RAS Instructions

to

Qtel Qatar (Qtel) Q.S.C.

The Supreme Council of Information and Communication Technology “ictQATAR”

Consultation Document

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1 INSTRUCTIONS FOR RESPONDING TO THIS CONSULTATION

1.1 Consultation Procedures

All interested parties are invited to submit responses to the questions specifically identified in this document and to provide their views on any other relevant aspects. Comments should reference the number of the question being addressed or the specific section of this document if not responding to a particular question.

ictQATAR asks that, to the extent possible, submissions be supported by examples or relevant evidence. Any submissions received in response to this consultation will be carefully considered by ictQATAR when progressing to revised RAS Instruction. Nothing included in this consultation document is final or binding. However, ictQATAR is under no obligation to adopt or implement any comments or proposals submitted.

Comments should be submitted by email to rschnepfleitner@ict.gov.qa **on 29 November 2012** at the latest. The subject reference in the email should be stated as "RAS Instruction 2012". It is not necessary to provide a hard copy in addition to the soft copy sent by email.

1.2 Publication of Comments

In the interests of transparency and public accountability, ictQATAR intends to publish the submissions to this consultation on its website at www.ictqatar.qa. All submissions will be processed and treated as non-confidential unless confidential treatment of all or parts of a response has been requested.

In order to claim confidentiality for information in submissions that stakeholders regard as business secrets or otherwise confidential, stakeholders must provide a non-confidential version of such documents in which the information considered confidential is blacked out. This "blackened out" should be contained in square brackets. From the non-confidential version it has to be clear where information has been deleted. To understand where redactions have been made, stakeholders must add indications such as "business secret", "confidential" or "confidential information".

A comprehensive justification must be provided for each and every part of the submission required to be treated as confidential. Furthermore, confidentiality cannot be claimed for the entire or whole sections of the document as it is normally possible to protect confidential information with limited redactions.

While ictQATAR will endeavor to respect the wishes of respondents, in all instances the decision to publish responses in full, in part or not at all remains at the sole discretion of ictQATAR. By making submissions to ictQATAR in this consultation, respondents will be deemed to have waived all copyright that may apply to intellectual property contained therein.

For more clarification concerning the consultation process, please contact Dr. Rainer Schnepfleitner, Manager Economic & Licensing, rschnepfeitner@ict.gov.qa.

2 Executive Summary

The State of Qatar has empowered and authorized the Supreme Council of Information and Communication Technology (**ictQATAR**) to liberalize and regulate the telecommunications sector under Decree Law 34 of 2006 and the Telecommunications Law (**Telecommunications Law**), and Executive By-Law 1 of 2009 for the Telecommunications Law (**By-Law**). These laws establish the objectives and legal framework for ictQATAR to create the appropriate legal and regulatory conditions for the development of sustainable competition in the telecommunications sector so that, amongst other things, telecommunications may become a factor for promoting social and economic development.

Under the Telecommunications Law and By-Law, ictQATAR has specific objectives and powers to ensure the prices and charges of service providers are efficiently cost-based and appropriately applied to products and services offered at a wholesale or retail level. Service providers are also subject to any related regulations, rules, orders, notices, decisions, directions and instructions, as well as telecommunications licenses issued to them. Together this comprises the Applicable Regulatory Framework (**ARF**) that applies to licensed telecommunications service providers.

Qatar Telecom (Qtel) Q.S.C. (**QTel**) was designated as a Dominant Service Provider (DSP) in various retail markets and wholesale markets in the telecommunications sector in Qatar[1].

Designation as a DSP means QTel will be subject to specific provisions, obligations and remedies that are now part of the ARF or may be in the future, which apply to or will apply to DSPs, concerning conduct and activities in or connected with those relevant markets that include costing and accounting by the DSP.[2] These include access and interconnection pricing, accounting separation and tariffs based on efficient costs.

ictQATAR issued RAS Instructions in 2010 (ICTRA 08/10). Since then QTel has developed a Regulatory Accounting System (**RAS**) based on the financial year (**FY**) 2009. ictQATAR has reviewed the system and information supplied. In addition, ictQATAR has developed its own understanding of the current and likely future needs for cost and revenue data. In light of these developments, these new Instructions are issued to ensure the future submissions remain in line with Qatari requirements.

These RAS Instructions are formal Instructions to QTel to comply with the following:

- Prepare and participate in the further development of the RAS as approved by ictQATAR;
- Meet the timelines for the RAS implementation process according to the timelines set out in Section 5 Timeframe for implementing the RAS;
- Prepare and submit written reports, plans and responses to information requests from ictQATAR as part of the RAS; and
- Apply the RAS information in its own business systems and practices that relate to price setting and to demonstrate the application and implementation of the RAS system and information.

These requirements are immediate and will be on-going, subject to adjustments in the details and required timeframes, as specified by ictQATAR.

In arriving at these new Instructions, ictQATAR has provided QTel with a number of draft documents and discussion papers, including the following:

- Draft Direction and Instructions – Regulatory Accounting System, 4 December 2009;
- Detailed output requirements and deliverables for the Regulatory Accounting System, 13 October 2009;
- Comments on the RAS and data relating to the 2009 RAS, specifically on 27 September 2012.

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[1] Recently Notice and Orders ICTRA 2011/10/31 of 31 October 2011

[2] This includes obligations and remedies contained in the annexures to QTel's public telecommunications licenses, and in particular, annexures D (procedures for implementing and revising tariffs), F (interconnection, access and wholesale services), I (additional obligations of dominant service providers) and J (transitional provisions – including fast-track interconnection process).

The Regulatory Accounting System Instructions (**RAS Instructions**) relates specifically to QTel. The general principles contained herein would apply equally to any other Service Provider that was designated to be a DSP and on whom an Accounting Separation obligation was imposed.

These Instructions set out:

- The relevant provisions and requirements of the ARF in respect of a RAS;
- The objectives, function and tasks of the RAS;
- The obligations of QTel in respect of the RAS; and
- The detailed regulatory accounting requirements.

The RAS provides a set of systems, processes, policies and procedures that enable QTel to establish a record keeping regime necessary to meet its regulatory obligations. These systems keep track of revenues, costs, assets and capital employed.

One of the key objectives of the RAS is to calculate, trace and analyze costs in order to demonstrate compliance with a cost orientation and non-discrimination obligation for regulated services. The main instruments of the RAS, which are depicted in Figure 1 below, are: (i) the Cost Model that forms the central part of the RAS (ii) the Separated Financial Statements; and, (iii) the Audit and Statement of Compliance.

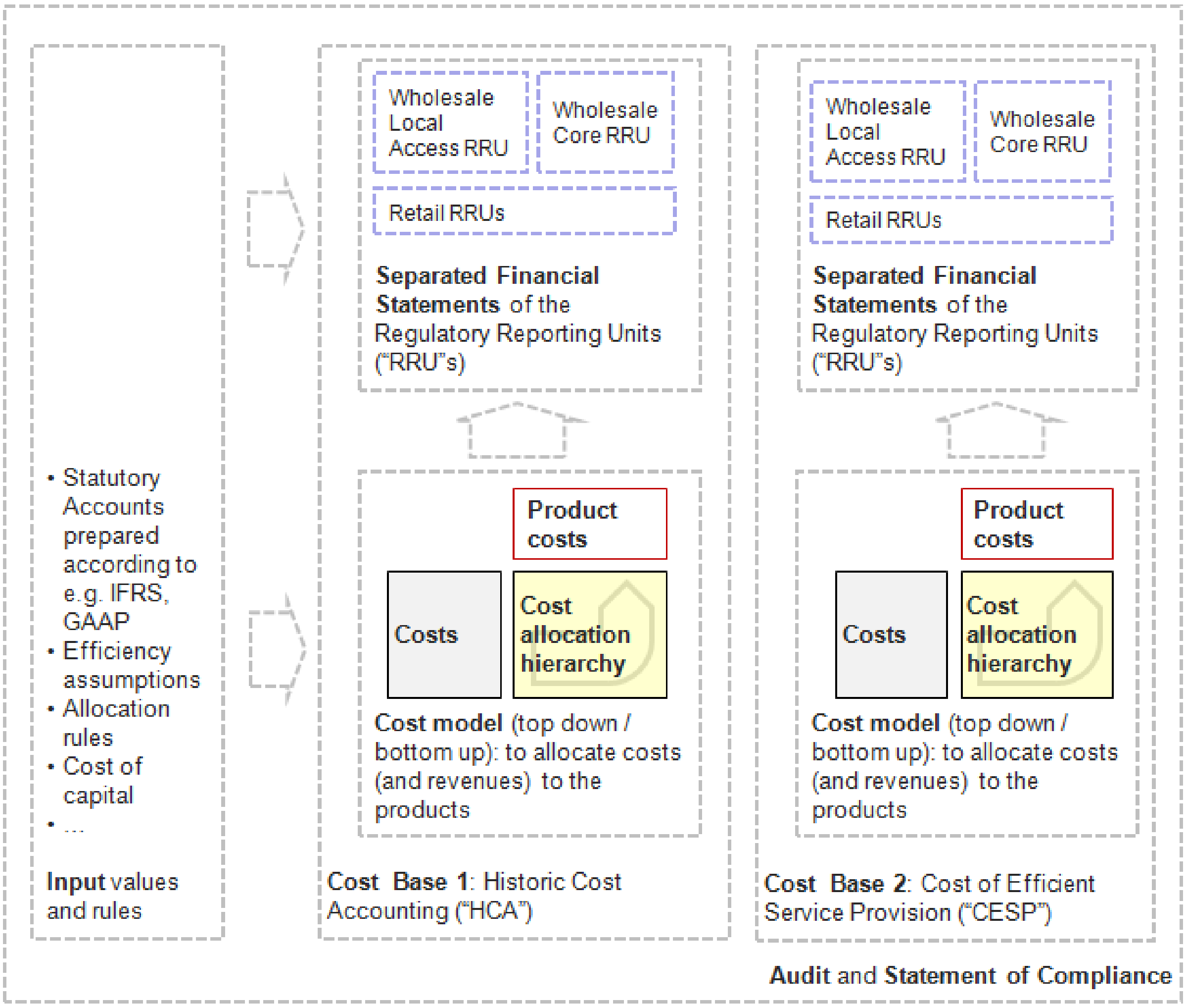

Figure 1 Simplified elements of the RAS showing two related reporting outputs

The Cost Model allocates costs and revenues in a causal manner to the DSP's products. The allocation of costs to service categories and products shall be subject to internationally agreed principles, of which cost causation is the most important.

The Separated Financial Statements (**SFS**), or Separated Accounts (**SA**), form a second main instrument of the RAS. They ensure that each Regulatory Report Unit (**RRU**) includes only costs and revenues that are relevant to this RRU and its products. The Separated Financial Statements can indicate the existence or the absence of anti-competitive behavior.

The SFS shall include accounting statements that identify not only the overall RRU's profit and loss and balance sheet, but also more detailed analysis of individual products and services supplied by the RRUs. This must include sufficient detail to enable understanding of the nature of the cost components. This is required for ictQATAR to analyze the business and prices and so support ictQATAR in its obligations relating to price approvals and ensuring the best outcomes for the Qatari market.

Historic Cost Accounting (**HCA**) is required. The basis for historic costs is the statutory accounts and the audited annual financial statements.

The Cost of Efficient Service Provision (**CESP**), as prescribed by the Telecommunications Law, is required in addition to the HCA cost base. Further information and requirements regarding the introduction of CESP is included in section 4.4.2 Cost of Efficient Service Provision on page 17ff.

The RAS will cover the full extent of the DSP's operations. International (overseas) subsidiaries or group structures shall be reported on only if they materially impact domestic operations. In any event the international operations shall be included to enable clear reconciliation of the SFS with the company Statutory Accounts.

Question 1	Do you agree that currently Fully Allocated Cost (FAC) based on HCA is currently the required cost base and cost standard?
Question 2	Do you currently see addiditional bases required for regulatory controls? If yes, which bases do you foresee and why?

3 Policy Objectives and Legal Basis

These are formal Instructions from ictQATAR to QTel directing QTel to comply with the requirements outlined in these Instructions concerning the development and implementation of the RAS.

The objectives and legal basis for issuing these Instructions are outlined below.

3.1 Policy Goals, Objectives and Powers

ictQATAR has mandated objectives and goals to achieve under the Telecommunications Law. Article 2 outlines the main objectives that apply for the purposes of these Instructions on the RAS:

> Article 2 (2) enhancing the telecommunications sector's performance in the State of Qatar through encouraging competition and fostering use of telecommunications;
> Article 2 (5) encouraging sustainable investment in the telecommunications sector;
> Article 2 (7) identifying and addressing anti-competitive practices in the telecommunications sector;
> Article 2 (9) establishing a fair regime that meets the requirements of the competitive market place through the implementation of interconnection between service providers and all procedures related thereto;
> Article 2 (12) ensuring that the regulation of the telecommunications sector remains in line with international rules; and
> Article 2 (13) ensuring the orderly development and regulation of the telecommunications sector.

Article 4 empowers ictQATAR to set and enforce remedies to prevent anti-competitive practices (Article 4(4)), set the terms of interconnection and access between service providers (Article 4 (6)), safeguard the interests of customers (Article 4(8)), and require the provision of information relating to financial and accounting records (Article 4(10)).

Article 19 (1) of the Telecommunications Law also requires ictQATAR to undertake functions and duties in respect of interconnection and access to promote appropriate, effective low cost interconnection between telecommunications networks and promote access to facilities of other service providers to ensure interoperability.

Article 29 of the Telecommunications Law requires tariffs to be based on the cost of efficient service provision without excessive charges which may result from dominance. Under this Article 29, ictQATAR may issue decisions to amend tariffs where it finds they are not in line with the cost of service provision.

In order to achieve these objectives and goals, the ARF authorizes ictQATAR to impose requirements on DSPs to carry out or participate in the preparation of a cost study and, if necessary, adopt business and accounting practices to separate and determine costs (Articles 32 and 33 of the Telecommunications Law and Annexure I of Licenses).

3.2 Legal Basis

The legal basis for the RAS can be found in various parts of the ARF as follows. These mostly apply to DSPs.

Dominance Designation

On 31 October 2011, QTel was issued Notice and Orders[3] designating it as a DSP in retail and wholesale Relevant Markets in the telecommunications sector in Qatar. The implications and

[3] ICTRA 2011/10/31

operation of the designation Notice and Orders are that QTel will be subject to specific provisions, obligations and remedies in the ARF that apply to DSPs. QTel may also be made subject to additional ex ante obligations and remedies, if required.

Telecommunications Law

Article 18 (8) of the Telecommunications Law cites the rights, obligations and terms of interconnection and access, which are available to each licensed service provider including the following:

> "….Each licensed service provider shall have the rights and obligations regarding interconnection and access as follows:
>
> 8. any obligations or requests to a dominant service provider regarding **interconnection and access** as specified by the General Secretariat and which relate to its charges or **calculation of costs** or the **requirements of accounting separation** pursuant to the rules of article (24), (25) and (33) of this Law.

The RAS is an obligation imposed on QTel as a DSP that relates to its charges, calculation of costs and requirements of accounting separation in due course.

Article 24 provides that a DSP must provide interconnection and access to all service providers on the same terms and quality as it provides to itself or other affiliates. The RAS process enables the identification of costs that lead to ascertaining such equivalence.

Article 25 provides that the RAS itself is a direction and instruction in respect of the rights and obligations of DSPs regarding interconnection and access charges or relating to calculation of costs or accounting separation.

Other provisions in the law empower ictQATAR to undertake functions and duties to ensure interconnection and access agreements meet legal requirements (Article 19(4)), and to determine any additional obligations on DSPs regarding interconnection and access (Article 19 (6)).

The RAS is an essential part of identifying the cost of efficient service provision for the purpose of ensuring the tariffs of DSPs do not contain any excessive charges (Article 29).

Article 32 enables ictQATAR to require a cost study such as that to be carried out as part of the RAS, and Article 33 requires a DSP to adopt the RAS and any other accounting or business practices as a means to prevent anti-competitive conduct.

Article 62 enables ictQATAR to obtain from a service provider the information it needs to exercise its regulatory powers including ensuring that DSPs comply with their license obligations and meet the legal requirements of the Telecommunications Law.

Executive By-Law

Article 49(1) of the By-Law requires DSPs to meet any requirements relating to interconnection or access charges.

Article 50(1) of the By-Law requires DSPs to take direction from ictQATAR to implement specific charges or change such charges as determined by ictQATAR. Article 50 (2) requires access charges of a DSP to be cost-based and in accordance with rules or standards determined by ictQATAR. Article 50(3) requires a DSP to comply with any orders applicable to any pricing, costing and cost separation requirements as prescribed by ictQATAR.

Article 59 of the By-Law says that if ictQATAR requires a DSP to prepare or participate in the development of a cost study and the DSP shall comply. Such a cost study involves ictQATAR deciding on cost categories, form, approach, procedures and timing for the cost study and its implementation (Article 59). The DSP can then be required to adopt identified cost accounting practices to facilitate the cost study or to achieve any other regulatory purpose including the separation of accounts (Article 59).

