



**Regulatory Accounting System Draft Orders to Ooredoo  
Response and Consultation Document  
issued by the Communications Regulatory Authority on  
16 April 2014**

*Reference No.: OQ/Reg-3309/2014-05*

**Submission by Ooredoo  
8<sup>th</sup> May 2014**



## 1. Introduction

- 1.1 Ooredoo welcomes the opportunity to provide comments on the draft RAS Orders (Draft RO's) as issued to Ooredoo by the Communications Regulatory Authority (CRA) on 16<sup>th</sup> April 2014. The regulatory accounting system (RAS) has the potential to profoundly affect the telecommunications regulatory regime, the competitive landscape and the telecommunications sector in general. It is, therefore, imperative and incumbent on the CRA that a RAS system be implemented that meets the requirements of the telecommunications sector in so far as it is fit for purpose and proportional to the overall size of the Qatari telecommunications market, as ultimately the costs of producing RAS will be borne by Ooredoo's wholesale and retail customers. As RAS is a well-established obligation in most competitive telecommunications jurisdictions worldwide, Ooredoo stresses that such best international practice be adopted in Qatar and any departure from such norms be supported by a well-reasoned and evidenced arguments.
- 1.2 Ooredoo would like to note that it has expended significant time, resources and effort in meeting the CRA's previous RAS Orders obligation and fulfilled its committed delivery of RAS FY2010, 2011 and 2012 (collectively referred to as RAS FY2010-12) ahead of the CRA's own timelines. The delivery of *three* years of RAS submissions is unprecedented globally. It should be noted that the CRA took the highly unusual step of conducting a RAS consultation in early in 2013 and culminated in issuance of the RAS Orders on 31<sup>st</sup> March 2013, well into the development time of its delivery. Ooredoo undertook to abide by this process in order to honour its commitment of RAS delivery *ahead* of the CRA's own deadlines. Unfortunately, the CRA has decided to re-enact the same procedure of conducting another RAS Orders consultation, 12 months after the previous one, during the development time for its delivery, but has extended its delivery deadline accordingly.
- 1.3 After a highly detailed and thorough review of these accounts by the CRA with full support from Ooredoo a large number of changes, modifications and enhancements, as required by the CRA, were implemented and the revised accounts resubmitted to the CRA. Upon confirmation by the CRA that all changes have been implemented as required the RAS FY2010-12 accounts were formally approved by the CRA on 2<sup>nd</sup> March 2014.
- 1.4 Ooredoo appreciates the care and attention that CRA has paid to developing the RAS Orders framework and provides the comments contained in this submission with the hope of contributing constructively to its further development.



## 2. General

2.1 Ooredoo notes that the Draft RO's issued on 16<sup>th</sup> April 2014 are an adaptation of the previous RAS Orders issued by CRA on 31<sup>st</sup> March 2013. In the interests of brevity, we wish to focus our comments on those aspects of the Draft RO's that represent a material change from the previous RAS Orders.

2.2 Based on our review of the two versions of the Draft RO's, we have identified the following elements as significant material changes upon which our comments are focused:

- Level of detail required: In general, Ooredoo is of the view that the Draft RO's (as in the previous RAS Orders) are far more onerous than necessary for the telecommunications market in Qatar in terms of the level of disclosure and granular level of detail required. Ooredoo's position is that the proposed requirements of RAS and set of Separated Accounts (SA's) are overly complex and unwarranted in light of the size of the Qatari telecommunications market. The proposed RAS by far exceeds regional and best international practice, a point that has been made on many previous occasions, and which the CRA has chosen to ignore. Ooredoo seeks from the CRA some justification as to why RAS in Qatar is significantly more complex against those of the regional countries which are faced with the same sectorial issues as the CRA. The proposed level of detail only serves to detract attention away from the most important aspects of the SA's at best or obscures their original objectives through the presentation of too much granular information which is of little use. The levels of disclosure and complexity proposed in the Draft RO's will result in increased developmental times. Ooredoo would urge the CRA to set a far more focused set of SA's in line with regional best practice. It should also be stated that the international auditors who perform the RAS audit do so at a sufficiently detailed level which to a large extent removes the need for many of the detailed reporting requirements.

Ooredoo urges the CRA to use regional best practice for RAS.

- Page 4, 1.2.1 Separated Accounts, 2<sup>nd</sup> bullet: This details the introduction of additional requirements such as connections, rentals, calls & other into both the Wholesale and Retail RRU P&L statements. This information is already presented in the other schedules in which case it should not be replicated in the main RRU statements as it adds little value. Again, regional best practice demonstrates that is not a requirement for KSA, UAE & Bahrain and the CRA is directed to these instructions.

