of the Regulation, unattributable costs shall be allocated by an Equal Proportionate Mark-Up ("EPMU") method (in proportion to the sum of the directly attributable costs plus indirectly attributable costs that have been allocated to a service or product).

From the TRA's review of the Manual, EPMU does not appear to have been used in the FAC methodology since there is no obvious unattributable cost category and no EPMU allocation indicated. EPMU is, however, used in the LRAIC methodology as set out in the Manual.

In its response Batelco indicates that a clear mapping of costs into the requested cost categories will be provided in the Manual. In addition, Batelco indicates that the EMPU method is not directly applied on the basis that the proportion of unattributable costs to total cost is small. The TRA is of the view that the use of the EPMU method is a requirement of the Regulation and that this must be adopted.

Accordingly, the TRA determines that the Manual shall contain details of which costs are unattributable in both the FAC and LRAIC methodologies and that the Manual shall provide details of how unattributable costs have been allocated and a clear description of how these have been apportioned using the EPMU method in both the FAC and LRAIC methodologies which shall be in line with common practice.

DETERMINATION

Batelco's Compliance with the Accounting Separation Regulation

6.4 Capital Employed

In accordance with section 6.3 of the Regulation, capital employed in Units shall be identified and allocated as follows:

- (i) plant and equipment that is directly used;
- (ii) tangible assets used by more than one product/service;
- (iii) tangible assets for support activities;
- (iv) intangible assets;
- (v) financial assets; and
- (vi) working capital.

It is evident that the Manual does not categorize capital employed in the same manner as required by the Regulation. In its response, Batelco indicates that it will amend the Manual to address the requirements of section 6.3 of the Regulation.

Accordingly, the TRA determines that the Manual shall contain a clear mapping of capital employed by Unit into the categories specified in section 6.3 of the Regulation.

6.5 Tangible Assets

In accordance with section 6.3.2 of the Regulation, tangible assets used by more than one product/service or Unit shall be allocated on a relative utilisation basis. It is evident that the Manual does not clearly show what the allocation basis is for some assets. In its response, Batelco indicates that it will review the allocation description and will provide further clarification in the Manual.

Accordingly, the TRA determines that the Manual shall make clear the allocation basis for each relevant tangible asset which shall be in line with common practice.

6.6 Route Factors

In order to comply fully with section 1.1 (a) of the Regulation concerning FAC Regulatory accounts, the Manual should address how route factors which are used to allocate the costs of network elements to products are derived. It is evident that the Manual

DETERMINATION

Batelco's Compliance with the Accounting Separation Regulation

does not provide an explanation of how route factors are derived. In its response, Batelco indicates that it will include in the Manual an explanation of the route factor methodology including the approach used to derive the route factors.

Accordingly, the TRA determines that the Manual shall fully explain Batelco's route factor methodology including the approach used to derive the route factors which shall be in line with common practice.

6.7 Network Activity Reallocation

In order to comply fully with section 1.1 (a) of the Regulation concerning FAC Regulatory accounts, the Manual should fully explain how network activities are reallocated to either other cost categories or network elements. It is evident that the Manual does not fully address the rationale for the allocation methods used and the reasons for selecting specific methodologies. In its response, Batelco indicates that it will add an explanation and further clarification on the rationale of each allocation in the Manual.

Accordingly, the TRA determines that the Manual shall fully explain how network activities are reallocated to either other cost categories or network elements which shall be in line with common practice.

6.8 Asset Reallocation

In order to comply fully with section 1.1 (a) of the Regulation concerning FAC Regulatory accounts, the Manual should fully explain how different asset classes are reallocated to other network elements, network or support plants or other activities. It is evident that the Manual does not fully and clearly explain and clarify the asset reallocation process for every asset. In its response, Batelco indicates that it will provide explanation and clarification on the rationale of each allocation to ensure ease of understanding to the reader and to create transparency.

Accordingly, the TRA determines that the Manual shall fully explain and clarify how different asset classes are reallocated to other network elements, network or support plants or other activities which shall be in line with common practice.

DETERMINATION

Batelco's Compliance with the Accounting Separation Regulation

6.9 Network Elements

In order to comply fully with sections 1.1(a) and (b) of the Regulation concerning FAC and LRAIC Regulatory Accounts, there should be consistency in the Manual between the network elements used in the route factor tables which in turn are used for the preparation of such Regulatory Accounts. From the TRA's review, it is evident that there is an inconsistency between the network elements in the respective route factor tables in the LRAIC and FAC parts of the Manual. In its response, Batelco indicates that a correction will be made and consistency will be ensured between the network element tables.

Accordingly, the TRA determines that there shall be consistency between network elements in the respective route factor tables in the LRAIC and FAC parts of the Manual which shall be in line with common practice.

7. LRAIC Methodology

7.1 LRAIC Standards and Methodologies

In accordance with section 7.2 of the Regulation, proposals for the production of LRAIC Regulatory Accounts shall encompass details of the standards and methodologies to be employed in the identification of LRAIC, including:

- (i) the application of CCA asset valuations;
 - (ii) the timescale for implementation of systems and procedures;
- and
- (iii) the date by which LRAIC Regulatory Accounts will be made available to the TRA.