QTel's Individual Licenses

On 7 October 2007, QTel was granted and issued two telecommunications licenses to provide public mobile and fixed telecommunications networks and services (License for the provision of Public Mobile Telecommunication Networks and Service ICTRA 08/07A and License for the provision of Public Fixed Telecommunication Networks and Service ICTRA 08/07B).

QTel is required under these licenses to comply with the terms and conditions of the licenses and the ARF (Clauses 4 and 14.1). It is also required under Sub-clause 14.2 to take all reasonable and practicable steps and measures necessary to adapt its business practices and processes to facilitate the introduction and development of competition as directed by ictQATAR. The development of, and the adoption of the RAS into its processes, are part of this process.

Clause 11 of the Licenses places specific obligations on Licensees to provide facilities and services to wholesale customers in accordance with pricing, interconnection and access prescribed by the ARF. The RAS exercise is part of enabling the Licensee to fulfill this license requirement.

Sub-clause 2.1 of Annexure F of the Licenses states that an interconnection or access agreement will contain interconnection or access prices and any additional cost components of the Licensee or the requesting licensee. Such costs, and prices based on costs, will become apparent during the RAS process and will enable the Licensee and any requesting licensee to enter into agreements based on efficient cost pricing and reduce the instance of disputes over this.

Sub-clause 1.1 of Annexure I of the Licenses clearly states that when a DSP is ordered by ictQATAR to prepare or otherwise participate in a cost study, it will comply. Sub-clause 1.2 of Annexure I orders the compliance by a DSP with an ictQATAR direction to retain an independent auditor. Sub-clause 1.3 of Annexure I orders and directs the same compliance regarding the adoption and implementation of accounting procedures, and sub-clause 1.4 orders and directs the same compliance regarding accounting separation requirements.

These Instructions to QTel direct QTel to comply with the requirements outlined in these Instructions and in the ARF, including the directions in Clause 1 of Annexure I outlined above concerning the RAS.

Clause 3 of Annexure I lists specific conduct by a DSP that is prohibited. The RAS exercise is expected to produce transparent costing and accounting information that will support business activities and processes that do not involve such prohibited conduct or the risk of such conduct.

Ancillary Provisions concerning the RAS

The ARF mentions further provisions that may be linked to the RAS including Number Portability[4] and Universal Service[5].

These and other detailed analysis may be specified by ictQATAR in the future. Specific Instructions may be issued to enhance the RAS to assist with such investigations.

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[4] Q1M license and Q2M license; Annexure J: The Licensee shall ensure that any charges that it imposes for the provision of Mobile Number Portability are reasonable and cost-oriented.

[5] Telecommunications Law, Articles 37 to 39: The Board after the approval of the universal service policy may establish a fund to be called "Universal Service Fund" to **subsidize the costs** resulting from the provision of the universal service.

4 The Regulatory Accounting System ("RAS")

4.1 Guiding principles

This Chapter sets out the tasks and applicable guiding principles which ictQATAR requires QTel to apply and implement as part of the RAS. These principles shall ensure the primary aims are met, making the RAS fit for purpose. These aims include *inter alia,* but are not limited to, the following:

- The provision of cost information to inform ictQATAR on the costs of retail and wholesale services and provide insights to assist with price approvals and price setting;
- The provision of revenue and cost information to enable ictQATAR to identify margins and so assist in the determination if services are making reasonable profits;
- The provision of cost information to assist with the setting of prices for new services;
- The provision of cost and revenue information to identify any market distortions;
- The assurance that the business is not acting in any anti-competitive manner;
- To provide inputs to both *ex ante* and *ex post* regulatory remedies;
- To provide inputs in regulatory proceedings and dispute settlements.

The RAS[6] contains a set of systems, processes, rules and procedures which, inter alia, enables QTel to establish a record keeping regime necessary to meet its regulatory obligations and which keeps track of and reports on revenues, costs, assets and capital employed.

According to the ARF, and to international best practice, regulatory financial information must be relevant, reliable, comparable, verifiable, transparent and comprehensive. ictQATAR, therefore, requires the following standards in respect of data supplied for the RAS to apply:

Relevant

Information is relevant if it has the ability to influence economic decisions, and is provided in time to influence those decisions. The qualitative characteristic of relevance is applied as a selection criterion at all stages of the RAS process.

Reliable

There are a number of criteria that can be applied to test if information is reliable, such as whether:

- It represents faithfully what it purports to represent;
- It is free from deliberate or systematic bias;
- It is free from material error and free of arbitrary elements;
- It is complete (subject to materiality tests);
- Its basis of preparation is carried out in an objective (fair) way;
- It has a degree of caution (i.e. prudence) applied in exercising judgement and making the necessary estimates.

Comparable

The information contained in a financial statement is only useful if it can be compared with similar information for other reporting periods in order to identify trends and differences. This aspect is particularly valuable where comparable information is used to assess the impact of competition or establish cost trends for price control purposes. Comparability implies consistency over time in the way in which a DSP prepares and reports regulatory accounting information.

Verifiable

Information needs to be auditable. This usually means, that a complete "audit trail" must exist, which allows the regulatory accounting information to be traced and reconciled between (both to and from) the source data and the regulatory final financial reports of the DSP. The audit trail should set out sufficient evidence for a reviewer to demonstrate the reliability of the RAS. This also implies that the auditor has full access to any data, information or documents used in the RAS.

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[6] The Regulatory Accounting System is sometimes referred to as regulatory **cost accounting system** or **cost model**. As revenues are explicitly in scope the more generic term is used.

Transparent and comprehensive

Information needs to be understandable for the recipient. QTel has to ensure that any data, information or document used in the RAS is prepared and documented to a standard that allows a suitably informed reader to gain a clear understanding of that information etc.

All information needs to be conveyed to ictQATAR in a standard electronic format, which can be processed by ictQATAR[7]. Where information is provided in spreadsheet format, links and all formulae need to be visible and workable. This will allow ictQATAR to perform its own analysis of the data contained in the RAS.

Transparency also requires that ictQATAR has an electronic copy of the RAS system, with all documentation and user guides. ictQATAR may agree to alternatives, subject to meeting the requirement that all key information and calculation stages can be verified and investigated by ictQATAR.

All information conveyed to ictQATAR shall be in English to enable the involvement of a wide range of staff and international experts.

Question 3	Are there comments or additional requirements on the overall guiding principles?
Question 4	Do you agree that ictQATAR should have full access to the RAS and how can this be ensured?

4.2 Elements of the RAS

QTel's RAS shall include, inter alia, the following elements:

Description of the RAS

The description of the RAS "framework", containing, inter alia the applicable standards like cost base, cost standard and how they are set in place. This shall also include details on the processing stages and the data used in the RAS to carry out these processes. All values in the RAS must be documented and be available.

Cost Model itself

The (electronic) framework for allocating costs and revenues. This shall include operating and user guides. Subject to agreement by ictQATAR alternative arrangements to allow ictQATAR to access the model or to investigate the system and its data, may be agreed to.

Separated Financial Statements (SFS)

Statements are needed for QTel's regulatory reporting units.
Statements are required for the products and services within these units.
Statements shall show cost transferrals between the units and shall show details of the types of costs within the services

Audit and statement of compliance

Executed by an independent auditor to testify the compliancy with the rules of the ARF and the RAS.

The detailed deliverables in relation to each of the above elements of the RAS are set out in section 4.10.

4.3 Extent of the RAS

The RAS itself needs to cover the **entire** operations of the Qtel group. The coverage of all geographic markets and service categories[8] and products is a prerequisite to ensure the coherence of data, to

[7] e.g. figures must be conveyed in .xls (including formulas and links) and not in .pdf.
[8] The Licenses in Annexure I, 1.3 use the term "service categories". For the extent of the RAS service categories shall be used for groups of products and specific products as appropriate.

avoid double counting and to detect possible anti-competitive actions like unreasonable cross-subsidization. How the (cost and revenues) of the local operations QTel Qatar Q.S.C will be separated from e.g. Qtel Group is described in the following sections.

For the purposes of RAS QTel's operations need to be disaggregated into Regulatory Reporting Units (**RRU**), which are aggregation units for the cost model and the separated financial statements. This is illustrated in Figure 2 below.

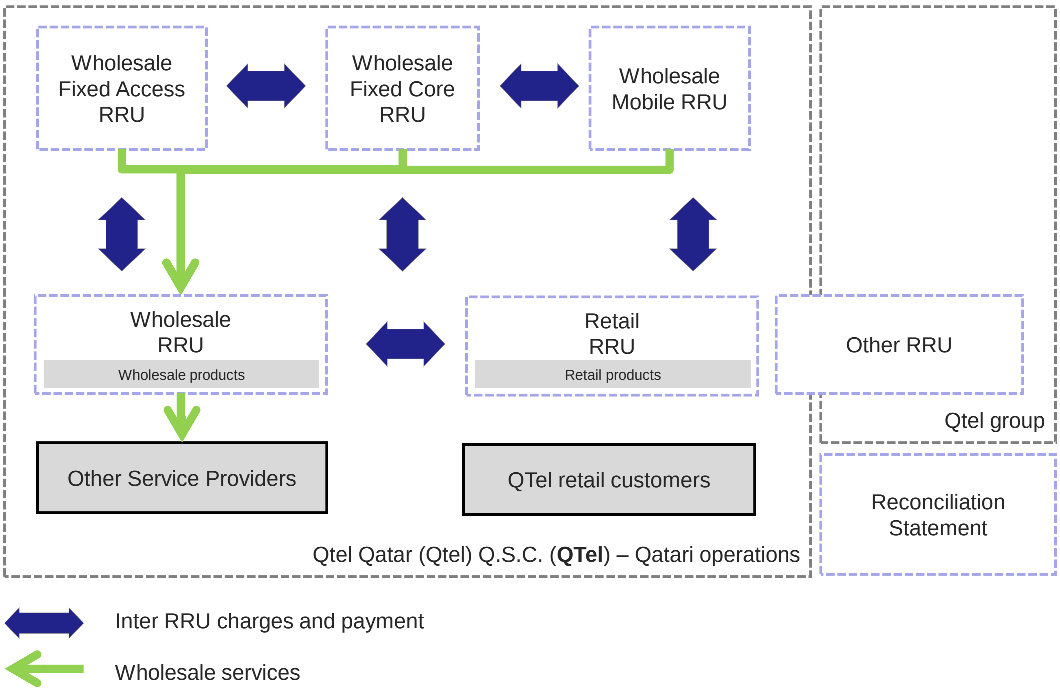

Figure 2 Generic structure of RAS and Regulatory Reporting Units (RRUs)

The RAS shall employ a structure of RRUs, which distinguishes the domestic operations between the wholesale (also sometimes termed "network" RRUs) and the retail RRU. International operations and other activities that are not relevant to domestic telecom-related services can be grouped in to the "Other" RRU.

A reconciliation statement is included to ensure the accounts in all of the RRUs and the full statutory accounts can be correctly compared.

All transfer charges between units and charges to/from external services providers shall be shown in a transparent manner[9].

Question 5	Do you agree that a wholesale unit is required? If not how should inter-operator costs be reported on?
Question 6	Are there changes required to the RRUs? What are the changes and why are they required?

Set out below is a brief description of each of the RRUs.

[9] For the avoidance of doubt, international ("overseas") operations in this context refers to other operating companies who provide services to customers outside Qatar. The result of these operators, to the extent that they appear in the financial statements of Qatar Telecom (Qtel) Q.S.C. must be separated from the results of QTel's domestic operations within Qatar. QTel's domestic operations include the provision of international services such as IDD, leased lines etc. These services will be included in their relevant RRU (e.g. Retail and Wholesale).

4.3.1 Wholesale Fixed Network Access RRU

This RRU provides connections from customers to the Core Network. The accounts for this RRU include the costs and capital employed associated with providing and maintaining these connections. For Accounting Separation, this RRU includes all the customer-dedicated components of the network including, for example, the copper and access ducts. The investments in access fibre and fixed wireless access networks are also included.

The revenues of this RRU will derive from the sale (i.e. transfer) of wholesale services to the Wholesale RRU (and hence to other service providers) and from transfer charges to other RRUs. The costs of this RRU will be the Fully Allocated Costs (**FAC**) of the Fixed Access network.

The network components in this RRU, that deliver the access services include *inter alia*, but not limited to:

- Copper local loops, including the duct and operational costs;
- Fibre local loops, including the duct and operational costs;
- Subscriber-related costs – those that are not related to traffic volumes but are related to the customer. This includes customer related electronic systems;
- Indirect costs that contribute to the total operational costs. This requirement must also be met by all other RRUs.

These components deliver the wholesale and retail access services such as PSTN lines, ISDN lines and leased lines. The network component costs shall be reported on in detailed statements that supplement the main SFS for the RRU (as identified in the pro forma SFS, see Annex VI). This requirement must be met for all RRUs.

The definition of the products (service categories) and their mapping to this and other RRUs shall be developed by QTel and submitted to ictQATAR for approval in updated pro forma accounting reports or in RAS definition documents.

4.3.2 Wholesale Fixed Network Core RRU

This RRU provides a range of services internally and externally in order to allow the customer of one operator to communicate with customers of the same or another operator, or to access services provided by another operator. These services include the switching and conveyance of calls.

The Wholesale Fixed Core Network comprises of, but is not limited to:

- The PSTN network with its remote concentrators, local and tandem exchanges;
- International Gateway and other facilities necessary for the handling of international calls;
- Various data networks and transmission systems;
- The necessary operational support and business support systems (**OSS**/**BSS**) and staff.

The revenues of this RRU derive from the sale (transfer) of wholesale services to the Wholesale RRU (and hence to other service providers) and transfer charges to other RRUs. The costs of this RRU are the FAC of the Fixed Core Network.

4.3.3 Wholesale Mobile Network RRU

This RRU comprises all wholesale network components of the mobile network. This includes, but is not limited to: sites, masts; mobile switches; transmission; fibers; ducts and ancillary infrastructure such as network management systems.

The revenues of this RRU derive from the sale (i.e. transfer) of wholesale services to the Wholesale RRU (and hence to other service providers) and transfer charges to other RRUs. These services include mobile to mobile calls, messages and data services.

The costs of this RRU are the FAC of the Mobile Network.

4.3.4 Retail RRU

This RRU provides the final services sold to and consumed by customers in Qatar. The Retail RRU includes all of the fixed, mobile, data and other services. The full list of retail services includes all services provided by QTel to its customers, not only services listed in the Licenses, such as the sale of Customer Premises Equipment (**CPE**) and value added service for businesses. Such services should not be considered part of the “Other RRU,” as they are considered part of the Qatari retail telecoms business.

Retail specific costs include: the costs of sale: customer care; marketing; payments to sales outlets; and billing costs that are incurred to deliver the retail products.

Revenues shall be reported under key categories such as connections, rentals and calls. These services shall be grouped to identify service types, based on the nature of the retail customer’s bill, such as:

- Mobile;
- Fixed traffic;
- Fixed Access;
- Leased lines;
- Subscriptions;
- CPEs;
- …

The products shall also be grouped by the Relevant Markets, as defined in the Market Definition and Dominance Designation.

The revenues of this RRU will derive from the sale of services to QTel’s retail customers.

The costs of this RRU will be the FAC of the Retail Unit which will include: the transfer charged network costs from other RRUs; out-payments for wholesale services to other service providers needed to complete the service; and the RRU’s own retail costs of sale.

4.3.5 Wholesale RRU

This RRU enables the clear division between services provided to other SPs and retail customers.

The Wholesale RRU provides the wholesale sales and purchase functions to other service providers. This RRU takes the wholesale services from the network units (access, core and mobile) and provides these to other service providers. Additional costs such as wholesale capacity planning and wholesale billing services are provided by the RRU.

The unit buys wholesale services such as call termination in another network in Qatar or calls that terminate in another country. These are obtained from other service providers (incurring “outpayments” – the fees to other providers) and these are transferred to the other business units. The transferred cost includes the specific cost of the wholesale RRU, as well as the outpayments.

The revenues are from the sale of wholesale services (such as call termination in QTel) to other service providers and transfer charges made to the Retail RRU.

This unit is included to ensure transparency of the additional wholesale-service specific costs that are not part of the wholesale network RRUs.   It also enables wholesale markets to be clearly identified in line with the Market and Dominance definitions.

4.3.6 Other RRU

This RRU enables business costs to be identified and collected, which are not subject to detailed regulatory supervision. The Other RRU ensures transparency of the rest of the business’s costs.

This RRU enables services (national or overseas) to be collated in a transparent manner, even though their data need not be broken down to the detailed cost or revenue components required in other RRUs. It also ensures clear reconciliation to audited statutory financial statements, when combined with the reconciliation unit (described below) by ensuring services and business operations are defined in this Other RRU, whilst accounting adjustments are identified in the Reconciling.

The Other RRU collects all services that are not relevant to the other units. These may include:

- Overseas investments;
- Other non-telecoms ventures in Qatar or elsewhere (this may include property investments, or overseas businesses);
- Investment income.