- Page 4, 1.2.1 Separated Accounts, 3rd bullet: This details the additional new requirement for each network component (NC) the total cost of the NC and the percentage of total cost received by the products. This information can be obtained from a simple analysis of existing schedules and should not be part of the SA's. The CRA appears to be confusing specific and ad hoc detailed analysis with SA's. Specific analysis is usually required at some stage depending upon the needs at that time and change from one time to another, whereas SA's do not change in format, with the exception of minor details. Ooredoo reiterates that from the existing schedules provided, in Excel format, and the fact that the CRA is in the unique position of being in possession of the actual RAS model, such ad hoc analysis can be easily performed by themselves.

Ooredoo's recommendation: Simplify the SA's by distinguishing between specific and ad hoc detailed analysis and separate more granular analysis that should be contained in supplementary schedules.

- Page 5, 1.2.2 Efficiency assumptions, paragraph 1: Ooredoo confirmed that, in line with International Financial Reporting Standards, any asset acquired free of cost would be recorded within its fixed asset register with that value and that no other value would be attributed to it.

Ooredoo is of the opinion that, if at all any efficiency adjustments should be done to these type of assets, it should be revalued to the current market value to enable the industry in an objective build or buy decision.

- Page 4, 1.2.2 Efficiency assumptions, paragraph 2: The CRA states that the build or buy decision will be determined using costs derived from Ooredoo's accounting records using a historical cost accounting methodology. This statement is incorrect as the irrationality of this assertion is easily demonstrated using the example of Ooredoo's external network. External network is a heavily labour intensive exercise with some of Ooredoo network having been constructed over 10 years ago where labour costs were much lower. The costs of building this infrastructure today, under the current local and national regulations, bears little comparison to the historical costs as they are significantly higher today. As such, the costs of Ooredoo's external network assets based on a HCA approach will be unrealistically low and may disrupt informed decision making. Ooredoo, urges the CRA to consider relevant benchmarking information in support of any final pricing that is derived with RAS as one of several inputs along with current cost accounting (CCA), where the current costs of that asset are used. Ooredoo notes and agrees with the CRA's important statement that RAS alone cannot be used to set pricing. Further, CRA should also clearly state the nature of competition that is envisioned in Qatar, as relying on a single provider's infrastructure,



namely Ooredoo's, while having some benefits also comes along with significant disadvantages. Ultimately, reliance on such ageing infrastructure is a risk in itself and the benefits of new more efficient investment and technologies will never be realised. Alternative infrastructure investment should be encouraged by CRA.

- Page 5, 1.2.2 Efficiency assumptions, paragraph 1: CRA require that the capital costs (depreciation and cost of capital) related to the assets acquired for free shall be attributed to the Other RRU. Ooredoo wishes to remind the CRA that Ooredoo follows International Financial Accounting Standards which require that assets purchased at zero cost or gifted should be recorded within the fixed asset register at their purchase or acquisition price. Hence, any asset that has been gifted to Ooredoo would have been recorded at zero value, with zero associated depreciation and zero cost of capital. Hence, all costs associated to "gifted" assets have associated costs within Ooredoo's fixed asset register.

Ooredoo seeks clarification from the CRA on why it considers that such assets are of a significant and material nature to Ooredoo's overall costs and to make public information or sources that suggest such assets exist that materially affect the RAS statements.

- Page 5, 1.2.2 Efficiency assumptions, paragraph 2: This statement has been addressed above, to which the CRA is directed.
- Page 5, 1.2.3 Performance Bond: The CRA sees it fit to continue to impose a performance bond on Ooredoo in relation to RAS and its delivery. Ooredoo maintains its position that such performance bonds are highly unusual, if not unprecedented, and against international best practice. Ooredoo urges the CRA to reconsider this condition with the RAS Orders and to adopt best international standards. Further, as Ooredoo has already undertaken the unprecedented delivery of RAS for *three successive years simultaneously*, as committed to by Ooredoo to the CRA, Ooredoo's commitment to this exercise cannot be in any doubt. Ooredoo wishes to state that it is totally committed to undertaking the obligation to deliver a proportionate RAS for the Qatari telecommunications market in line with best international practice. It should be further stated that the CRA has taken the highly unusual step of being intimately involved in the RAS development at all stages which in itself may introduce delays that are not under the control of Ooredoo. Currently, the CRA proposes regular review and approvals throughout the RAS development process and to implement any changes/modifications it sees fit. As such, Ooredoo should not be held accountable for delays introduced as a result of the CRA's deep involvement of the RAS delivery.