It is evident that the Manual sets out Batelco's LRAIC proposals including its CCA asset valuation methodology but the Manual does not set out the timescale for the implementation of systems and procedures or the date by which LRAIC Regulatory Accounts will be made available to the TRA.

In its response, Batelco indicates that the timescale for implementation of systems and procedures will be included in the

DETERMINATION

Batelco's Compliance with the Accounting Separation Regulation

Manual. Batelco does not specifically address the matter of the date by which LRAIC Regulatory Accounts will be made available to the TRA.

Accordingly, the TRA determines that the Manual shall set out the timescale for the implementation of systems and procedures and the date by which LRAIC Regulatory Accounts will be made available to the TRA and that such date shall be the LRAIC Submission date as specified in the Regulation.

7.2 Depreciation Method

In order to comply fully with section 1.1(b) of the Regulation concerning LRAIC Regulatory accounts, the Manual should clearly set out the depreciation method used. It is evident that the Manual does not set out clearly which depreciation method will be used in the LRAIC process. In its response, Batelco indicates that the straight line accounting depreciation method is used and that this will be indicated in the Manual.

Accordingly, the TRA determines that the Manual shall confirm that an accounting method of depreciation will be used by Batelco in the LRAIC process which shall be in line with common practice.

7.3 Scorched Node

In order to comply fully with section 1.1(b) of the Regulation concerning LRAIC Regulatory accounts, the Manual should clearly set out the scorched node approach used (geographical or logical). It is evident that the Manual does not set out clearly which scorched node approach will be used in the LRAIC process. In its response, Batelco indicates that it will indicate its scorched approach in the Manual.

Accordingly, the TRA determines that the Manual shall indicate the scorched node approach which will be used by Batelco in the LRAIC methodology which shall be in line with common practice.

7.4 Thinning

In order to comply fully with section 1.1(b) of the Regulation concerning LRAIC Regulatory accounts, the Manual should clearly

DETERMINATION

Batelco's Compliance with the Accounting Separation Regulation

set out the approach to thinning used to determine a minimum network topology. It is evident that the Manual does not set out clearly definitions of a minimum network topology for both fixed and mobile networks. In its response, Batelco indicates that it will provide an additional clarification which describes the overall network minimum point in the Manual.

Accordingly, the TRA determines that the Manual shall indicate the approach to thinning used to determine a minimum fixed and mobile network topology which shall be in line with common practice.

7.5 Increments

In order to comply fully with section 1.1(b) of the Regulation concerning LRAIC Regulatory accounts, the Manual should clearly set out an explanation of how intra-increment common and joint costs are to be recovered (e.g., Distributed-LRAIC). It is evident that the Manual does not clearly address this point. In its response, Batelco indicates that it will provide a methodological explanation for the recovery of intra-increment common and joint costs.

Accordingly, the TRA determines that the Manual shall provide an explanation of how intra-increment common and joint costs are to be recovered which shall be in line with common practice.

7.6 Cost Category Mapping

In order to comply fully with section 1.1(b) of the Regulation concerning LRAIC Regulatory Accounts, the Manual should clearly set out a mapping of asset and cost categories from HCA to CCA to LRAIC and if there are differences they should be explained. It is evident that the asset and cost categories used in FAC and LRAIC are different and that the difference is not explained. In its response, Batelco indicates that it will provide a full detailed asset and operating expenditure mapping from HCA to CCA to LRAIC in the Manual.

Accordingly, the TRA determines that the Manual shall provide a mapping of assets and cost categories from HCA to CCA to LRAIC and if there are differences they must be explained which shall be in line with common practice.

DETERMINATION

Batelco's Compliance with the Accounting Separation Regulation

7.7 Cost Volume Relationships

In order to fully comply with section 1.1(b) of the Regulation concerning LRAIC Regulatory accounts, the Manual should clearly explain the rationale for the shape of all CVRs, i.e., a rationale for why different CVRs pass through the origin, or display convexity which suggests diseconomies of scale. It is evident that such CVRs are not clearly explained in the Manual. In its response, Batelco indicates that it will provide explanations of the derivation of CVRs and will expand the CVR explanations to include reasons for the absence of economies of scale or the minimum point passing through the origin.

Accordingly, the TRA determines that the Manual shall clearly explain the rationale for the shape of all CVRs, i.e., a rationale for why different CVRs pass through the origin, or display convexity which suggests diseconomies of scale and that such rationale shall be in line with common practice.

8. Transfer Charging Methodology

In accordance with section 2.2 of the Regulation, a Transfer Charging System shall be implemented between Units and those transfer charges shall be separately identified in Regulatory Accounts. In order to comply fully with this requirement, the Manual should fully explain the basis of such charges. It is evident that Batelco's transfer charges do not make any time of day or day of week adjustments. In addition, the basis on which transfer charges are made is not explained. In its response, Batelco indicates that it will provide a proper documentation of the standard cost rate and will provide clarification and explanation on the basis of the charges in the Manual.

Accordingly, the TRA determines that the Manual shall clearly explain the basis for transfer charges which shall be in line with common practice.

A. Andreas Avgousti
General Director
5 February 2005