The ictQATAR may amend the definitions of the items in "Other," on an as-needed basis. "Residual" business unit is an alternative name that emphasizes the nature of the unit to collect the rest of the business activities that are not in the other RRUs.

4.3.7 Reconciliation Statement

The Cost Model is focused on QTel's (the Qatari) operations. Some operations of QTel group include items that do not pertain to operations in Qatar. These business activities will normally be included in the Other RRU.

However there may be specific accounts that are part of the statutory accounts cannot be conveniently and clearly reported on in the Other RRU. This may include for example: interest payments, taxes or one off redundancy payments and other accounts that are excluded from the RAS reports.

As a result there must be a Reconciliation Statement (which is not technically a RRU) showing the accounting and other cost or revenue adjustments that are required in order to only include QTel's relevant operations in the RAS. The relevant operations are the important national services in the main RRUs with the less relevant and international group activities in the Other RRU." The sum of all the items in the RRUs, including the Other RRU, plus the items in Reconciliation Statement should equal the values in the statutory accounts.

The Reconciliation Statement becomes additionally important to identify the adjustments to asset and operational costs under CESP reporting as these adjustments mean that the sum of the total final product's costs will not be the same as the accounting costs fed in from the statutory accounts. Such efficiency-adjusted-costs are not part of the Other RRU.

All reconciling items and adjustments must be clearly defined.

4.4 Cost base

IctQATAR requires the preparation of the RAS according to the cost bases (i) Historic Cost Accounting (**HCA**) and, in future, (ii) Cost of Efficient Service Provision (**CESP**).

4.4.1 Historic Cost Accounting

The statutory accounts and the disaggregated figures of the audited financial statement of the DSP, as prepared in accordance with international financial reporting standards and signed by an independent auditor, are the basis for HCA. Therefore, reconciliation with the audited annual financial statement is both possible and necessary.

The starting part for the separated accounts prepared on a HCA basis will be QTel's actual performance as presented in its statutory accounts. This performance is then separated between the different reporting units.

The main assumptions underpinning HCA in the context of RAS are:

- Gross Book Values (**GBV**) are presented on the basis of the historic cost of the purchased assets.
- Net Book Values (**NBV**) are presented as the difference between GBV and accumulated depreciation for all the assets currently in place.
- Annual depreciation is on a straight-line basis.

Given that the starting point for reporting under a HCA basis is QTel's actual network, operations and associated costs, it is necessary for ictQATAR to develop an understanding the main components of QTel's network and operations. The detailed deliverables in section 4.10 set out the information requirements that will provide ictQATAR with such an understanding.

4.4.2 Cost of Efficient Service Provision

The Telecommunications Law prescribes clearly, that the tariffs for telecommunications services provided by a DSP must be based on the cost of efficient service provisioning (**CESP**).[10]

The CESP determination process takes account of such factors as an efficient operator, modern equivalent assets and various efficiency standards.

The underlying rationale is that only costs incurred by an efficient operator, operating in a competitive environment, are used for tariff calculations. This approach therefore simulates a competitive environment and hence tariffs in a competitive market are calculated.

Theory suggests and experience shows that tariffs in a competitive environment are significantly lower than in a monopolistic market. As the DSP's competitors will require the use of certain key wholesale inputs in order to launch their own services, this CESP cost base: will give the DSP a fair return if it introduces efficiency changes; it will not unduly burden other service providers; and will generally give the right "build or buy" incentive. Other service providers will build networks only if it is more efficient and can produce the same service for a lower cost. Therefore CESP encourages efficient investment decisions, which is beneficial for consumers.

The first adjustment under CESP is in the asset values, to ensure they are reflecting those of an efficient (modern) business. The valuation of asset inputs follows the modern equivalent asset (**MEA**) concept. Assets are valued using the cost of replacement with the MEA. The MEA is the lowest cost asset, which serves the same function as the asset being valued. It will generally incorporate the latest available and proven technology, and is the asset which a new entrant might be expected to employ. In a world in which technology is changing rapidly it is quite likely that, for some assets, the MEA will differ from the asset that an incumbent currently has in place. (Examples include copper versus fibre cables; wired versus wireless technologies for local access; PDH transmission technology versus SDH technology; IP versus switched technologies for voice traffic; ...). This methodology is termed current cost accounting (**CCA**).

This re-valuation can be considered in typically two stages:

- **Revaluation adjustments** of the assets using the MEA. This can replace the assets with equivalent equipment as would be bought today. This is the central aspect of CCA.
- Adjustment of the number of assets and/or the configuration of these assets to reflect an efficient business structure (**efficiency adjustments**).

The effect of the CCA changes ensures the capital employed reflects the prices paid today for the equipment. HCA values may over or under-estimate the real values, as seen today. It is these prices paid today that an efficient (new) operator would incur. CCA also ensures the depreciation values reflect the future costs that must be met to replace the asset. This mirrors the costs that a new efficient business would in theory incur if it built the same network today.

There are two primary forms of CCA – Operational Capital Maintenance (**OCM**) and Financial Capital Maintenance (**FCM**). These are described in standard accounting literature. ictQATAR would require

[10] Telecommunications Law, Article 29

FCM to be used, unless there are clear reasons given why this is not possible and does not cause any negative effects on competition.

CCA may be implemented using the same FAC HCA structure used in cost base 1 to deliver CCA FAC results, without the additional *business efficiency* changes. These additional efficiency changes include the following adjustments.

Spare capacity adjustments. The efficient spare capacity is required in the foreseeable future, as technically and/or economically warranted capacity and can be objectively justified in operational or economic terms. This includes unavoidable capacity because of equipment modularity or additional systems necessary to satisfy reasonable levels of current and foreseeable peak demands. The related costs should be taken into account in the cost calculation. **Excess** capacity however is not sensibly needed in the foreseeable future as it provides no operational or direct economic benefit. Examples include vacant accommodation or network resilience that is in excess of normal engineering parameters). A prudent operator would not have built this capacity and, therefore, these costs will not be considered and must be removed from the CESP basis. Unnecessary costs due to superior quality ('gold-plating') shall also not be taken into account and should be removed in the adjustment.

The MEA efficiency concept focuses not only on assets. Operational and maintenance costs must also be re-evaluated. If, for example, the operator uses analogue switches (with high maintenance costs) the assets of these switches should be valued using the cost of replacement with the MEA (digital or softswitch). The maintenance costs must also be reduced to the cost of maintaining the modern equipment. In the context of human resources, only personnel that are relevant for the service provided by the operator using efficient asset structures are considered. So, only the relevant costs of efficient business processes are taken into account.

CESP is a theoretical concept, simulating a competitive market. The efficiency assumptions are not based on an existing operator who would typically strive for efficiency during the course of its normal business (workable efficiency), but on a theoretically efficient operator's efficiency (theoretic efficiency). Therefore an analysis of the technologies and processes has to be conducted.

CESP adjustments may be carried out to one or all business areas, as required by ictQATAR. The changes are relevant to the provision of wholesale services, so CESP changes are not planned for the retail business.

The underlying efficiency considerations and adjustments must be clearly described by the DSP and will be scrutinized by ictQATAR. ictQATAR may direct the DSP to implement certain efficiency considerations.

The exact timing for implementing CESP will be determined by ictQATAR. ictQATAR is aware that the development of reporting based on CESP is an iterative process and that the establishment of the full efficiency gains could require some re-modeling over time.

CESP reconciliations must separately identify:

- Adjustments due to asset revaluations (CCA). These impact the asset base reported on in the RAS;
- Efficiency adjustment that alter the operational costs. These adjustments alter the RAS costs so that the final costs will not directly reconcile with the statutory accounts. These efficiency changes shall be identified and reported on.

Section 4.10 sets out the detailed deliverables on an annual basis. However, given that the timing and exact nature of reporting on a CESP basis is yet to be determined, the annual deliverables only contain generic details in relation to CESP.

Question 7	Please indicate if there are reasons for not using FCM as part of the CCA/CESP cost base.
Question 8	What are the features and timeframes for CESP reporting, if this is required?

4.5 Cost standard

The cost bases (HCA, CCA, CCA plus full CESP) need to be combined with a costing standard (e.g. FAC or Long Run Incremental Cost (**LRIC**) to allocate costs and revenues to products. LRIC is explained below after a short explanation of the FAC approach and the different cost types that must be allocated.

4.5.1 FAC

The FAC[11] approach allocates all relevant costs and revenues incurred by the DSP to its products. FAC is used for the costs bases HCA and CESP. This is illustrated in the following Figure 3:

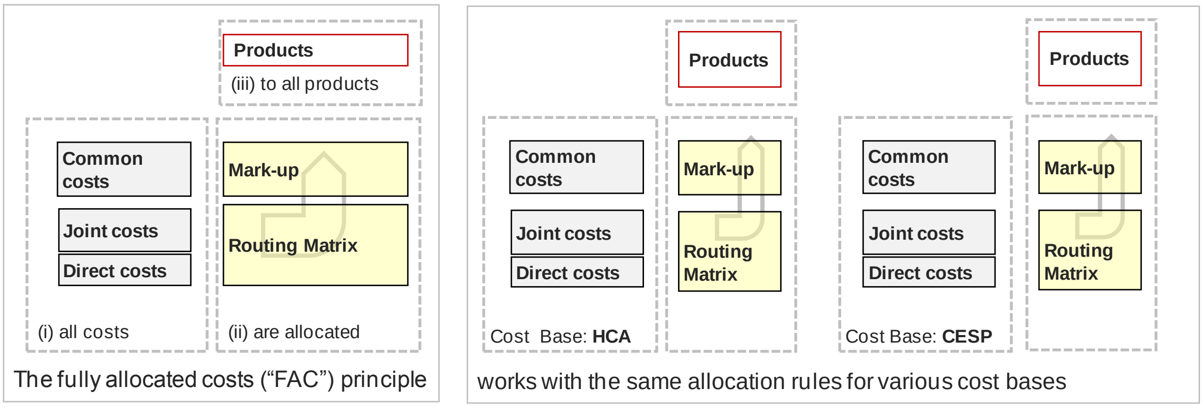

Figure 3 Allocating costs (and revenues) with the cost standard FAC

4.5.2 Cost Types

The following table defines the primary cost types and the typical allocation methods required.

Cost Type	Characteristic	Allocation
Direct Cost	This cost can be directly attributed to products. E.g. a SMSC is allocated to SMS services	Direct
Joint Cost	These occur where an input produces two or more separable outputs in fixed proportions irrespective of volume.	Routing Factors
Common Cost	Certain types of indirectly attributable costs are "common' to a number of activities. The cost of these inputs are necessary to produce one or more services, which cannot be directly assigned to specific services	Cost causal allocations such as ABC or suitable proxies, where possible.
Indirect operational costs	This cost relates to supporting services and items that are indirectly related to the network and services. Example: IT support. The cost is similar to a joint cost as it supports several outputs, but there are clear cost drivers and the output is usually a direct operational cost center. Therefore IT support supplies activities that support the network operational staff	Cost causal basis such as Activity Based Costing or proxy allocations that have a close to cost-causal basis, to direct cost elements
Direct operational costs	This cost relates directly to the production of services or the operation of network	Cost causal basis such as Activity Based Costing

[11] Also referred as fully distributed costs (**FDC**)

Cost Type	Characteristic	Allocation
	components. Example: network operational staff or sales staff. This is a type of direct cost, but does not have the one to one link to products as the SMSC example	

Figure 4 Cost Types and their allocation

FAC allocates all costs. This includes costs that are not directly related to the products (joint and common costs). These joint and common costs pertain to many products, but must be included in a FAC system in the final products' costs.

One type of common cost is the "business sustaining" cost which includes costs that are relevant to the entire business[12], but do not have a strong cost driver. Such costs are also sometimes referred to as "un-attributable" costs, but they have to still be recovered and must be reported on in a FAC system. Examples may include: annual audit costs, or chairman's office costs or a license to operate. These relate to the entire business and do not have a clear cost driver that relates to other parts of the business and services in the same way as the examples given in Figure 4 above.

The Figure 3 above shows such common costs included as a "mark-up" that enables these costs to be assigned to the final products as an additional cost. ictQATAR will review and specify the mark-up approach depending on the size and nature of the cost. There are two primary options:

- The costs may be allocated to services using cost, revenues or other allocation bases. Specific mark-up values may be defined. Equal proportional mark-ups (**EPMU**) is one example mark-up where the costs are allocated in proportion to the directly allocated costs;
- The common costs may be allocated to cost centers and other cost pools in the RAS, based on drivers such as: the costs already within the centers or annual investment levels. The costs are then further allocated using the robust cost allocations through the rest of the RAS. This is an "absorbed cost" approach.

Both methods result in the common costs included in the final services.

ictQATAR will approve and adjust the recovery method as needed. The absorbed cost approach is acceptable but the business sustaining costs must be identified in the final products' reports (see the pro forma SFS).

The approaches described above produce HCA-FAC or CESP-FAC reports.

4.5.3 Incremental Costing

Often an Incremental Cost (**IC**) standard is employed. The IC cost standard distinguishes between larger cost output units, the so-called Increments[13]. These identify the cost change (i.e. the variable costs) due to the volume increases: in a service; in a range of services; or caused by another input factor such as the provision of service coverage to an area. The latter defines the increment caused by providing a basic coverage of services that is clearly separate from the increment due to an additional change (or increment) in traffic.

Using this cost basis, both the Stand Alone Cost (**SAC**) and the Incremental Cost (**IC**) of the various Increments can be calculated. The following Figure 5 gives an example of the IC and the SAC of a given increment A.

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[12] There can be similar un-attributable/business sustaining common costs that are relate just to a sub-unit such as "all of mobile" that are not directly related to the individual mobile services and have cost-drivers that limited cost causality

[13] These increments are
- typically in the fixed network: the core and the access network with the related products/services
- typically in the mobile network: the coverage and the capacity network
- also defined (groups) of products/services

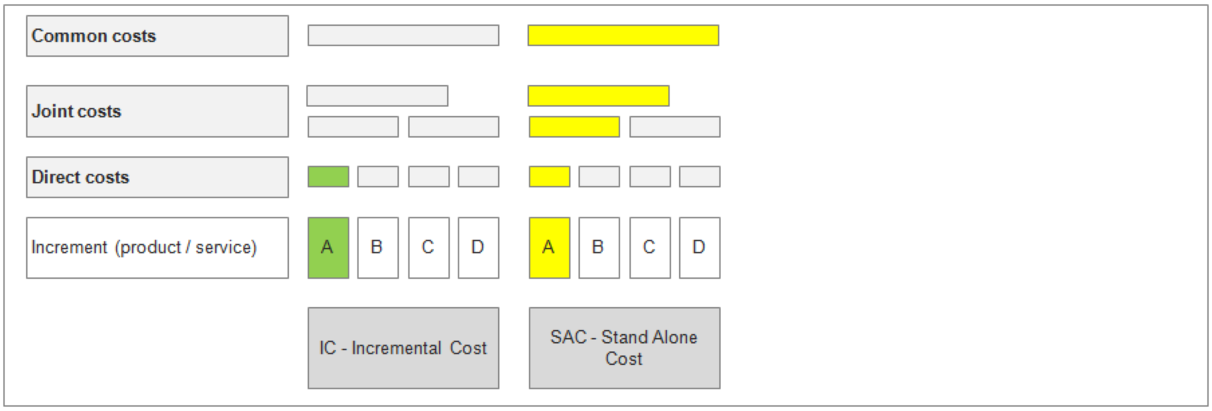

Figure 5 Incremental Cost ("IC") versus Stand Alone Cost ("SAC")

For a given increment, the SAC can be used to define a price ceiling, whereas the IC gives a price floor. If priced below the IC, the costs for producing service A are not recovered and other services would need to bear the cost, if the total business is to remain profitable. If priced above the SAC, all costs that are even partly related to the product are exceeded and this this may indicate excessive prices.

Article 43(6) of the Telecommunications Law states that it is an abuse of dominance to supply competitive telecommunications services at prices below long run incremental costs or *any other cost standard* specified by the ictQATAR.[14]

IC cost information can be important, but the implementation of an incremental cost standard is complex. For the initial stages of the RAS, ictQATAR deems the cost standard FAC, as sufficient and does not require the application of an incremental cost standard at this stage. FAC can allocate costs according to the cost bases (i) HCA, or (ii) CESP.

If the cost standard FAC proves to be insufficient to achieve regulatory objectives including compliance with the ARF, ictQATAR may oblige QTel to implement an IC or another suitable cost standard.

Question 9	Is there a need for incremental costing and where would this be applied?
Question 10	If an IC approach is required a) how should it be implemented? b) which increments should be defined? c) what would be advantage?

4.6 Cost and revenue allocation

4.6.1 Allocation principles and transfer charges

Under the FAC standard, all costs and revenues are allocated to specific products. The guiding principles of cost allocation according to international best practice and required by ictQATAR are:

Causality

Costs or revenues are allocated to the products that "cause" them to arise. This requires the implementation of appropriate cost and revenue allocation methodologies[15].

Objectivity

This supports the causality principle, requiring allocations to reflect causality using an objective (e.g. determined in an unbiased manner) driver. This also ensures that an audit is

[14] C.f. Licenses, Annexure I, 3.6

[15] e.g. the use of a documented Activity Based Costing (**ABC**) to ensure robust cost-causal allocations are employed

possible.