Ooredoo is of the view that since RAS is a set of remedies resulting from a dominance designation, it cannot be considered as a secured obligation as the conditions that require its imposition may change at any time. Ooredoo would like to remind the CRA that on the removal of the dominance designation from a particular market, the associated RAS obligations for that market should also be removed, as that particular market is considered to be under normal competitive economic and commercial dynamics. In this regard, it is known that currently the CRA are in the process of reviewing dominance within the telecommunications market and hope to complete this exercise shortly. In the interest of transparency, it is hoped that the findings of this dominance exercise be published in the public domain. If Ooredoo is found to be non-dominant in specific markets, it is expected that those markets and associated products be consequently removed from the final RAS Orders. This provision should be incorporated both into the Draft RO's and final RO.

- Page 5, 1.2.4 Timeline: Ooredoo welcomes the CRA's acknowledgment that RAS is a significant undertaking requiring significant investment from the organisation. It is clear that such a large and complex undertaking cannot be completed within a short period of time. This is all the more relevant given the unusually highly detailed nature of the RAS SA's, their sheer number and micro levels of granularity. Ooredoo welcomes the extension of the timelines for delivery of RAS FY2013 but would like to note that even these timelines are challenging as delays from the CRA themselves may affect its delivery. Ooredoo urges the CRA to discuss any new RAS FY2013 requirements with Ooredoo well ahead of time in order to determine the feasibility of meeting these requirements within the timelines and indeed whether the information and/or data pertaining to these requirements actually exists and/or is readily available. Ooredoo, as previously stated to the CRA, that much of the past network data is not recorded historically and estimates would be required that will have implications on the associated audit findings.



### 3. Ooredoo Answers

Question 1 Do you agree with the changes to the pro form (the separated accounts) proposed by the CRA?

The CRA is directed to previous statement made in relation to the level of details in RAS, which for the purpose of brevity will not be repeated here but makes the following additional points.

Ooredoo has welcomed the removal of the supplementary reports requirement as stated in these Draft RO's in comparison to those defined in the RO's dated 31<sup>st</sup> March 2013. However, Ooredoo notes that many of the supporting schedules are now required as part of the SA's, which are subject to audit. Ooredoo still maintains that the proposed SA's are too detailed in nature and are too numerous, as much of the information is replicated in other schedules while some of this information being too granular for any meaningful purpose. RAS SA's are not dissimilar to statutory financial statements, these being for each RRU, and something that does not change from year to year. This level of reporting, akin to statutory accounts, should be maintained as it is sufficient to meet the requirements for the use of the RAS outputs. It is *highly unusual* to have detailed analysis as part of audited SA's and against best international practice. This granular level of detail in the SA's proposed by the CRA form part of specific analysis that is very much dependent upon the specific issue(s) being investigated, which may change from one year to another. The CRA is urged to distinguish between SA's and supporting supplementary schedules. The CRA has access to Ooredoo's cost model and financial data, in MS Excel format, that form the basis of the SA's, from which such analysis and insight can easily be obtained. The inclusion of this detailed analysis only seeks to add considerable overhead to the auditing of the RAS accounts, resulting in large inefficiencies, with no apparent benefits. It should also be understood by the CRA that such auditing of detailed SA's extends the associated timelines for their completion while adding considerable costs.

The CRA states that the SA's in their proposed format for RAS are required but the format and content of these statements is beyond that of regional and best international practice. It is the global practice in regulatory accounts that SA's be audited, these are themselves supported by a number of additional or supplementary reports which are not themselves audited. These supplementary reports provide additional information in respect of the SA's. In the case of the Draft RO's and contrary to the SA's from RAS FY2010-12, the CRA has decided to include many of these supplementary reports, which provide granular cost breakdowns, as part of the SA's, whereas such reports are used for detailed analysis the requirements of which may change from one year to another. As a result of this requirement, Ooredoo RAS SA's may change from one year to another, which is in itself contradictory to global best practice and may present difficulties in comparing one year against another as the format and content of these statements may change. Additionally, the cost of performing the audit on the proposed extended SA's is greatly increased as



the auditors will be required to audit such complex statements and attest to their veracity. This verification of the supplementary supporting schedules can easily be performed by the CRA as they are in possession of all RAS reports, schedules and the cost model itself. In short, the CRA has confused supporting schedules with the SA's and mistakenly combined with SA's. Ooredoo, therefore, urges the CRA to follow best international practice and separate the SA's from supporting supplementary schedules.

Ooredoo seeks responses from the CRA as to why, as part of these Draft RO's, the requirement for such detailed reporting and analysis exists as part of the SA's and for it to be subject to audit, whereas this is not required in regional countries? This points must be addressed by the CRA as ultimately the costs of the RAS obligation will be borne by Ooredoo's customers.

Ooredoo's strong recommendation to the CRA is that the detailed analysis schedules not be part of the SA's but be part of the overall

I RAS submission as supporting supplementary schedules. This will, therefore, allow the CRA to focus their attention on the most important deliverables and findings of the RAS outputs, while facilitating the supporting schedules for their intended purpose of detailed analysis as and when required dependent upon the particular nature of the issue.

Ooredoo recommends separating the SA's from supporting supplementary schedules (not removing their requirement), in line with best international practice.



**Question 2 Do you agree with the efficiency assumptions introduced by the CRA?**

Ooredoo cannot agree with the efficiency assumptions as proposed in the Draft RO's as they have no place in a HCA FAC methodology. The basis of a HCA FAC methodology is to allocate, apportion and attribute all revenue, costs, assets and liabilities to products and services, as per the principles set out in the Draft RAS Orders, grouped into RRU's. Efficiency does not feature as a parameter under this accounting methodology. The proposed efficiency assumptions do not have an overall guiding structure, are arbitrary in nature and it is not defined how and under what conditions they will be applied. The practice of applying adjustments to HCA FAC accounts is not common in best international practice. Alternative costing methodologies such as CCA and Long Run Incremental Costs (LRIC), and its various derivatives, are typically used to introduce efficiencies as only the incremental costs of service provisioning can be recovered.

The point of assets acquired for "free" or "gifted" to Ooredoo and their impact of efficiency has been made previous to which the CRA is directed. In short, the CRA is reminded that any asset under its ownership that has been acquired "free" of cost or "gifted" will be recorded with zero value within its fixed asset register.

The CRA makes reference to attestations by the auditors of assets that have been acquired free of cost, Ooredoo wishes this statement to be made clear as to precisely what is required of the auditors, this appears to be the remit of Ooredoo statutory auditors.

The CRA propose arbitrarily removing up to 20% of an asset cost if certain attestations cannot be provided by the auditors. Ooredoo cautions the CRA that such arbitrary manipulation of the RAS SA's would place the integrity of RAS into question. The removal of costs in one asset category cannot be done without consideration of others, particularly at the network level and the associated operational costs. Further, Ooredoo seeks clarification of how a figure of 20% was arrived at and evidence how this is applied in international best practice?

If the CRA is determined to introduce efficiencies within Ooredoo, through manipulations of the RAS SA's, the costs involved in meeting the onerous RAS obligations through replication of data already present in other schedules, which are evidently well above and beyond that of international best practice, will ultimately be borne by the customers. This is in contradiction of the CRA's own efficiencies statements, "This requirement aims to avoid undue burden on customers and other service providers".



Ooredoo also notes that the CRA has applied an artificial cap of 8.33% of operational cost to its working capital for RAS FY2010-12, and proposed to maintain such a cap for FY2013 whereas the actual working capital should be applied. It is not known what the basis is for this cap is and how the 8.33% has been derived, which should be clarified by the CRA. Efficiency adjustments related to the **use** of the RAS outputs and not RAS itself mandated by the CRA should be performed outside of the SA's in order to maintain transparency and avoid any issue related to the manipulation of RAS and its associated outputs by the CRA. Ooredoo urges the CRA to maintain a very clear distinction between the development of RAS and its use as it should be used for its intended purpose of evaluating cross subsidies, anticompetitive behaviour and wholesale costs. This point is stated in these Draft RO's on page 15, paragraph 1, 1st bullet, where the CRA has recognised that RAS cannot fulfil all objectives and is not designed or applicable for every issue the CRA wishes to address.



Question 3 Which are your comments on the new timelines introduced by the CRA

Ooredoo directs the CRA to its response above to Page 5, section 1.2.4 Timeline of the Draft RO's, where comment is provided on the revised timelines for the delivery of the RAS accounts for FY2013.



Question 4 Please provide your comments on the other changes proposed by the CRA?

Page 4, paragraph 4: On the relation between dominance and RAS obligations, Ooredoo directs the CRA to previous comments made against page 5, section 1.2.3, paragraph 2 of the Draft RO's.

Page 7, bullet 4: the CRA states that RAS information be applied "in its own business systems and practices that relate to price setting", Ooredoo, as other commercial entities, typically do not use fully allocated costing in order to set its retail pricing, but does so on the basis of well-constructed and detail business cases which are judged on their merits alone in the context of the competitive and regulatory environments. As has been explained to the CRA on many previous occasions HCA FAC cannot be used to set retail prices. This is easily demonstrated by using Ooredoo's existing fibre broadband services currently being deployed; using a HCA FAC approach the full costs of this infrastructure would be apportioned to a relatively small customer base resulting in unrealistically high unit costs that are far above the international benchmarks and well in excess of what customers are willing to pay. The CRA is suggesting that Ooredoo uses this as a basis of its retail price setting, which is unfeasible. Another example of the inappropriateness of using HCA FAC cost to retail pricing applies to those services which are in decline. Such services have a certain minimum fixed cost, but put against reducing volumes result in (cost / volume) higher unit costs and above those of the retail market prices. Hence, HCA FAC cannot be used to set retail pricing and Ooredoo urges clarification on this matter from the CRA.