One time allocation

There should be no double counting or undocumented exclusion of cost or revenue items. This is demonstrated by reconciling the separated accounts to the statutory accounts.

Transparency

The descriptions of the allocation methods should provide sufficient information such that a suitably informed reader can easily gain a clear understanding of the structure, the methodologies and drivers applied. The RAS has to include all the relevant material, so that the results can be fully analyzed by ictQATAR.

Consistency of treatment

The structures, methodologies and drivers should be consistent from one period to the next. Deviations from a chosen structure or methodology need to be documented and justified.

A system of Transfer Charges needs to be clearly identified in sufficient detail to allow ictQATAR to assess whether there are any potential issues in relation to QTel's non-discrimination obligations, e.g. between its own retail unit and other SPs. The internal transfer charging system will ensure that the total transfer charges between the RRUs will be clearly identified and reconciled between retail and wholesale RRUs. This system will make explicit the total charges between the different RRUs such as, for example, from the wholesale core network RRU to the retail RRU.

The RAS provides the clarity on Transfer Charges. This will help *inter alia* to identify cases of non-discrimination.

Transfer charges must be calculated to ensure transparency between wholesale and retail activities and external operators. These transfer charges shall be based on the costs of the services consumed (transferred) by the other RRU. The transferal amount is the cost of the service as determined in the RAS.

There is no requirement to develop a transfer tariff system whereby tariffs transferred between RRUs are on an equivalent basis to the tariffs charged to external parties. ictQATAR may modify this requirement in a detailed direction to QTel.

In respect of this direction, transfer charges are an instrument to provide transparency whereby the costs of one RRU are notionally transferred to another RRU. The transfer charge is recorded as revenue in the accounts of the RRU that is supplying the service and as cost in the accounts of the RRU that is purchasing the service.

Transferal charges shall clarify both the total costs (and revenues) and the individual service's costs. The total cost of a transferred service includes a cost of capital (see Section 4.7)

Question 11	Do you agree with the cost transferral approach? Alternatively, if cost transferrals are to be based on for example the wholesale rates paid by other service providers then how should internal transfers such on an on-net call be defined, as these services are not available externally?

4.6.2 Cost allocation hierarchy

The cost allocation hierarchy gives the structure of the allocation of costs (and revenues) to products according to QTel's existing FAC/HCA model.

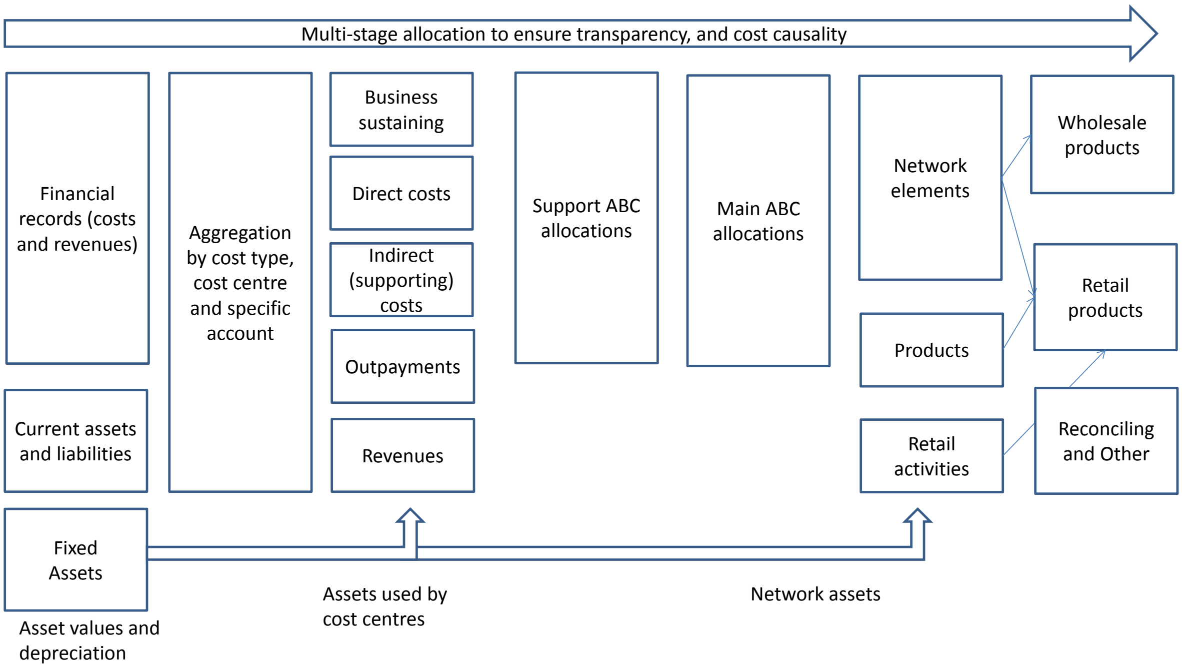

Figure 6 Cost allocation hierarchy –minimum requirements (illustrative)

The above hierarchy is consistent with an Activity Based Costing (**ABC**[16]) system which follows a multi-layer approach to cost allocation. Under such an approach costs are allocated progressively to network elements and retail activities through a number of allocation layers. The costs of network elements and retail activities are then allocated to wholesale and then to retail products. The network elements provide the wholesale "costs of production" – the network products that are transferred from the network wholesale RRUs to the Retail and Wholesale RRUs.

The hierarchy shown above only reflects the minimum expected cost allocation stages to ensure robust, transparent allocations that reflect cost causality. The products' outputs from the cost model will be used in conjunction with revenue data and the RRU structure in order to generate the Separated Financial Statements.

The network elements identify the main wholesale components and therefore the Wholesale RRU that the cost resides in. The assignment of the network element's costs to the different RRUs must be made transparent.

The cost information in the Separated Accounts (derived from the general ledger and asset register inputs to the RAS) must be disaggregated in the SFS reports to ensure cost transparency. At a minimum this must separately identify:

- Capital costs (asset values and depreciation);
- Operational costs (salaries etc.);
- Overheads (rentals, power);
- Outpayments (interconnection costs);
- Cost of sales – retail and related costs;
- Working capital (current assets and liabilities);
- Business sustaining costs.

[16] ABC is a management accounting approach that allows **causal** relations to be established between costs and products. ABC views the products as a series of activities, each of which consumes resources and therefore generates costs. This methodology, based on cost drivers allocates costs through the activities performed and establishes a clear cause-and-effect relationship between activities, their associated costs and the resulting output.
ABC may introduce an intermediate stage of activities, enabling some costs - that would otherwise be allocated in a less direct way - to be attributed to the services that cause them to occur. This technique may therefore strengthen the causal link for certain types of indirect cost where alternative approaches may prove less robust.

The business sustaining costs are shown allocated as "absorbed costs" in the above figure. Only if directed by ictQATAR, such costs may be alternatively assigned to the final products using an ictQATAR-specified mark-up approach in line with the options defined in Section 4.5.2

The business sustaining costs will include salaries and overhead costs. This creates two forms of salary costs – those identified as business sustaining and other salary costs (without this identifier). This does not impact the allocations used in Figure 6, but the assignment of business sustaining as an identifier to some costs enables final regulatory reports to separate these costs.

ictQATAR appreciates that the costing method and structure shown above is robust and reflects international practice. With the introduction of Next Generation Networks (**NGNs**), where the mobile and fixed networks are more intimately integrated, the approach of identifying network components as being part of the relevant RRUs (access, fixed or mobile) is insufficient. NGNs use IP as a shared platform for many diverse services. An IP router is conceptually neither fixed nor mobile, but it supports both types of services. The approach to be used is proposed to be based on the following (subject to submission to ictQATAR and final approval):

- Network components that unequivocally related to a RRU are assigned to the RRU;
- Network *partial products* that use the components can then be defined in the cost model and these are assigned to the relevant RRU. A mobile to fixed total product is made up of a mobile outbound plus a fixed internal-to-business termination product. These two partial products each clearly relate to the relevant RRU, even if the same network IP platforms delivering these partial products are shared. The network element may be used by both the fixed and the mobile partial products.

This approach avoids the need for an additional "basic network" unit that transfers the IP costs to both the fixed and the mobile units which *then* defines the final services' reporting unit.

Next generation access (**NGA**) networks are being developed (fiber in the loop). The RAS must evolve to reflect the cost causality and provide the correct RRU reporting of products delivered using the NGA. The principles of cost causality of these Instructions also apply.

To meet the ARF requirements, ictQATAR will give detailed directions where required to ensure adequate reporting of tariff bundles and cost allocations where cost elements such as access fibers are common to several products.

This approach ensures cost transparency at the lowest practical level and avoids any assumptions on the relative costs of a product sold individually or in a bundle or on the split of fiber to the diverse services on that fiber. Such assumptions would be required if a basic service such as PSTN line rental were to be reported on only once as a final service: combining the alternative costs occurred when it is sold both individually and in a bundle. Such assumptions are not part of the RAS cost model (see: the earlier objectivity requirement). The product is therefore reported on twice: when sold individually and also when sold as a tariff bundle.

The delivery of the network components' costs and the wholesale transfer products' costs, plus the retail costs at the lowest practical level, together provide transparency of the relevant cost elements to ensure sufficient clarity of the NGN access costs.

Question 12	Do you agree with the absorbed cost approach for business sustaining type costs or should these be allocated using a mark-up regime?
Question 13	Do you agree with the principles for moving the RAS to cope with NGN and NGA costs? If there are other suggestions, please elaborate.
Question 14	Fibre in the loop is expected to become a major cost and major service providing platform. Are there other approaches to ensure adequate cost information is available?

4.7 Cost of Capital

Apart from including depreciation in the RAS, there is also a need to include a return on capital employed. This allows ictQATAR to assess the profitability of the different Regulatory Reporting Units taking into account the need to earn a return on capital investments. In line with international best practice, a Cost of Capital (**CoC**) value is specified by ictQATAR to be included in the cost transfer calculations. The CoC shall be included in the SFS and all product or network costs reports, as a discrete item that can be separated from the operational costs (see pro forma SFS).

The calculation of the CoC, typically expressed as the Weighted Average Cost of Capital (**WACC**), is subject to a specific separate definition process.

4.8 Working Capital

Working Capital (**WC**) includes cash as a current asset and other short term assets and liabilities. The WC is low or even negative in some operators. In the absence of CESP, the WC must still be limited, as experience shows that cash levels can vary substantially and this distorts an assessment of the true/reasonable costs.

ictQATAR specifies that the working capital levels are maintained in the FAC HCA reports to a reasonable level. The actual net working capital value should be used subject to an upper limit of one month of the total average operating costs[17]. This is deemed a reasonable level.

Working capital levels above this should be allocated to the Other RRU or to Reconciling. High positive levels reflect large cash levels or current assets that can be used for other purposes – so are not relevant to Qatari product monitoring.

Question 15 Do you agree with the capping of WC and cash and is this a reasonable level?

4.9 Retail product costs and revenue allocations

FAC reporting requires costs (and revenues) to be allocated fully – to the final (market) products. Cost causality can be assured, to a high degree, for the network (wholesale products).

Retail products must also be reported on and information must be produced by the RAS to support ictQATAR's requirements for retail price approvals and to assist with price investigations. Retail cost of sales must be included in the final retail costs, along with the "cost of production" from the network wholesale RRUs.

Retail cost allocations should comply with cost causality where ever possible. Direct costs of sales shall be allocated to the product, or products that cause the cost.

Where costs are causally related to a range of services then these costs shall be allocated to a cost pool that is common those services. Common retail cost pools shall be defined to enable the products that relate to it, to be identified.

The common retail cost pools will include general promotions, marketing campaigns or billing that covers many call and message types. These form a robust set of general cost pools that have clear cost causation. A secondary stage is also required to enable a reasonable view of the final products' costs under a FAC approach. Proxy cost drivers may be employed, even if the cost relationship may be low. Revenues, volumes, subscriber numbers may be used. The approach used should be clear and documented. ictQATAR may revise the allocation basis, on an as needed basis.

Retail product reports shall allow ictQATAR to identify the common retail cost pools that do have robust costs assignments as well as the final FAC product costs, including the other less-robust allocations. Reports should allow retail costs (and revenues) to be grouped by ictQATAR to enable analysis of general service areas. This is in line with the approach described in more detail in section 4.10.2.2. These groupings will be defined by ictQATAR and they may reflect already-identified markets[18]. The response to this consultation is not required to define such markets.

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[17] or 8.3%, where operating costs covers salaries and other operating expenses, excluding depreciation and outpayments to other operators

[18] Telecom Markets have been formally defined. Clearly pricing investigations might consider mobile or fixed calls as separate areas and the profit and loss of each can be segregated. International calls might be a sub market for analysis.

Retail costs that relate to a tariff bundle that is sold should be assigned to the bundle and not be assigned to the services in each, unless there is a clear cost causation.

Revenues are expected to be allocated to products on a causal basis. Revenues that relate to a tariff bundle should be assigned to the bundle and not to the individual products within the bundle.

Question 16	Do you agree with the retail cost allocation method? ictQATAR is well aware of the limitations and the above approach is only an *indication* of a product's cost value and it cannot be taken as a definitive basis for evaluations and price controls. Price control precedures are not part of this Consultation.

4.10 Deliverables required on an annual basis

ictQATAR's requires the RAS to be delivered annually, with updates to reflect business changes and to include specific clarifications and requirements from ictQATAR that may be issued to enhance the general demands specified in these instructions.

QTel's deliverables on an annual basis will include:

- A description of the RAS (cf. section 4.10.1 below);
- The Cost Model itself (cf. section 4.10.2 below), with user guide, subject to points raised in Section 4.1. ictQATAR expects to have a copy of the model or else full access rights to it;
- An Accounting Manual that defines the full structure of the RAS, the reporting fields, the nature of allocations and processes, driver types etc. This should be submitted to ictQATAR for approval. This provides the formal definition of the model functions and so it is also the basis for the audit – the RAS should function in accordance with this document, these Instructions and other directions that ictQATAR may submit;
- Pro forma (audit report scope and what the auditor will be signing off to, defined in advance) of the auditor's statement;
- Reports on:
  - Network element (component) costs broken down by cost type and showing the total and per-unit cost[19]
  - The cost (total and per unit) of the transferred products from the wholesale units to the retail unit. These are the "costs of production." The reports must also show the discrete cost types
  - Retail product costs (total and per unit) by cost type. These must show the costs of production separate to the retail cost of sales;
- Separated Financial Statements (**SFS**) (cf. section 4.10.3 below);
- Audit opinion and statement of compliance.

4.10.1 Description of the RAS

The DSP will provide detailed documentation of the RAS on an annual basis. The documentation will include details relating to the accounting policies followed, the valuation principles employed and the cost and revenue allocation principles that underpin the RAS.

Regarding the accounting policies, the documentation must detail the methodologies including:

- Accounting principles and policies including asset lives;
- Cost base;
- Cost standard;
- Efficiency adjustments (when reporting on a CESP basis).

Regarding the valuation methodologies, the documentation must describe the methods used to derive cost re-valuations (CCA). This is most relevant when reporting on a CESP basis.

[19] Each final network element (after allocations) is used by products. The element has to have only one cost driver (subscribers, minutes, messages etc.). The per-unit cost provides inputs to inform with element based charging and to assess the RAS results.

The documentation must describe in detail the methods of attributing costs, revenues, assets and liabilities. This includes details on the way costs and revenues for services are accumulated such as a detailed description of the cost-allocation hierarchy including a description for each allocation step in the cost allocation hierarchy. The allocation principles must also set out the transfer charging methodologies.

The documentation must describe how costs are treated from their initial appearance in the QTel's accounting records to their final attribution to services. The attribution methodology must provide the linkage between the inputs from QTel's financial records and the RAS.

When reporting under a HCA basis, the starting point for the regulatory accounts will be QTel's actual performance in relation to its existing infrastructure (i.e. with no efficiency adjustments). Therefore, as part of its annual reporting, QTel is required to present its network facilities (i.e. the physical network systems) that were in place during the year, shown in an aggregated manner to enable the main service delivering components to be identified and related to the RAS costs. The RAS description therefore should include annexes that have network schematics to show the main network components and how they are used by the primary network and retail services.

4.10.2 Cost model

QTel will provide the cost model to ictQATAR on an annual basis. The cost model includes:

- A comprehensive description of the IT system (the cost model), its capabilities and limitations;
- A comprehensive description of the modules in the cost model with the relevant assumptions;
- A user guide on how the system is used, operates and can be analyzed;
- The IT system (the cost model) itself in electronic form, enabling ictQATAR to perform its own analytical review procedures.

4.10.2.1 Model inputs and parameters

The model must also include model documentation setting out the key inputs and parameters that are used in the model, as well as a general description of the model. QTel will also provide comprehensive details and descriptions of its networks (e.g. fixed, mobile and data), supported by up to date network diagrams, including network nodes and their locations.

The documentation must include a comprehensive list of services and their definitions within each of the RRUs, and how these services map to the detailed breakdown of revenue that is required as part of the financial statements of the Retail RRU.

With respect to Input values, the documentation must be comprehensive, including the source, method and date of collection and an indication whether the input is up to date.

The model inputs must be transparent and unequivocal. Inputs to the model should be directly sourced from QTel's operating and financial systems, or other solid sources that can be verified and audited to ensure cost causality (for example the use of ABC interviews and technical-calculation data).

Costs can be categorized into a more manageable set of inputs for the cost model allocation stages. There should be no pre-allocation of costs outside of the costing system, e.g. if the fixed asset register only records duct in a single code, the accounting entries in relation to duct should not be split between core duct, access duct and shared duct prior to entering the cost model input layer.

With respect to model parameters, the documentation should include justifications for any assumptions that are used. If expert judgments are used, the expert's name, his/her position and a justification for the assumption is to be included. If sampling and statistical methods are used, the documentation should include details of:

- The sample per se;
- Detailed statement of the statistical sampling techniques used or which generally accepted statistical techniques the sample was based on;

- Justification why the sample is statistically significant and objective.

4.10.2.2 Calculation results

The full results and product reports cannot be specified in advance for all products. The following describes the general expectation and level of detail that should be produced. The reports and system is expected to be flexible to enable a variety of reports to satisfy likely future investigations.

Product reports should cover:

- Product Code;
- Product Group;
- Product Name;
- Relevant Market allocations to indicate how revenues/cost of this product allocates to the Relevant Market(s);
- Volume;
- Price;
- Revenue;
- Total Unit Cost, split by cost type (see below);
- Total Cost, split in the same categories.

Ultimately, the allocation of costs and revenues will be to individual services. QTel must include a two dimensional flexibility to present the costs and revenues, where a "drill down" is possible, or else cost analysis data that enables such investigations to be carried out. The required reporting to achieve this transparency as described in the pro-forma accounts.

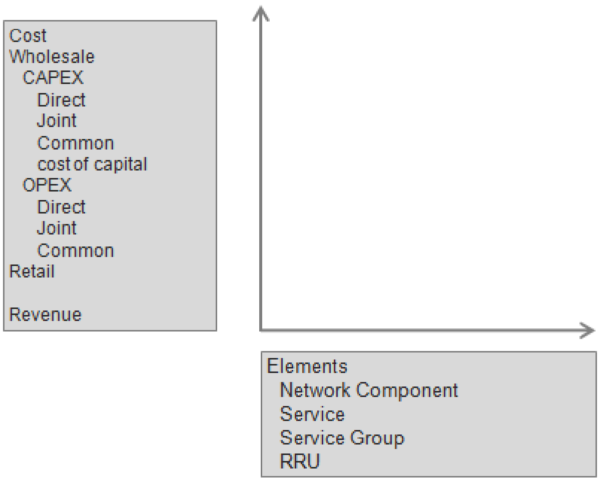

Figure 7 Analysis is required of individual or groups of products by cost type

The first dimension is on the service level. A grouping / filtering according to the different levels of the service hierarchy has to be enabled:

- Service (one service or a number of services together);
- Service Group (to be defined – the reports must be flexible). It should be possible to define Markets to group the products;
- Entire RRU.

The second dimension is according to the cost level. The following dimensions have to be distinguished:

- Wholesale transferred costs;
- Capital costs (depreciation, capital employed and cost of capital);
- Operating costs (direct, pay cost, overhead etc.);
- Outpayments to other operators;
- Network components' cost (only in the case of network products from the Wholesale network RRUs);
- Business sustaining;
- Retail cost of sales (separable into capital and operating costs).

Network component should enable their costs to be broken down by the cost types (capital, operational etc.) to give transparency of the cost sources.

The representation of any sensible combination has to be enabled (e.g. via specific reports, or Excel Pivots tables on source data). These reports have to be:

(i) implemented in the cost model; and

(ii) made available in form of flexible reports. They have to be easily transferrable to Excel.

Revenues will be directly allocated to the services to which they relate based on accounting records and billing system information. In cases where direct allocation is not possible (e.g. bundles), revenues should be attributed on the basis of causation to the lowest level possible, without additional assumptions (unless such assumptions are agreed to by ictQATAR).

4.10.3 Separated Financial Statements

A key process of the RAS is the creation of Separated Financial Statements (**SFS**) or sometimes called Separated Accounts. Financial information produced for this purpose should be at a level of detail which demonstrates compliance with the principles of non-discrimination and transparency. The data should adequately identify and attribute revenues and costs from various activities performed by QTel.

The provision of SFS is especially important in the case of vertically integrated and multinational organizations, as they make transfer charges transparent and help to assess whether the operator has engaged in any anti-competitive pricing. The outputs from such a system must be capable of independent verification (auditable) and fairly present the financial position of QTel.

The separated accounts are prepared by QTel for the separate Regulatory Reporting Units ("RRUs"), based on the market activities of QTel in the state of Qatar.

The SFS will follow the RRU structure of the RAS as a whole as set out in section 4.3. and requires the following RRU's:

a. Wholesale Fixed Core RRU;
b. Wholesale Fixed Access RRU;
c. Wholesale Mobile Network RRU
d. Retail RRU;
e. Wholesale RRU
f. Other RRU;
g. Reconciliation Statement (or Reconciliation RRU)

The pro-forma statements are included in Annex VI.

The SFS will be required on a Historical Cost basis and at a later date on a CESP basis.

Question 17	Have you any comments on the product reports (retail and wholesale), network element reports and SFS?

4.10.4 Audit and Statement of compliance

The RAS and SFS and reports should be audited to the level of Properly Prepared in Accordance with (**PPIA**), audit standard. This PPIA review is in line with international practice.

The RAS will include an audit process comprising the examination and verification of QTel's RAS and supporting documents. An audit process will provide clarity, transparency and confidence with QTel's figures. The auditor should be chosen based upon his resources and experience in such a way as to ensure a high level quality of the audit of the separated financial statements.

The main elements to be covered by the audit are, inter alia, but not limited to, the following:

- The scope of costs included in the model and the allocation to individual services and service categories;

- Methodologies used regarding valuation and depreciation of assets;
- Assurances that SFSs are derived from underlying general ledgers, properly prepared, including operational data as volumes and technological parameters;
- Transfer charges in the SFS; and
- The reconciliation between the cost model, the SFSs and the statutory accounts.

The statement of compliance will be prepared and signed by the independent auditor and includes, inter alia but not limited to, the following:

a. The work done by the auditor;
b. Whether the auditor has obtained all information and explanations that he or she has required;
c. Whether, in the auditor's opinion, as far as appears from an examination of them, proper accounting records have been kept by the DSP so as to enable the complete and accurate compilation of required information;
d. Whether, in the auditor's opinion, the SFS are prepared, in all material respects, in accordance with these Requirements;
e. A statement of whether the separated financial statements have been properly prepared;
f. A statement of accounting policies used in the preparation of the Separated Financial Statements;
g. The full description of the verification methodology followed;
h. A statement about the methodologies used regarding capitalization, valuation, amortization and allocation;
i. A statement regarding the appropriate implementation of the CESP regarding the identified efficiency potential;
j. A statement that the SFS have been prepared in with the accounting requirements of governing legislation in Qatar, in compliance with standard accounting practices with the Direction and Instruction and these Detailed Requirements from ictQATAR.
k. All identified irregularities and any matters of emphasis;
l. Any other comments and remarks;
m. The conclusions of the auditor.

As part of this process, QTel's Chief Executive Officer and Chief Financial Officer are required to sign a Representation Letter, attesting to the auditors that the accounts have been prepared in accordance with the principles defined by ictQATAR for Regulatory Accounting System.

5 Timeframe for implementing the RAS

5.1 RAS submissions – general provision

The HCA/FAC elements of the RAS, together with a description of the RAS, must be submitted for each financial year within **6 months** of the end of the financial year. This allows for a reasonable time for the annual audit which has to be reflected e.g. in the SFS. This should include the RAS cost model itself together with reports on network costs, transferred product costs, retail products costs and the SFS as set out in 4.10 above.

The Accounting Manual and system description shall be delivered at least 4 months in advance of the intended RAS completion date (i.e. no later than 2 months after the financial year end). The pro forma auditor's report should also be supplied. The pro forma SFS reports should also be supplied. These are needed for approval, and possible adjustments by ictQATAR.

All changes from the previous version should be highlighted.

During the RAS implementation, QTel will provide ictQATAR with the outputs of the steps shown above. Any required adjustments to the reports and SFS, that vary from these instructions should be reported on to ictQATAR when they become apparent.

The timing for the submission of the RAS and SFS on a CESP basis will be determined at the time when CESP is implemented. ictQATAR anticipates that this will be delivered to the same schedule as FAC.

ictQATAR reserves the right to secure the delivery of the RAS with Performance Bonds.

5.2 Specific provisions for RAS 2010, RAS 2011and RAS 2012

RAS 2010 and RAS 2011	RAS 2012	Content
1 December 2012	1 December 2012	Written status report regarding planning of the RAS.
fortnightly, starting from 1 December 2012	+ 3 months	Written monthly status report regarding the implementation of the RAS. This has to include a full overview of the past and planned activities any potential issues with the implementation of the RAS.
1 February 2013	+ 3 months	Pro forma of the auditor's statement (as per Section 4.10)
1 February 2013	+ 3 months	Complete description of the proposed RAS.
1 February 2013	+ 3 months	Accounting Manual (as per Section 4.10)
15 February 2013	+ 3 months	ictQATAR review. approval and changes to the RAS description and accounting manual.

1 May 2013	29 August 2013	Delivery of RAS 2010 and 2011.
		For the avoidance of any doubt, this will include:
		• The RAS cost model with user guide (cf. section 4.10.2);
		• Documentation as (cf. section 4.10);
		    o Description of the RAS (cf. section 4.10.1)
		    o Product reports;
		    o Reports;
		• SFS (cf. section 4.10.3);
		• Audit and Statement of compliance opinion (cf. section 4.10.4);

Annex I Definitions and Acronyms

ABC	Activity Based Costing
accounting methodology	is the cost standard
annual financial statement	is an integrated part of the annual report and comprises typically: balance sheet, profit and loss account, cash flow explanatory notes, auditor's statement
ARF	Applicable Regulatory Framework
BSS	Business Support Systems
CAPEX	CAPital EXpenditure
CC	Current Costs
CCA	Current Cost Accounting
CESP	Cost of Efficient Service Provision
cost base	primarily the "HCA family" and the "CCA family" are used. CESP is typically in the "CCA family", but includes efficiency adjustments have been made.
cost components	is an umbrella term for direct costs, joint costs and common costs
Cost Model	The (electronic) framework for allocating costs and revenues
cost pools	where do costs accrue (e.g. copper plant, tandem switching centre, …)
cost centres	a type of cost pool that relates to a functional area within the operator – the cost centre has all of the relevant costs of the team
cost standards	(= accounting methodology) like FAC; FDC, LRIC, FL-LRIC, FL-LRAIC, SAC and EDC. A combination of the afore mentioned standards is possible.
cost types	which costs accrue (e.g. personnel cost, rental cost, CAPEX for switches, ...)
CoC	Cost of Capital
CPE	Customer Premises Equipment
CVR	cost-volume relationship
DSP	Dominant Service Provider
EDC	Embedded Direct Cost
EPMU	equivalent proportional mark-up
FAC	Fully Allocated Costs
FDC	Fully Distributed Costs
FY	Financial Year
FL-LRAIC	Forward Looking - Long Run Average Incremental Costing
FL-LRIC	Forward Looking - LRIC
FCM	Financial Capital Maintenance
GBV	Gross Book Value
HC	Historic Costs
HCA	Historic Cost Accounting
IC	Incremental Cost
IP	Internet Protocol
ISDN	Integrated Services Digital Network
LRAIC	Long Run Average Incremental Costs
LRIC	Long Run Incremental Cost
MEA	Modern Equivalent Asset
NBV	Net Book Value
NGA	Next Generation Access
NGN	Next Generation Network
OCM	Operational Capital Maintenance
one-off tariffs	as installation or set-up rates for the initial implementation (cf. recurring tariffs)
OPEX	Operational Expenses
OSS	Operational Support Systems

PDH	Plesiochronous Digital Hierarchy
PPIA	Properly Prepared in Accordance with audit standard
POTS	Plain Old Telephony Services
PSTN	Public Switched Telephone Network
price control method	Cost orientation, Benchmarking, Price Cap, Retail Minus, ..
products	Products offered by the Service provider. For the RAS the terms "product" and "service" have the same meaning
Q1F	1st Fixed Licence
Q1M	1st Mobile Licence
Q2M	2nd Mobile Licence
RAS elements	Costing Methodology; Cost Model per se; Cost Model documentation; Separated financial statements; Report of an independent auditor
RAS	Regulatory Accounting System; = Regulatory Cost Accounting System
recurring tariffs	as periodic lease or rental rates for the use of facilities, equipment and other identified resources (cf. one-off tariffs)
RRU	Regulatory Reporting Unit
SAC	Stand Alone Costs
SDH	Plesiochronous Digital Hierarchy
Separated Accounts	are formed for the regulatory reporting units of the DSP
SFS/SA	Separated Financial Statements = separated accounts
service category	product group, resp. product
service	see product
tariffs	= price = charges; excludes License Fee and Industry Fee as defined in Annexure H of the Licenses
transfer tariffs	= transfer charges =transfer prices
TT	Transfer Tariffs
WACC	Weighted Average Cost of Capital
WC	Working Capital

Annex II References

EC; “COMMISSION RECOMMENDATION on accounting separation and cost accounting systems under the regulatory framework for electronic communications”; 19 Sep 2005; (2005/698/EC), (“EC recommendation accounting II”)

EC; “COMMISSION RECOMMENDATION on interconnection in a liberalised telecommunications market (Part 2 - Accounting separation and cost accounting)”; 8 Apr 1998; 98/322/EC; (EC recommendation accounting I”)

EC; “COMMISSION STAFF WORKING DOCUMENT Explanatory Memorandum of the Commission Recommendation ON ACCOUNTING SEPARATION AND COST ACCOUNTING SYSTEMS UNDER THE REGULATORY FRAMEWORK FOR ELECTRONIC COMMUNICATIONS”; 19 Sep 2005;in reference to 2005/698/EC, (“EC recommendation accounting explanatory memorandum”)

ERG; “ERG COMMON POSITION: Guidelines for implementing the Commission Recommendation C (2005) 3480 on Accounting Separation & Cost Accounting Systems under the regulatory framework for electronic communications”, ERG (05) 29; (“ERG position accounting”)

IRG; “Principles of implementation and best practice regarding accounting separation and cost accounting”, Nov 2002; (“IRG PIB Accounting”)

IRG; “Principles of Implementation and Best Practice regarding the use of current cost accounting methodologies as applied to electronic communication activities”, rev1 Jan 2006; IRG (05) 40rev1;(“IRG PIB CCA”)

ITU; Regulatory Accounting Guide March 2009.

Annex III Questions

Views and comments, on the fullest extent possible, on this CD are invited from industry participants, other stakeholders and interested parties. We would ask to provide views and comments on this CD generally and on a number of specific questions in particular. A complete list of the questions is contained in the following list of questions:

Question 1	Do you agree that currently Fully Allocated Cost (FAC) based on HCA is currently the required cost base and cost standard?	7
Question 2	Do you currently see addiditional bases required for regulatory controls? If yes, which bases do you foresee and why?	7
Question 3	Are there comments or additional requirements on the overall guiding principles?	12
Question 4	Do you agree that ictQATAR should have full access to the RAS and how can this be ensured?	12
Question 5	Do you agree that a wholesale unit is required? If not how should inter-operator costs be reported on?	13
Question 6	Are there changes required to the RRUs? What are the changes and why are they required?	13
Question 7	Please indicate if there are reasons for not using FCM as part of the CCA/CESP cost base.	18
Question 8	What are the features and timeframes for CESP reporting, if this is required?	18
Question 9	Is there a need for incremental costing and where would this be applied?	21
Question 10	If an IC approach is required a) how should it be implemented? b) which increments should be defined? c) what would be advantage?	21
Question 11	Do you agree with the cost transferral approach? Alternatively, if cost transferrals are to be based on for example the wholesale rates paid by other service providers then how should internal transfers such on an on-net call be defined, as these services are not available externally?	22
Question 12	Do you agree with the absorbed cost approach for business sustaining type costs or should these be allocated using a mark-up regime?	24
Question 13	Do you agree with the principles for moving the RAS to cope with NGN and NGA costs? If there are other suggestions, please elaborate.	24
Question 14	Fibre in the loop is expected to become a major cost and major service providing platform. Are there other approaches to ensure adequate cost information is available?	24
Question 15	Do you agree with the capping of WC and cash and is this a reasonable level?	25
Question 16	Do you agree with the retail cost allocation method? ictQATAR is well aware of the limitations and the above approach is only an *indication* of a product's cost value and it cannot be taken as a definitive basis for evaluations and price controls. Price control precedures are not part of this Consultation.	26
Question 17	Have you any comments on the product reports (retail and wholesale), network element reports and SFS?	29

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Annex VI Separated Financial Statements

The following defines the Separated Financial Statements required from QTel. The statements are based on ictQATAR's requirements and experience of the RAS developed by QTel.