Additionally, the Draft RO's state (page 7, 4<sup>th</sup> bullet) "...and to demonstrate the application and implementation of the RAS system and information..", the CRA is reminded that Ooredoo is fully committed to RAS and will endeavour to deliver its RAS obligations.

Page 8, paragraph 2: The Draft RO's state "CRA may issue additional clarifications or minor amendments to these RAS Orders from time to time". Ooredoo requests the CRA to provide some clarification around such "minor" amendments, as it has previously been evidenced that what has been initially considered to be "minor" changes to the RAS requirements has transpired to be significant changes in practical terms. Such changes may require the significant collection of additional data, analysis, and redesign of the cost model architecture or the SA's, requiring substantial resources. Further, the RAS development timelines, as a result of these changes, could be significantly impacted in a way that the CRA has not fully understood. The CRA is urged to consult Ooredoo on the proposed changes before the final RO's are issued and to refrain from implementing any



changes thereafter. It is suggested that any further changes be discussed and implemented for prospective future RAS submission.

Page 8, paragraph 5: The CRA makes reference to “internationally agreed principles” in the development of RAS, in line with these benchmarks Ooredoo urges the CRA to refrain from arbitrary and inconsistent changes and or modifications to the RAS and the associated SA’s in order to achieve a desired outcome. Such interventions will undermine the integrity of RAS and call into question its outputs.

Page 9, paragraph 1: the Draft RO’s state that the SA’s can indicate the existence or absence of anticompetitive behaviour on the part of Ooredoo. While this statement is not true taken in isolation, it can be the case when used on conjunction with other data and /or evidence. Ooredoo urges the CRA not to use RAS in isolation for decision making, the RAS outputs are themselves one of many other inputs that should be considered.

Page 9, paragraph 2: the CRA continue to insist on using RAS outputs for retail tariffs evaluation despite the numerous representations by Ooredoo to the contrary. Examples of this has been previously made in this submission to which the CRA is directed. RAS outputs provide a snapshot of revenue and costs in time which are most likely to change from one year to another as a result in continued investment, changing volumes, changing revenues, competitive pressures etc. The logical outcome of this reliance on RAS costs in order to form prices is that these prices may fluctuate up or down year on year, which cannot be the case. Further, highly granular service level costing is not international best practice for RAS but is something that the CRA continues to maintain. In addition to the reasons stated earlier it should be noted that such cost drivers at the granular service level are not reliable. Hence, it is not possible to put such reliance of RAS outputs in the evaluation of granular service level pricing and other information sources should be considered such as the competitor’s price levels, relevant benchmarks etc.

Page 9, paragraph 5: The CRA has made repeated reference to Cost of Efficient Service Provision (CESP) as a construct in order to introduce cost efficiencies based on the RAS SA’s. Ooredoo seeks detailed clarifications of this construct, in particular against which framework will it be invoked, how and under which conditions it will be applied. It should be stated that RAS follows an evolutionary process from HCA FAC to CCA FAC to LRIC costing methodologies (of which several versions exist), where efficiencies are introduced and enhanced through the adoption of this sequence of costing methodologies. This evolution of RAS exists in many jurisdictions and is well documented in terms of economic rationale and theory.



Ooredoo's position reiterates that the CESP concept and framework should be detailed and made public.

Page 14, paragraph 5: The draft RO's make reference to the RAS benefiting the Qatari people. This point has been addressed previously, where Ooredoo maintains that international and regional best practice be adopted in respect of the final RAS Orders where a proportionate RAS is developed, as it's associated costs will be borne by the telecommunications customers.

Page 14, paragraph 7, 2<sup>nd</sup> bullet: The CRA states that RAS can be used in the "verification of License and Industry Fees". Ooredoo has previously responded to the CRA on this matter and will only briefly address this here. As RAS is a financial and economic construct while the Industry and License Fee is based purely on accounting standards no such linkage can be made. The CRA by making this linkage between RAS and the Industry and License Fee would be doing so in error and opening up the possibility of incorrect fees, leading to a potential revision of fees already paid and the reissuance of financial statements. The wider implications of these actions should not be underestimated by the CRA. These provisions made in the Draft RO's do not appear in the RO's and these are new requirements.