The statements may be amended to reflect the detailed products and network components that are actually employed. Any such amendments have to be approval by ictQATAR by prior submission of the proposed pro forma statements. In general, ictQATAR expects fuller details to be disclosed rather than less, so amendments that reduce the information breakdowns in terms of cost types or product separation, are likely to be rejected.

The RRU statements will have zero values in many entries, although still indicated by a "x" entry in the below.

For the absence of doubt, the pro forma SFS, in some places, only indicate the general types of information required and the minimum level of detail required to meet the primary aims. For example the list of products and network components is illustrative only – the full list will be more extensive (to be finalised and submitted by QTel before the final RAS results are submitted). The cost type and detailed analysis indicates the minimum level of breakdown expected. Some variations in the details of the final reports are anticipated but these should not be substantial. In any event variations must be agreed with ictQATAR before the final results are submitted.

Wholesale Fixed Network Access RRU

Wholesale Fixed Access Network RRU

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 20xx

	20xx QAR'm	previous year 20yy QAR'm
Turnover		
Charges to other RRUs	xx	xx
External turnover	xx	xx
Total turnover	**xx**	**xx**
Costs		
Depreciation	xx	xx
Business sustaining	xx	xx
Operating costs	xx	xx
	xx	**xx**
Transfer charges from other RRUs		
Wholesale Fixed Core	xx	xx
Wholesale Mobile Network	xx	xx
Retail	xx	xx
Other	xx	xx
Total costs	**xx**	**xx**
Return	**xx**	**xx**

RETURN ON MEAN CAPITAL EMPLOYED

	QAR'm	QAR'm
Mean capital employed	xx	xx
Return on mean capital employed	xx	xx
Return on turnover	xx	xx

STATEMENT OF MEAN CAPITAL EMPLOYED
for the year ended 31 December 20xx

	20xx QAR'm	20yy QAR'm
Non-current assets		
Property, plant and equipment	xx	xx
Other	xx	xx
Total non-current assets	**xx**	**xx**
Current Assets		
Inventories & stock	xx	xx
Accounts receivable and prepayments	xx	xx
Bank balances and cash	xx	xx
Total current assets	**xx**	**xx**
Currebt Liabilities		
Accounts payable, accruals and deferred revenue	xx	xx
Provisions for liabilities and charges	xx	xx
Total current liabilities	**xx**	**xx**
Mean capital employed	**xx**	**xx**

SUPPORTING ANALYSIS
for the year ended 31 December 20xx

	20xx	20yy
Statement of turnover	Internal Turnover QAR'm	nal Turnover (non Qtel) QAR'm
Turnover fixed voice and data		
Fixed voice	xx	xx
Fixed data (broadband)	xx	xx
Leased circuits	xx	xx
Fixed wireless	xx	xx
Fixed other	xx	xx
	xx	**xx**
Turnover mobile		
Mobile Voice	xx	xx
Mobile Data	xx	xx
Mobile SMS	xx	xx
Mobile other	xx	xx
	xx	**xx**
Turnover other		
TV services	xx	xx
Other services	xx	xx
	xx	**xx**
	xx	**xx**

Statement of costs by category
for the year ended 31 December 20xx

	Operating costs (excluding depreciation) QAR'm	Depreciation expense QAR'm	Mean Capital Employed QAR'm	Rate of Return (ictQ defined) %	Cost of capital employed QAR'm	Total operating and capital costs QAR'm
Installations	xx	xx	xx	y%	MCE x RoR	xx
Copper access network	xx	xx	xx	y%	MCE x RoR	xx
Fibre access network	xx	xx	xx	y%	MCE x RoR	xx
Fixed wireless access services	xx	xx	xx	y%	MCE x RoR	xx
Other access services	xx	xx	xx	y%	MCE x RoR	xx
Total costs	**xx**	**xx**	**xx**		**xx**	**xx**

Wholesale Fixed Network Access RRU: detailed statement of cost of production

Detailed Statement of total "costs of production" of Access RRU
for the year ended 31 December 20xx

Network element costs	Network element c	Operating costs (excluding depreciation)	Supporting Operating costs (excluding depreciation) incl overheads and business sustaining	Depreciation expense	Mean Capital Employed	Mean Working Capital Employed	Rate of Return (ictQ defined)	Cost of capital employed	Total operating and capital costs	Cost per unit of usage	Total volume - effective usage of the element	unit of usage
		QAR'm	QAR'm	QAR'm	QAR'm	QAR'm	%	QAR'm	QAR'm	QAR	#	
led network element												
E side copper	abc	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	#lines
D side copper	def	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	#lines
PSTN line card	ghi	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	#lines
PSTN and ISDN BRI installations	jkl	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	#installations
xyz	etc	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx		
(list)		xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	1	direct allocation
		xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx		
		xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx		
		xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx		
		xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx		
		xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx		
		xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx		
		xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx		
		xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx		
Other access elements		xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx		
Total costs		**xx**	**xx**	**xx**	**xx**	**xx**		**xx**	**xx**	**xx**		

Detailed Statement of wholesale fixed access product costs
for the year ended 31 December 20xx

Total costs (Fixed Access plus transferred in)

Wholesale product cost	Product code	Revenue	Operating costs (excluding depreciation)	Supporting Operating costs (excluding depreciation) incl overheads	Outpayments (national or international)	Business sustaining	Depreciation expense	Mean Capital Employed	Mean Working Capital Employed	Rate of Return (ictQ defined)	Cost of capital employed	Total operating and capital costs	Cost per unit of usage	Total volume as sold volumes	unit of usage
		QAR'm	QAR'm	QAR'm	QAR'm	QAR'm	QAR'm	QAR'm	QAR'm	%	QAR'm	QAR'm	QAR	#	unit of usage
LLU	abc	xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	# line
Bit stream access	def	xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	# services
duct access	ghi	xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	NU duct.km
(list)	etc	xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	
		xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	
		xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	
		xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	
		xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	
		xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	
		xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	
		xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	
		xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	
		xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	
		xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	
		xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	
Total costs		**xx**	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**		**xx**	**xx**	**xx**		

Total costs transferred in, excluding Access network costs. Expected to be zero in most cases

Operating costs (excluding depreciation)	Supporting Operating costs (excluding depreciation) incl overheads	Outpayments (national or international)	Business sustaining	Depreciation expense	Mean Capital Employed	Mean Working Capital Employed	Rate of Return (ictQ defined)	Cost of capital employed	Total operating and capital costs	Cost per unit of usage
QAR'm	QAR'm	QAR'm	QAR'm	QAR'm	QAR'm	QAR'm	%	QAR'm	QAR'm	QAR
xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
xx	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**		**xx**	**xx**	**xx**

Wholesale Fixed Network Core RRU

Wholesale Fixed Core Network RRU

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 20xx

	20xx QAR'm	20yy QAR'm
Turnover		
Charges to other RRUs	xx	xx
External turnover	xx	xx
Total turnover	**xx**	**xx**
Costs		
Depreciation	xx	xx
Business sustaining	xx	xx
Operating costs	xx	xx
External charges (outpayments)	xx	xx
	xx	**xx**
Transfer charges from other RRUs		
Wholesale Fixed Access	xx	xx
Wholesale Mobile Network	xx	xx
Retail	xx	xx
Wholesale RRU	xx	xx
Other	xx	xx
Total costs	**xx**	**xx**
Return	**xx**	**xx**

RETURN ON MEAN CAPITAL EMPLOYED
for the year ended 31 December 20xx

	20xx QAR'm	20yy QAR'm
Mean capital employed	xx	xx
Return on mean capital employed	xx	xx
Return on turnover	xx	xx

STATEMENT OF MEAN CAPITAL EMPLOYED
for the year ended 31 December 2009

	20xx QAR'm	20yy QAR'm
Non-current assets		
Property, plant and equipment	xx	xx
Other	xx	xx
Total non-current assets	**xx**	**xx**
Current Assets		
Inventories & stock	xx	xx
Accounts receivable and prepayments	xx	xx
Bank balances and cash	xx	xx
Total current assets	**xx**	**xx**
Accounts payable, accruals and deferred revenue	xx	xx
Provisions for liabilities and charges	xx	xx
Total current liabilities	**xx**	**xx**
Mean capital employed	**xx**	**xx**

SUPPORTING ANALYSIS
for the year ended 31 December 20xx

20xx

Statement of turnover	Internal Turnover QAR'm	External Turnover (not QTel) QAR'm
Turnover fixed voice and data		
Fixed voice	xx	xx
Fixed data	xx	xx
Fixed wireless	xx	xx
Leased circuits	xx	xx
Fixed other	xx	xx
	xx	**xx**
Turnover mobile		
Mobile Voice	xx	xx
Mobile Data	xx	xx
Mobile SMS	xx	xx
Mobile other	xx	xx
	xx	**xx**
Turnover other		
TV services	xx	xx
Other services	xx	xx
	xx	**xx**
Total turnover	**xx**	**xx**

Statement of costs by category
for the year ended 31 December 2009

	Operating costs (excluding depreciation) QAR'm	Depreciation expense QAR'm	Mean Capital Employed QAR'm	Rate of Return (ictQ defined) %	Cost of capital QAR'm	Total operating and capital costs QAR'm
Fixed conveyance						
Voice Switching	xx	xx	xx	y%	MCE x RoR	xx
Interswitch Transmission (voice)	xx	xx	xx	y%	MCE x RoR	xx
International transmission	xx	xx	xx	y%	MCE x RoR	xx
	xx	**xx**	**xx**		xx	**xx**
Data networks						
ADSL & Other Internet components	xx	xx	xx	xx	MCE x RoR	xx
ADSL transmission	xx	xx	xx	y%	MCE x RoR	xx
Other data platforms	xx	xx	xx	y%	MCE x RoR	xx
	xx	**xx**	**xx**		xx	**xx**
Other networks						
Other telephony platforms	xx	xx	xx	y%	MCE x RoR	xx
Other fixed transmission	xx	xx	xx	y%	MCE x RoR	xx
	xx	**xx**	**xx**		xx	**xx**
Outpayments						
National outpayments	xx	xx	xx	y%	MCE x RoR	xx
International Outpayments	xx	xx	xx	y%	MCE x RoR	xx
International carrier admin	xx	xx	xx	y%	MCE x RoR	xx
	xx	**xx**	**xx**		**xx**	**xx**
Interconnect Product Management (national wholesale)	xx	xx	xx	y%	MCE x RoR	xx
Other non-telephony components	xx	xx	xx	y%	MCE x RoR	xx
Other costs	xx	xx	xx	y%	MCE x RoR	xx
Total costs	**xx**	**xx**	**xx**		**xx**	**xx**

Wholesale Fixed Network Core RRU: detailed statement of cost of production

Detailed Statement of total "costs of production" of RRU
for the year ended 31 December 20xx

Network element costs	Network element cc	Operating costs (excluding depreciation)	Supporting Operating costs (excluding depreciation) incl overheads and business sustaining	Depreciation expense	Mean Capital Employed	Mean Working Capital Employed	Rate of Return (ictQ defined)	Cost of capital employed	Total operating and capital costs	Cost per unit of usage	Total volume - effective usage of the element	unit of usage
		QAR'm	QAR'm	QAR'm	QAR'm	QAR'm	%	QAR'm	QAR'm	QAR	#	unit of usage
International switches	abc	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	# minutes
Core voice swtches	def	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	# minutes
PSTN transmission	ghi	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	# minutes
IN	jkl	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	# calls or messages
xDSL transmission	mno	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	effective kbit/s
	etc	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	1	direct allocation
		xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx		
		xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx		
		xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx		
		xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx		
		xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx		
		xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx		
		xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx		
		xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx		
Other core elements		xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx		
Total costs		**xx**	**xx**	**xx**	**xx**	**xx**		**xx**	**xx**	**xx**		

Detailed Statement of wholesale fixed core product costs
for the year ended 31 December 20xx

Total costs (Fixed Core plus transferred in)

Wholesale product cost	Product code	Revenue	Operating costs (excluding depreciation)	Supporting Operating costs (excluding depreciation) incl overheads	Outpayments (national or international)	Business sustaining	Depreciation expense	Mean Capital Employed	Mean Working Capital Employed	Rate of Return (ictQ defined)	Cost of capital employed	Total operating and capital costs	Cost per unit of usage	Total volume as sold volumes	unit of usage
		QAR'm	QAR'm	QAR'm	QAR'm	QAR'm	QAR'm	QAR'm	QAR'm	%	QAR'm	QAR'm	QAR	#	unit of usage
International termination to fixed	abc	xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	# minutes
International to XX	def	xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	# minutes
IP transit for other operators	ghi	xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	#Mbit/s
hubbing	jlk	xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	# minutes
	etc	xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	
		xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	
		xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	
		xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	
		xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	
		xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	
		xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	
		xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	
		xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	
		xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	
		xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	
Total costs		**xx**	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**		**xx**	**xx**	**xx**		

Total costs transferred in, excluding Core network costs. **E.g.: terminating segments of IPLC in Fixed Access unit**

Wholesale product cost	Product code	Operating costs (excluding depreciation)	Supporting Operating costs (excluding depreciation) incl overheads	Outpayments (national or international)	Business sustaining	Depreciation expense	Mean Capital Employed	Mean Working Capital Employed	Rate of Return (ictQ defined)	Cost of capital employed	Total operating and capital costs	Cost per unit of usage
		QAR'm	QAR'm	QAR'm	QAR'm	QAR'm	QAR'm	QAR'm	QAR'm	QAR'm	QAR'm	QAR
International termination to fixed	abc	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
International to XX	def	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
IP transit for other operators	ghi	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
hubbing	jlk	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
	etc	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
		xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
		xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
		xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
		xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
		xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
		xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
		xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
		xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
		xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
		xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
Total costs		**xx**	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**		**xx**	**xx**	**xx**

Wholesale Mobile Network RRU

Wholesale Mobile Network RRU

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 20xx

	20xx QAR'm	20yy QAR'm
Turnover		
Charges to other RRUs	xx	xx
External turnover	xx	xx
Total turnover	**xx**	**xx**
Costs		
Depreciation	xx	xx
Business sustaining	xx	xx
Operating costs	xx	xx
	xx	**xx**
Transfer charges from other RRUs		
Wholesale Fixed Access	xx	xx
Wholesale Fixed Core	xx	xx
Retail	xx	xx
Wholesale RRU	xx	xx
Other	xx	xx
	xx	**xx**
Total costs	**xx**	**xx**
Return	**xx**	**xx**

RETURN ON MEAN CAPITAL EMPLOYED

	20xx QAR'm	20yy QAR'm
Mean capital employed	xx	xx
Return on mean capital employed	xx	xx
Return on turnover	xx	xx

STATEMENT OF MEAN CAPITAL EMPLOYED
for the year ended 31 December 20xx

	20xx QAR'm	20yy QAR'm
Non-current assets		
Property, plant and equipment	xx	xx
Other	xx	xx
Total non-current assets	**xx**	**xx**
Current Assets		
Inventories and stock	xx	xx
Accounts receivable and prepayments	xx	xx
Bank balances and cash	xx	xx
Total current assets	**xx**	**xx**
Accounts payable, accruals and deferred revenue	xx	xx
Provisions for liabilities and charges	xx	xx
Total current liabilities	**xx**	**xx**
Mean capital employed	**xx**	**xx**

SUPPORTING ANALYSIS
for the year ended 31 December 20xx

20xx

Statement of turnover	Internal Turnover QAR'm	External Turnover (non Qtel) QAR'm
Turnover mobile		
Mobile Voice	xx	xx
Mobile Data	xx	xx
Mobile SMS	xx	xx
Mobile other	xx	xx
	xx	**xx**
Turnover fixed voice and data		
Fixed voice	xx	xx
Fixed data	xx	xx
Fixed wireless	xx	xx
Leased circuits	xx	xx
Fixed other	xx	xx
	xx	**xx**
Turnover other		
TV services	xx	xx
Other services	xx	xx
	xx	**xx**
	xx	**xx**

Statement of costs by category
for the year ended 31 December 20xx

	Operating costs (excluding depreciation) QAR'm	Depreciation expense QAR'm	Mean Capital Employed QAR'm	Rate of Return (ictQ defined) %	Cost of capital QAR'm	Total operating and capital costs QAR'm
Access Sites: BTS & Node B	xx	xx	xx	y%	RoR x MCE	xx
Access nodes: BSC & RNC	xx	xx	xx	y%	RoR x MCE	xx
Radio access transmission	xx	xx	xx	y%	RoR x MCE	xx
Core Transmission	xx	xx	xx	y%	RoR x MCE	xx
Core equipment	xx	xx	xx	y%	RoR x MCE	xx
SMS platforms	xx	xx	xx	y%	RoR x MCE	xx
Other Platforms	xx	xx	xx	y%	RoR x MCE	xx
Other costs	xx	xx	xx	y%	RoR x MCE	xx
	xx	**xx**	**xx**		**xx**	**xx**