Page 14, paragraph 7, 5<sup>th</sup> bullet: As stated previously in response to Question 4.

Page 15, paragraph 1, 1<sup>st</sup> bullet: Ooredoo agree wholeheartedly with the CRA that RAS outputs in isolation cannot be used to determined retail and wholesale prices, as stated previously. Ooredoo maintains that historical cost cannot be used to determine retail pricing in the future. As representation on this has been previously discussed these will not be repeated here.

Page 15, paragraph 1, 1<sup>st</sup> bullet: RAS cannot serve all purposes, this notion should be dispelled as the danger is to have more and more complexity incorporated into RAS and for it to be used for purposes for which it is not designed for or suitable. The main output of RAS is a set of SA's, which, while can be used for several studies is limited in its application. Many issues which the CRA may want to address require financial data which must be recent and have element of competition, regulatory and economic principles in its consideration. RAS clearly does not cover all of these.



Page 15, paragraph 2, The Draft RO's state that RAS provides input to a "wide range of diverse evaluation and decision", however, following best international practice RAS has a limited use and should be applied in Qatar within the same context. The CRA is under the mistaken impression that RAS outputs can be used to determine any regulatory issue, which is simply not the case. The primary outputs of RAS are the SA's. Hence, the requirement that RAS "must be flexible and provide enough detail to support a wide range of evaluations and decision" is mistaken and only serve to add complexity to an already complex requirement and by applying RAS in this way makes it open to interpretation and challenge. Ooredoo proposes that the CRA adopt international best practice and develop appropriate analysis to address each issue accordingly, with inputs from many sources including RAS outputs.

Page 15, 4.2 Guiding principles: The Draft RO's state that "international best practice" must be employed in respect of RAS, Ooredoo challenges the CRA as to whether this is the case with RAS defined in these Draft RO's. As previously stated, Ooredoo is of the view that the RAS obligations are among the most demanding worldwide, resulting in SA's that are among the most complex and ultimately not proportional to size of the Qatari telecommunications market.

- **Materiality:** The CRA has omitted one of the most important guiding principles of RAS, namely materiality. All the regional RAS requirements state this is a key principle, the rationale of which is obvious. The concept of materiality is a key standard against which all financial audits are performed and set the limits on what can be achieved in terms of granularity, as a greater level of materiality than those of the statutory accounts cannot be reconciled. These Draft RO's stipulate that all wholesale services be included irrelevant of the volumes or number of instances of these services. The main issue with this is the tremendous additional effort required to identify the revenues and costs associated with such small services, effort that could be better deployed on the more relevant and larger services. The statement 'substance over form is relevant' here in the context of RAS. In short, Ooredoo strongly urges the CRA to follow regional RAS requirements and include materiality as a guiding principle, in line with that used in statutory audits. This was a key learning in RAS FY2010-12 where some services with only a handful of instances were reported on against thousands and much time was spent (by both Ooredoo and the auditors) on identifying these revenues and costs.

**Services not sold by Ooredoo or are due to be phased out:** These should not be included in RAS as the associated volumes and costs will



not be representative nor the outcomes relevant and will only serve to add complexity to already highly detailed accounts that are not required. In some instances, the associated service volumes are zero which would result in no cost allocations.

- **Reliable:** The Draft RO's state "is free from deliberate or systemic bias", the guiding principles are the RAS principles and against which the audit will be performed. This point should also extend to the CRA in its review and manipulations, amendments or changes to RAS, particularly so if the auditors themselves have confirmed compliance with the RO's. The CRA's review of RAS and required changes, without evidenced justification, does suggest some degree of bias and manipulation that should be avoided. As previously stated, the implications of such actions are far reaching as the associated outputs would be called into question.
- **Verifiable:** "that a complete "audit trail" must exist", this is the responsibility of the auditors who will use the final RAS Order against which to conduct their audit.
- "the auditor has full access to any data", this should be rephrased as in the process of conducting Ooredoo's statutory audit the auditors must have access to all and necessary information that will allow them to place a material reliance on the SA's.
- **Transparent and Comprehensive:** "Information needs to be understandable for the recipient", this statement should be expanded to make reference to a suitably qualified reader. RAS is a highly complex exercise that results in complex statements and reports, which only suitably knowledgeable and qualified readers are able to interpret. Further, it is only qualified readers who are able to review RAS and expertly interpret the RAS outputs.

Page 16, 4.3 Elements of the RAS: As stated previously, these are far more in excess of regional RAS requirements and exceed those requirements of best international practice. Ooredoo urges the CRA in adopting the best international practices that removes the significant additional work performed by the CRA themselves, which is simply a duplication of the audit already performed.



Page 16, paragraph 1; “the CRA will perform its own analysis of the data contained in RAS”, While not suggesting the CRA not perform its own review of RAS, Ooredoo reminds the CRA that a highly detail audit is performed on RAS and a much higher reliance should be placed on the auditors findings. The current practice, as evidenced with RAS FY2010-12, is that the CRA placed limited reliance on the auditor’s findings and performed their own detailed review with great assistance from Ooredoo. This only serves to duplicate effort and is wasteful of resources.

Page 16, section 4.3, Description of RAS; this states a description of the RAS “framework”, which Ooredoo considers is the RAS Methodology and how these are applied with RAS.

Page 16, section 4.3, The Electronic Cost Model; the CRA has included a requirement of a user guide for this model. The CRA had extensive training on the software used to develop the model and reference will be made to the associated training.

Page 17, section 4.4.1 schematic: Ooredoo notes that the same schematic appears in the RO’s issued on 31<sup>st</sup> March 2013. This schematic shows a number of cost transfers between network RRU’s which is not the case in RAS FY2010-12. Ooredoo considers that RAS FY2010-2012 implementation to be in line with the Draft RO’s requirements. Ooredoo considers that this schematic is simply a case for illustration purposes as per figure 2 caption which states “Generic structure”. Ooredoo seeks clarification from the CRA on the precise cost transfers, including which types, between the respective RRU’s.

Ooredoo seeks clarification from the CRA on which cost types will be transferred between the RRU’s and which services will be charged at prevalent wholesale rates to the RRU’s.

Page 18, paragraph 6: The Draft RO’s state that “all wholesale products” being sold to the service providers be included in the RAS. This point raises issues of materiality, which has been omitted by the CRA, and relevance, which have been addressed previously in response to the subject of materiality.

Page 19, paragraph 5: The draft RO’s detail how certain services and their associated costs are to be treated in RAS. It is recognised by the CRA that in comparing wholesale call termination services to those provided internally that difference exist, due to many



factors including the routing difference between the calls types and additional network components being used, hence “minor variations in the way a termination call product is routed”. Ooredoo maintains that such differences contrary to being minor can in fact be materially sizeable and the CRA should recognise this fact. Without this consideration, erroneous conclusions from RAS outputs and subsequent analysis may be drawn. The additional cost incurred as a result of the different network paths followed by the two calls types will result in lower margins for one type against another. Therefore, by not taking into account these considerations the CRA may in advertently be discriminating one party against another. Ooredoo cautions the CRA in the conclusions drawn from this RAS implementation and to recognise the fact that the two call types are not in fact the same.

Page 19, paragraph 7: Ooredoo is confused by the CRA’s statement in footnote 12 that states “The RAS does not attempt to measure these hypothetical business-structure costs – it only measure actual business costs”. The bases of RAS is a theoretical construct where notional entities, called RRU’s, are defined in order to group together certain cost types associated to network components. In fact none of these entities exist and they are part of Ooredoo entire network division and operations. In short, the whole foundation of RAS is a hypothetical construct, with adjustments, which leads to “notional” profits and outputs. Hence, Ooredoo’s assertion that RAS outputs be used in conjunction with a number of other information sources before any decision by the CRA is reached, and reliance on RAS alone may lead to erroneous conclusions.

Page 20, 4.4.2 Fixed Access Network RRU: This states that certain equipment is to be considered part of the access network RRU including DSLAM’s or similar equipment. Ooredoo notes that as per the CRA’s requisites, DSLAM’s and other broadband Access components which were originally attributed to the Fixed Access Network RRU but were moved into the Fixed Core Network RRU for RAS FY2010-12. Ooredoo considers this to be a simple oversight and seeks clarification from the CRA that the final implementation as per RAS FY2010-12 is the requirement for RAS FY2013.

Page 21, 4.4.5 Retail RRU: This states that cost causality is often weak in the retail business, which is directly a consequence of the excessive granularity service requirement defined in the RO’s and the Draft RO’s. This points has been made previously and will not be repeated here.

Page 21, 4.4.6 Wholesale RRU: This states services such as Ooredoo’s cable landing station be included as a service in RAS, as was the case in RAS FY2010-12. Ooredoo



considers this a simply oversight which was a requirement for RAS FY2010-2012 as Ooredoo can confirm that no services were provided in respect of the cable landing stations to other service providers in 2013 and, therefore, should not be included in RAS FY2013.

Ooredoo seeks clarification on the last sentence in paragraph 7 of this section, “The service list should be comprehensive and not only limited to those with specific price regulation or other regulations”.