Wholesale Mobile Network RRU: detailed statement of cost of production

Detailed Statement of total "costs of production" of RRU
for the year ended 31 December 20xx

Network element costs	Network element code	Operating costs (excluding depreciation)	Supporting Operating costs (excluding depreciation) incl overheads and business sustaining	Depreciation expense	Mean Capital Employed	Mean Working Capital Employed	Rate of Return (ictQ defined)	Cost of capital employed	Total operating and capital costs	Cost per unit of usage	Total volume - effective usage of the element	unit of usage
		QAR'm	QAR'm	QAR'm	QAR'm	QAR'm	%	QAR'm	QAR'm	QAR	#	unit of usage
BTS	abc	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	# minutes
RNC	def	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	# minutes
Node B	ghi	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	# minutes
MSC	jkl	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	# calls or messages
Pre paid charging platform	mno	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	# calls or messages
SMS server	pqr	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	# messages
Other mobile elements	etc	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx		
(list)		xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx		
		xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx		
		xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx		
		xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx		
		xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx		
		xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx		
		xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx		
		xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx		
Total costs		**xx**	**xx**	**xx**	**xx**	**xx**		**xx**	**xx**	**xx**		

Detailed Statement of wholesale mobile product costs
for the year ended 31 December 20xx

Total costs (Mobile plus transferred in)

Wholesale product cost	Product code	Revenue	Operating costs (excluding depreciation)	Supporting Operating costs (excluding depreciation) incl overheads	Outpayments (national or international)	Business sustaining	Depreciation expense	Mean Capital Employed	Mean Working Capital Employed	Rate of Return (ictQ defined)	Cost of capital employed	Total operating and capital costs	Cost per unit of usage	Total volume as sold volumes	unit of usage
		QAR'm	QAR'm	QAR'm	QAR'm	QAR'm	QAR'm	QAR'm	QAR'm	%	QAR'm	QAR'm	QAR	#	unit of usage
Site sharing	abc	xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	# sites
National Mobile termination	def	xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	# minutes
International mobile termination to postpaid	ghi	xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	# minutes
SMS termination to prepaid	jkl	xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	# messages
(list)	etc	xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	
		xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	
		xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	
		xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	
		xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	
		xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	
		xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	
		xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	
		xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	
		xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	
		xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	
Total costs		**xx**	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**		**xx**	**xx**	**xx**		

Total costs transferred in, excluding Mobile network costs. E.g.: international gateway costs that are part of Fixed core business

Operating costs (excluding depreciation)	Supporting Operating costs (excluding depreciation) incl overheads	Outpayments (national or international)	Business sustaining	Depreciation expense	Mean Capital Employed	Mean Working Capital Employed	Rate of Return (ictQ defined)	Cost of capital employed	Total operating and capital costs	Cost per unit of usage
QAR'm	QAR'm	QAR'm	QAR'm	QAR'm	QAR'm	QAR'm	%	QAR'm	QAR'm	QAR
xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx
xx	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**		**xx**	**xx**	**xx**

Wholesale RRU

Wholesale RRU

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 20xx

	20xx QAR'm	20yy QAR'm
Turnover		
Charges to other RRUs	xx	xx
External turnover	xx	xx
Total turnover	**xx**	**xx**
Costs		
Depreciation	xx	xx
Business sustaining	xx	xx
Operating costs	xx	xx
External charges (outpayments)	xx	xx
	xx	**xx**
Transfer charges from other RRUs		
Wholesale Fixed Access	xx	xx
Wholesale Fixed Core Network	xx	xx
Wholesale Mobile Network	xx	xx
Retail	xx	xx
Other	xx	xx
	xx	**xx**
Total costs	**xx**	**xx**
Return	**xx**	**xx**

RETURN ON MEAN CAPITAL EMPLOYED	20xx QAR'm	20yy QAR'm
Mean capital employed	xx	xx
Return on mean capital employed	xx	xx
Return on turnover	xx	xx

STATEMENT OF MEAN CAPITAL EMPLOYED
for the year ended 31 December 20xx

	20xx QAR'm	20yy QAR'm
Non-current assets		
Property, plant and equipment	xx	xx
Investments in subsidiaries & associates	xx	xx
Available-for-sale investments	xx	xx
Total non-current assets	**xx**	**xx**
Current Assets		
Inventories and stock	xx	xx
Accounts receivable and prepayments	xx	xx
Bank balances and cash	xx	xx
Total current assets	**xx**	**xx**
Accounts payable, accruals and deferred revenue	xx	xx
Provisions for liabilities and charges	xx	xx
Total current liabilities	**xx**	**xx**
Mean capital employed	**xx**	**xx**

SUPPORTING ANALYSIS
for the year ended 31 December 20xx

	20xx QAR'm	20yy QAR'm
Statement of turnover		
Turnover Fixed Voice		
Voice connections	xx	xx
Wholesale line rentals	xx	xx
Fixed call origination	xx	xx
Fixed call terminations	xx	xx
International call hubbing	xx	xx
	xx	**xx**
Turnover Fixed Data		
Fixed Internet Broadband	xx	xx
Domestic leased circuits	xx	xx
International leased circuits	xx	xx
Other fixed data	xx	xx
	xx	**xx**
Turnover Fixed - other		
Unbundled services (list)		
Fixed other	xx	xx
	xx	**xx**
Turnover Mobile		
National voice termination	xx	xx
International voice termination	xx	xx
National SMS termination	xx	xx
International SMS termnation	xx	xx
Mobile other	xx	xx
	xx	**xx**
Turnover - Other		
Roaming	xx	xx
Other services	xx	xx
	xx	**xx**
Total turnover	**xx**	**xx**

Statement of costs by category
for the year ended 31 December 20xx

	Operating costs (excluding depreciation) QAR'm	Depreciation expense QAR'm	Mean Capital Employed QAR'm	Rate of Return (ictQ defined) QAR'm	Cost of capital QAR'm	Total operating and capital costs QAR'm
National & International outpayments						
National Outpayments	xx	xx	xx	y%	RoR x MCE	xx
International Outpayments	xx	xx	xx	y%	RoR x MCE	xx
National carrier admin	xx	xx	xx	y%	RoR x MCE	xx
Roaming	xx	xx	xx	y%	RoR x MCE	xx
Mobile Interconnect Product Management	xx	xx	xx	y%	RoR x MCE	xx
International carrier admin	xx	xx	xx	y%	RoR x MCE	xx
	xx	**xx**	**xx**		**xx**	**xx**
Other costs	xx	xx	xx	y%	RoR x MCE	xx
Total costs	**xx**	**xx**	**xx**		**xx**	**x**

Wholesale RRU: detailed statement of wholesale product costs

Detailed Statement of Wholesale product costs
for the year ended 31 December 20xx

Total costs (Wholesale RRU plus transferred in)

Wholesale product	Product code	Revenue	Operating costs (excluding depreciation)	Supporting Operating costs (excluding depreciation) incl overheads	Outpayments (national or international)	Business sustaining	Depreciation expense	Mean Capital Employed	Mean Working Capital Employed	Rate of Return (ictQ defined)	Cost of capital employed	Total operating and capital costs	Cost per unit of usage	Total volume (as sold)	
		QAR'm	QAR'm	QAR'm	QAR'm	QAR'm	QAR'm	QAR'm	QAR'm	%	QAR'm	QAR'm	QAR	#	unit of usage
(lust is illustrative only)															
Mobile termination to pre paid	abc	xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	# subscribers
Mobile termination to post paid	def	xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	# subscribers
Fixed line termination	ghi	xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	# subscribers
Call to directory enquiries	jkl	xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	# subscribers
Call to emergency services	mno	xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	# minutes
International termination to other operator	pqr	xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	# minutes
Unbundled locall copper loop	stu	xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	# subscribers
	etc	xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	# services
		xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	# connections
		xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	# minutes
		xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	# minutes
		xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	# minutes
		xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	1	None
		xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	
		xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	
Total costs		**xx**	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**		**xx**	**xx**	**xx**		

Total costs transferred in, excluding Wholesale unit costs (network cost of production)

Wholesale product	Product code	Operating costs (excluding depreciation)	Supporting Operating costs (excluding depreciation) incl overheads	Outpayments (national or international)	Business sustaining	Depreciation expense	Mean Capital Employed	Mean Working Capital Employed	Rate of Return (ictQ defined)	Cost of capital employed	Total operating and capital costs	Cost per unit of usage	Market
		QAR'm	QAR'm	QAR'm	QAR'm	QAR'm	QAR'm	QAR'm	QAR'm	QAR'm	QAR'm	QAR	as per Dominance defiinition
(lust is illustrative only)													
Mobile termination to pre paid	abc	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	M14
Mobile termination to post paid	def	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	M14
Fixed line termination	ghi	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	M9
Call to directory enquiries	jkl	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	M9
Call to emergency services	mno	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	M9
International termination to other operator	pqr	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	M9
Unbundled locall copper loop	stu	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	M10
	etc	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	XX
		xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	XX
		xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	XX
		xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	XX
		xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	XX
		xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	XX
		xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	XX
		xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	
Total costs		**xx**	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**		**xx**	**xx**	**xx**	

Retail RRU

Retail RRU

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 20xx

	20xx QAR'm	20yy QAR'm
Turnover		
Charges to other RRUs	xx	xx
External turnover	xx	xx
Total turnover	**xx**	**xx**
Costs		
Depreciation	xx	xx
Business sustaining	xx	xx
Operating costs	xx	xx
	xx	**xx**
Transfer charges from other RRUs		
Wholesale Fixed Access	xx	xx
Wholesale Fixed Core Network	xx	xx
Wholesale Mobile Network	xx	xx
Wholesale RRU	xx	xx
Other	xx	xx
	xx	**xx**
Total costs	**xx**	**xx**
Return	**xx**	**xx**

RETURN ON MEAN CAPITAL EMPLOYED	20xx QAR'm	20yy QAR'm
Mean capital employed	xx	xx
Return on mean capital employed	xx	xx
Return on turnover	xx	xx

STATEMENT OF MEAN CAPITAL EMPLOYED
for the year ended 31 December 20xx

	20xx QAR'm	20yy QAR'm
Non-current assets		
Property, plant and equipment	xx	xx
Investments in subsidiaries & associates	xx	xx
Available-for-sale investments	xx	xx
Total non-current assets	**xx**	**xx**
Current Assets		
Inventories and stock	xx	xx
Accounts receivable and prepayments	xx	xx
Bank balances and cash	xx	xx
Total current assets	**xx**	**xx**
Accounts payable, accruals and deferred revenue	xx	xx
Provisions for liabilities and charges	xx	xx
Total current liabilities	**xx**	**xx**
Mean capital employed	**xx**	**xx**

SUPPORTING ANALYSIS
for the year ended 31 December 20xx

	20xx QAR'm	20yy QAR'm
Statement of turnover		
Turnover Fixed Voice		
Voice connections	xx	xx
Voice rentals	xx	xx
Fixed calls	xx	xx
	xx	**xx**
Turnover Fixed Data		
Fixed Internet Broadband	xx	xx
Domestic leased circuits	xx	xx
International leased circuits	xx	xx
Other fixed data	xx	xx
	xx	**xx**
Turnover Fixed - other		
Fixed CPE	xx	xx
Fixed other	xx	xx
	xx	**xx**
Turnover Mobile		
Mobile Connections	xx	xx
Mobile Subscriptions	xx	xx
Mobile Voice - Postpaid	xx	xx
Mobile Voice - Prepaid	xx	xx
Mobile Voice - Roaming	xx	xx
Mobile SMS - Postpaid	xx	xx
Mobile SMS - Prepaid	xx	xx
Mobile Data	xx	xx
Mobile other	xx	xx
	xx	**xx**
Turnover - Other		
TV services	xx	xx
Other services	xx	xx
	xx	**xx**
Total turnover	**xx**	**xx**

Statement of costs by category
for the year ended 31 December 20xx

	Operating costs (excluding depreciation) QAR'm	Depreciation expense QAR'm	Mean Capital Employed QAR'm	Rate of Return (ictQ defined) QAR'm	Cost of capital QAR'm	Total operating and capital costs QAR'm
National & International outpayments						
National Outpayments	xx	xx	xx	y%	RoR x MCE	xx
International Outpayments	xx	xx	xx	y%	RoR x MCE	xx
International carrier admin	xx	xx	xx	y%	RoR x MCE	xx
	xx	**xx**	**xx**		**xx**	**xx**
Cost of sales	xx	xx	xx	y%	RoR x MCE	xx
Sales & marketing costs	xx	xx	xx	y%	RoR x MCE	xx
Service centre costs	xx	xx	xx	y%	RoR x MCE	xx
Call centre & other customer service costs	xx	xx	xx	y%	RoR x MCE	xx
Owned Customer Premises Equipment	xx	xx	xx	y%	RoR x MCE	xx
Finance & Billing	xx	xx	xx	y%	RoR x MCE	xx
Other costs	xx	xx	xx	y%	RoR x MCE	xx
Total costs	**xx**	**xx**	**xx**		**xx**	**x**

Analysis of transfer charges

	Wholesale Fixed Access QAR'm	Wholesale Fixed Core QAR'm	Wholesale Mobile Network QAR'm	Wholesale RRU QAR'm	Other QAR'm
Fixed Voice					
Voice connections	xx	xx	xx	xx	xx
Voice rentals	xx	xx	xx	xx	xx
Fixed calls	xx	xx	xx	xx	xx
	xx	**xx**	**xx**	**xx**	**xx**
Fixed Data					
Fixed Internet	xx	xx	xx	xx	xx
Domestic leased circuits	xx	xx	xx	xx	xx
International leased circuits	xx	xx	xx	xx	xx
Other fixed data	xx	xx	xx	xx	xx
	xx	**xx**	**xx**	**xx**	**xx**
Fixed - other					
Fixed CPE	xx	xx	xx	xx	xx
Fixed other	xx	xx	xx	xx	xx
	xx	**xx**	**xx**	**xx**	**xx**
Mobile					
Mobile Connections	xx	xx	xx	xx	xx
Mobile Subscriptions	xx	xx	xx	xx	xx
Mobile Voice - Postpaid	xx	xx	xx	xx	xx
Mobile Voice - Prepaid	xx	xx	xx	xx	xx
Mobile Voice - Roaming	xx	xx	xx	xx	xx
Mobile SMS - Postpaid	xx	xx	xx	xx	xx
Mobile SMS - Prepaid	xx	xx	xx	xx	xx
Mobile SMS - Other	xx	xx	xx	xx	xx
Mobile Data	xx	xx	xx	xx	xx
Mobile other	xx	xx	xx	xx	xx
	xx	**xx**	**xx**	**xx**	**xx**
Other					
TV services	xx	xx	xx	xx	xx
Other services	xx	xx	xx	xx	xx
	xx	**xx**	**xx**	**xx**	**xx**
Total	**xx**	**xx**	**xx**	**xx**	**xx**

Detailed Statement of Retail product costs
for the year ended 31 December 20xx

Total costs (Retail plus transferred in)

Retail product	Product code	Revenue QAR'm	Operating costs (excluding depreciation) QAR'm	Supporting Operating costs (excluding depreciation) incl overheads QAR'm	Outpayments (national or international) QAR'm	Business sustaining QAR'm	Depreciation expense QAR'm	Mean Capital Employed QAR'm	Mean Working Capital Employed QAR'm	Rate of Return (ictQ defined) %	Cost of capital employed QAR'm	Total operating and capital costs QAR'm	Cost per unit of usage QAR	Total volume (as sold) #	unit of usage
PSTN connections	abc	xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	# subscribers
PSTN rentals	def	xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	# subscribers
BR-ISDN connections	ghi	xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	# subscribers
BR-ISDN rentals	jkl	xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	# subscribers
Fixed calls - To fixed	mno	xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	# minutes
Fixed calls - To mobile	pqr	xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	# minutes
ADSL - rental	etc	xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	# subscribers
CPE Rentals - Telephones	etc	xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	# services
Postpaid connections	etc	xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	# connections
Postpaid calls - On net	etc	xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	# minutes
Prepaid calls - To fixed	etc	xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	# minutes
Prepaid calls - To international	etc	xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	# minutes
Yellow Pages	etc	xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	1	None
TV, bradband and PSTN Line tariff bundle	etc	xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	
etc	etc	xx	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	xx	
Total costs		**xx**	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**		**xx**	**xx**	**xx**		

Total costs transferred in, excluding Retail costs

Retail product	Operating costs (excluding depreciation) QAR'm	Supporting Operating costs (excluding depreciation) incl overheads QAR'm	Outpayments (national or international) QAR'm	Business sustaining QAR'm	Depreciation expense QAR'm	Mean Capital Employed QAR'm	Mean Working Capital Employed QAR'm	Rate of Return (ictQ defined) QAR'm	Cost of capital employed QAR'm	Total operating and capital costs QAR'm	Cost per unit of usage QAR	Market as per Dominance defiinition
PSTN connections	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	M1
PSTN rentals	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	M1
BR-ISDN connections	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	M1
BR-ISDN rentals	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	M1
Fixed calls - To fixed	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	M2
Fixed calls - To mobile	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	M2
ADSL - rental	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	M4
CPE Rentals - Telephones	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	XX
Postpaid connections	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	XX
Postpaid calls - On net	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	M6
Prepaid calls - To fixed	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	M6
Prepaid calls - To international	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	M3
Yellow Pages	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	XX
TV, bradband and PSTN Line tariff bundle	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	XX
etc	xx	xx	xx	xx	xx	xx	xx	y%	MCE x RoR	xx	xx	
Total costs	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**		**xx**	**xx**	**xx**	