Page 23, 4.5 Cost Base: The Draft RO’s state that a HCA cost accounting methodology is to be implemented with efficiency assumptions defined as CESP. This point has been previously made in response to Question 2, where the CRA is directed to.

Page 27, Transparency: The draft RO’s state the importance of maintaining transparency with RAS in order to provide a high degree of reliance on the associated outputs. However, the existing process as defined by the CRA allows for changes, adjustments and manipulation of RAS by the CRA in order to achieve a desired outcome. While this does not impact the CRA’s authority to request certain changes to RAS, it could be viewed by the wider industry as such and it is excessive undue influence over the RAS process and associated output. This will inevitably raise serious doubts and any reliance on the outcome. In the nature of true transparency, Ooredoo request that any changes mandated by the CRA to the original draft RAS submission should be highlighted and made available to concerned parties when the results are published. This introduces a high level of transparency and provide confidence that RAS has been developed free of manipulations and predicted adjustments.

Page 29, Working Capital (WC): This should not be limited, as the WC is part of current operations and any manipulation will distort the actual resulting outputs and associated costs. In RAS FY2010-12, a cap of 8.33% was been applied to WC which should be removed and the actual WC be employed. This methodology should not be changed year on year as it will make a comparison of the outputs difficult in addition to changing the derived unit network costs.

Page 34, paragraph 1: The draft RO’s state that Ooredoo is required to maintain the product Codes (also the cost center codes (CC’s)) consistent over the RAS years. This is simply not practical as the CC codes change as the organisation evolves and maintaining a mapping from old to new would create an enormous additional complexity as costs



would need to be mapped back from the new code to the old potentially across several years. This was initially considered in RAS FY2010-12, as over the three years the organisation underwent several organisation changes, and the mapping between CC's became unrealistically complex and almost impossible to audit change as services may be combined.

This requirement needs to be removed.

Page 43, 6.1. RAS submission – general provisions: The CRA closure should be provided within two weeks of the final deliverable not two months, as they are intimately involved with RAS development throughout the year. The RAS submission timelines should also be dependent on the date of final RO issue as the RAS SA's are largely dependent on the final RO. Also, any changes after RO issuance should be only considered for future years prospective RAS. Currently, the timelines apply to HCA FAC methodology alone and in case of any other methodologies being introduced, these timelines should be further reviewed.



11 May 2014

Graeme Gordon  
Assistant Secretary General  
Regulatory Affairs  
ictQATAR  
P.O. Box 23264  
Doha, Qatar

Dear Graeme,

### **Regulatory Accounting System (RAS) Orders – Draft for Consultation.**

I refer to the above matter. Vodafone welcomes the opportunity to provide its input on these matters. Please find our response to the question below.

Question 1 Do you agree with the changes to the pro forma (the separated accounts) proposed by CRA?

Vodafone does not have sight of the results of the RAS to date. It is not possible to comment in detail therefore on minor improvements to the RAS. To the extent that the CRA's proposed changes improve the utility of the RAS Vodafone is supportive of the changes.

Question 2 Do you agree with the efficiency assumptions introduced by CRA?

Vodafone supports the proposed objective of attempting to reflect that where costs for civil infrastructure was not incurred by Ooredoo that those costs do not flow through to wholesale and retail costs and therefore prices. Including such costs would allow Ooredoo to over-recover costs and would send inefficient buy/build signals. We consider that such an approach is aligned with the overarching policy objective of the Ministry of Information and Communications Technology. The National Broadband Plan has an objective to strive to minimize infrastructure duplication. If the costs of duct or dark fibre access were over recovered this would incentivise inefficient duplication by sending the wrong buy/build signals.

Furthermore, Vodafone considers that such an approach is best aligned with Ooredoo's non-discrimination requirements.

Question 3 Which are your comments on the new timeline proposed by CRA?

**Vodafone Qatar Q.S.C.**  
P.O. Box 27727  
Doha, Qatar

Phone +974 7700 7111  
Fax +974 4409 6669

[vodafone.com.qa](http://vodafone.com.qa)



Vodafone has no comment to make on the timeline.

Question 4 Please provide your comments on the other changes proposed by CRA.

Vodafone has no further comment to make.

Vodafone thanks the CRA for the opportunity to comment on these issues and is available to answer any questions arising from this letter.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Julian Kersey'.

Julian Kersey  
Head of Regulatory  
+974 7777 5628  
[julian.kersey2@vodafone.com](mailto:julian.kersey2@vodafone.com)

**Vodafone Qatar Q.S.C.**  
P.O. Box 27727  
Doha, Qatar

Phone +974 7700 7111  
Fax +974 4409 6669

[vodafone.com.qa](http://vodafone.com.qa)

Registered in the State of Qatar No. 39656