Statement of Retail common and direct costs
for the year ended 31 December 20xx

	Operating costs (excluding depreciation) QAR'm	Depreciation expense QAR'm	Mean Capital Employed QAR'm	Rate of Return (ictQ defined) QAR'm	Cost of capital QAR'm	Total operating and capital costs QAR'm	Details of products that the costs are common to
Common retail cost pools							
All national retail products	xx	xx	xx	y%	RoR x MCE	xx	
All mobile products	xx	xx	xx	y%	RoR x MCE	xx	
All fixed products	xx	xx	xx	y%	RoR x MCE	xx	
All business services and leased lines	xx	xx	xx	y%	RoR x MCE	xx	
New mobile subscriptioms (pre and post paid)	xx	xx	xx	y%	RoR x MCE	xx	
General promotion A	xx	xx	xx	y%	RoR x MCE	xx	Relevant products in A: ADSL, triple play etc
General promotion B	xx	xx	xx	y%	RoR x MCE	xx	Relevant products in B: Mobile data, MMS etc
(list)							
etc							
Total costs of general (common) retail costs	**xx**	**xx**	**xx**		**xx**	**xx**	

Direct cost of retail products (excluding common retail costs), including the network wholesale costs of production, excluding general costs

Retail product	Product code	Operating costs (excluding depreciation) QAR'm	Depreciation expense QAR'm	Mean Capital Employed QAR'm	Rate of Return (ictQ defined) QAR'm	Cost of capital QAR'm	Total operating and capital costs QAR'm
PSTN connections	abc	xx	xx	xx	y%	RoR x MCE	xx
PSTN rentals	def	xx	xx	xx	y%	RoR x MCE	xx
BR-ISDN connections	ghi	xx	xx	xx	y%	RoR x MCE	xx
BR-ISDN rentals	jkl	xx	xx	xx	y%	RoR x MCE	xx
Fixed calls - To fixed	mno	xx	xx	xx	y%	RoR x MCE	xx
Fixed calls - To mobile	pqr	xx	xx	xx	y%	RoR x MCE	xx
ADSL - rental	etc	xx	xx	xx	y%	RoR x MCE	xx
CPE Rentals - Telephones	etc	xx	xx	xx	y%	RoR x MCE	xx
Postpaid connections	etc	xx	xx	xx	y%	RoR x MCE	xx
Postpaid calls - On net	etc	xx	xx	xx	y%	RoR x MCE	xx
Prepaid calls - To fixed	etc	xx	xx	xx	y%	RoR x MCE	xx
Prepaid calls - To international	etc	xx	xx	xx	y%	RoR x MCE	xx
Yellow Pages	etc	xx	xx	xx	y%	RoR x MCE	xx
etc	etc						
(list)							
Total costs of direct retail products' costs		**xx**	**xx**	**xx**		**xx**	**xx**

Other RRU

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 20xx

	20xx QAR'm	20yy QAR'm
Turnover		
Charges to other RRUs	xx	xx
External turnover	xx	xx
Other income	xx	xx
Total turnover	**xx**	**xx**
Costs		
Depreciation	xx	xx
Business sustaining	xx	xx
Operating costs	xx	xx
External charges (outpayments)	xx	xx
	xx	**xx**
Transfer charges from other RRUs		
Wholesale Fixed Access	xx	xx
Wholesale Fixed Core Network	xx	xx
Wholesale Mobile Network	xx	xx
Wholesale RRU	xx	xx
Retail	xx	xx
	xx	**xx**
Total costs	**xx**	**xx**
Return	**xx**	**xx**

RETURN ON MEAN CAPITAL EMPLOYED

	20xx QAR'm	20yy QAR'm
Mean capital employed	xx	xx
Return on mean capital employed	xx	xx
Return on turnover	xx	xx

STATEMENT OF MEAN CAPITAL EMPLOYED
for the year ended 31 December 20xx

	20xx QAR'm	20yy QAR'm
Non-current assets		
Property, plant and equipment	xx	xx
Investments in subsidiaries & associates	xx	xx
Available-for-sale investments	xx	xx
Total non-current assets	**xx**	**xx**
Current Assets		
Inventories and stock	xx	xx
Accounts receivable and prepayments	xx	xx
Bank balances and cash	xx	xx
Total current assets	**xx**	**xx**
Accounts payable, accruals and deferred revenue	xx	xx
Provisions for liabilities and charges	xx	xx
Total current liabilities	**xx**	**xx**
Mean capital employed	**xx**	**xx**

Reconciliation with Statutory Accounts: Income Sheet

Reconciliation with Statutory Accounts: Income Statement

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 20xx

	Revenue QAR'm	Total costs QAR'm	Return QAR'm
RRU			
Wholesale Fixed Access	xx	xx	xx
Wholesale Fixed Core	xx	xx	xx
Wholesale Mobile	xx	xx	xx
Retail	xx	xx	xx
Other RRU	xx	xx	xx
Total as per regulatory Separated Financial Statements	**xx**	**xx**	**xx**
Adjustments			
Elimination of inter Business Unit transfer charges			
Wholesale Fixed Access	xx	xx	xx
Wholesale Fixed Core	xx	xx	xx
Wholesale Mobile	xx	xx	xx
Retail	xx	xx	xx
Wholesale RRU	xx	xx	xx
Other	xx	xx	xx
	xx	**xx**	**xx**
RAS items excluded (redundancy, LT interest etc)			
Excluded items A (not included in any RRU)	xx	xx	xx
Excluded items B (not included in any RRU)	xx	xx	xx
Total excluded items	**xx**	**xx**	**xx**
Depreciation adjustments due to asset revaluations		xx	
Efficiency adjustments (CESP)			
Wholesale Fixed Access	-	xx	
Wholesale Fixed Core	-	xx	
Wholesale Mobile	-	xx	
Retail	-	xx	
Wholesale RRU	-	xx	
Other	-	xx	
Total as per Separated Financial Statement (including adjustments)	**-**	**xx**	

Audited Accounts

for the year ended 31 December 2009	**Revenue** QAR'm	**Total costs** QAR'm	**Return** QAR'm
Period from 01 January 2009 to 31 December 2009	**xx**	**xx**	**xx**
Reveue A	xx		
Reveue B	xx		
Difference	**0.0**	**0.0**	**0.0**

Reconciliation with Statutory Accounts: Balance Sheet

Reconciliation with Statutory Accounts: Balance Sheet

MEAN CAPITAL EMPLOYED
for the year ended 31 December 20xx

	20xx Total	Property, plant and equipment	Investments in subsidiaries & associates	Other investments	Amounts due from group	Inventories and stock	Accounts receivable and prepayments	Bank balances and cash	Bank loans & derivatives	Amounts due to related parties	Accounts payable, accruals and deferred revenue	Provisions for liabilities and charges
	QAR'm	QAR'm	QAR'm	QAR'm	QAR'm	QAR'm	QAR'm	QAR'm	QAR'm	QAR'm	QAR'm	QAR'm
MEAN CAPITAL EMPLOYED OF THE RRUs												
RRU												
Wholesale Fixed Access	xx	xx				xx	xx	xx			xx	xx
Wholesale Fixed Core	xx	xx	assume =0			xx	xx	xx	assume =0		xx	xx
Wholesale Mobile	xx	xx				xx	xx	xx			xx	xx
Retail	xx	xx				xx	xx	xx			xx	xx
Wholesale RRU	xx	xx				xx	xx	xx			xx	xx
Other	xx	xx	xx	xx		xx	xx	xx	xx	xx	xx	xx
Total as per Separated Financial Statements	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**
Adjustments												
Excluded items not in RRU (goodwill, minority interests etc., as required)												
Item A	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx
Item B	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx
Item C	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx
etc	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx
Fixed asset revaluations		xx										
	xx	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**
Total as per Historic Separated Financial Accounts (including adju	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**

Audited Accounts

for the year ended 31 December 2009	**20xx Total** QAR'm											
Shareholders' funds as in the Annual Report												
Opening balance as at 1 January 2009	**xx**	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx
Closing balance as at 31 December 2009	**xx**	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx
Average	**xx**	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx

Difference

Network cost statement

Network cost statement

for the year ended 31 December 20xx

Network component

		International switches	Core voice swtches	PSTN tranmission	IN	xDSL transmission	etc	Access Sites: BTS & Node B	Access nodes: BSC & RNC	Radio access transmission	Core Transmission	Core equipment	SMS platforms	etc	E side copper	D side copper	PSTN line card	etc
Total cost		xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx
Cost per unit		xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx
Route factor (usage) or percentage																		
Retail product	Product code																	
PSTN rentals	abc	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
BR-ISDN rentals	def	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Fixed calls - To fixed	etc	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Fixed calls - To mobile	etc	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
ADSL - rental	etc	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Postpaid calls - On net	etc	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Prepaid calls - To fixed	etc	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Prepaid calls - To international	etc	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
etc	etc	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Wholesale product																		
Mobile termination to pre paid	pqr	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Mobile termination to post paid	etc	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Fixed line termination	etc	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Call to directory enquiries	etc	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Call to emergency services	etc	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
International termination to other operator	etc	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
	etc	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Conveyance (cost of production) (usage factor above times unit cost of element)																		
Retail product																		
PSTN rentals	abc	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
BR-ISDN rentals	def	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Fixed calls - To fixed	etc	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Fixed calls - To mobile	etc	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
ADSL - rental	etc	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Postpaid calls - On net	etc	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Prepaid calls - To fixed	etc	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Prepaid calls - To international	etc	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
etc	etc	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Wholesale product																		
Mobile termination to pre paid	pqr	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Mobile termination to post paid	etc	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Fixed line termination	etc	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Call to directory enquiries	etc	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Call to emergency services	etc	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
International termination to other operator	etc	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
	etc	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x

Transfer charge summary report

Transfer charge summary report

for the year ended 31 December 20xx

from RRU / **To**	Wholesale Fixed Access	Wholesale Fixed Core	Wholesale Mobile	Retail	Wholesale RRU	Other
Wholesale Fixed Access		x	x	x	x	x
Wholesale Fixed Core	x		x	x	x	x
Wholesale Mobile	x	x		x	x	x
Retail	x	x	x		x	x
Wholesale RRU	x	x	x	x		x
Other	x	x	x	x	x	

qnbn
الشركة القطرية لشبكة الحزمة العريضة
Qatar National Broadband Network

November 29, 2012

Mr. Graeme Gordon
Assistant Secretary General
ictQatar
P.O. Box 23264, Al Nassr Tower
Doha, Qatar

Dear Mr. Gordon,

Re: RAS Instructions 2012

Please find attached the Submission of Qatar National Broadband Network (QNBN) to the RAS Consultation Document issued on 23 October 2012.

Our major points, which are developed fully in our comments below, can be summarized as follows:

1. ictQatar should not attempt to answer all the costing questions that will be confronted in the regulation of the Qatar telecommunications market through the RAS. To do so will overcomplicate the RAS and cause delay in the implementation of not only the RAS, but other key elements of the regulatory regime.

2. We believe that the main focus of this proceeding should be the production of a set of separated accounts that assist the industry in safeguarding against anti-competitive behavior. QNBN believes that ictQatar must introduce a number of changes to the proposed RAS if it is to achieve this objective. The principal suggested changes are as follows:

   - the separated accounts must be based on transfer pricing between lines of business of the DSP that reflects the actual wholesale prices paid by other service providers. Doing otherwise eliminates a key benefit, if not the critical element, of the RAS as a tool for monitoring anti-competitive behavior; and
   - other interested parties must have access to elements of the RAS to allow those potentially subject to anti-competitive behavior to assist in identifying suspect behavior in the regulatory accounts statements.

3. Ultimately, QNBN has serious reservations as to whether accounting separation can be implemented effectively enough to prevent anti-competitive behavior. QNBN therefore proposes additional safeguards on how the Qtel wholesale portion of the enterprise interacts with other parts of the Qtel business such as between the wholesale and retail segments.

4. Ideally, ictQatar should be primarily concerning itself in this proceeding with the creation of HCA- and CCA-based FAC for an accounting separation and, possibly, retail price control. It should pursue

other objectives, namely establishing cost-basis for wholesale service pricing in a separate proceeding.

5. Such a separate proceeding would identify a long-run incremental cost (LRIC) basis for such pricing. LRIC would be introduced in such a way that would establish an efficient cost-base and not overvalue those Qtel assets that were acquired at low-cost and that appropriately accounts for actual depreciation. Without such considerations, the valuation of assets that competitors rely upon may be unnecessarily and unfairly expensive.

6. Since ictQatar appears intent on pursuing the objective of establishing the approach to an efficient cost-base for wholesale price control in this proceeding through adjustments to the FAC and not pursue LRIC at this time, QNBN has been responsive to ictQatar's proposals. QNBN has offered the following additional adjustments beyond what ictQatar has already put forth and that mimic the additional efficiency elements that would be captured in an incremental cost study:

   - require Qtel to provide information which would allow comparisons optimal to actual route lengths between nodes and make corresponding adjustments to ducting and trenching costs;
   - impose sharing assumptions on the use of infrastructure reflecting policy objectives of ictQatar rather than actual sharing that Qtel has implemented on the basis of commercial decision-making; and
   - disallow opex and common cost that are greater than levels implied by relevant international benchmarks of expense factors and other mark-up ratios.

7. Finally, due to the extent and complexity of the issues raised in this proceedings, QNBN urges ictQatar to run an additional reply round to enable interested parties to comment on the views of other interested parties as well as any further thoughts ictQatar has as a result of this initial round of comments.

Sincerely,

Philip Brazeau
Head of Regulatory
Qatar National Broadband Network

Introduction

QNBN welcomes the opportunity to respond to ictQatar's Consultation on the proposed Regulatory Accounting System ("RAS"). This is an important proceeding which QNBN believes can provide significant benefits for the telecommunications market in the State of Qatar if properly applied. QNBN has developed its comments with a view to being constructive and helpful to this consultative process. In so doing, we will be responding to ictQatar's specific questions as well as making additional observations which QNBN believes will make the RAS more effective and facilitate its implementation.

We have organized our comments as follows. First, we discuss some preliminary matters that we believe are essential to clarify in order to identify and justify specific proposals with respect to the RAS. Second, we take up each question as posed by ictQatar. In responding to each question, as necessary, we expand the scope of the question in order to deal comprehensively with what we believe are all the issues critical to the development of an effective RAS. We conclude with a summary of the key points made throughout the body of the submission, highlight additional measures that should be undertaken to ensure a well-functioning competitive marketplace and urge ictQatar to conduct a further comment round in this important proceeding.

Preliminary Considerations

What are the objectives that ictQatar hopes to achieve with the RAS?

QNBN believes that it is crucial to identify the purpose of the RAS in a practical manner before discussing specific attributes that the RAS may have. By "purpose", QNBN does not simply mean the general policy goals and legal basis. Instead, we need to understand what concrete issues, especially in the short and medium term, the creation of the RAS is meant to address. QNBN respectfully submits that to make meaningful comments on the proposed RAS interested parties need to understand these objectives and the Consultative Document does not explicitly state them or, at best, scatters them throughout the text. [1]

Such clarity of objectives is necessary for two reasons. First, as we will discuss below, there are numerous regulatory obligations on a DSP that the RAS *could potentially* be relevant for, but the extent to which it *ought* to be applied to Qtel is an important question for this Consultation. Once it is clarified which of these regulatory obligations the RAS will be applied to, we can more appropriately respond to both ictQatar's questions of *how* as well as other significant questions relating to its attributes. Second, given the potential complexity of the RAS, identifying objectives can assist in prioritizing how the RAS should be

[1] We note that a detailed discussion of the concrete purposes and application of a RAS are often the first item on the agenda of similar proceedings in other jurisdictions. For example, see the review of the regulatory financial system proceeding recently initiated in the United Kingdom at stakeholders.ofcom.org.uk/consultations/regulatory-financial-reporting/.

applied and over what time-frame. In the absence of clearly stated objectives for the RAS and description of how the RAS will achieve them, it appears that ictQatar is attempting to establish a generic RAS to address all types of assessments associated with costing and anti-competitive conduct. QNBN respectfully submits that, if attempting to establish a 'one size fits all' RAS, ictQatar will, at best, delay implementation of a useful RAS, and, at worse, fall short of meaningfully addressing necessary costing analysis and assessment of anti-competitive conduct.

ictQatar has set out in Section 3.1 of its Consultation Document the Article 2 general policy goals that RAS should assist in meeting. Further, in Section 3.2 it presents a list of specific mandates from the Telecommunications Act, Executive By-Laws and Licenses that it believes require the production of the RAS. We believe a number of relevant regulatory provisions in the Telecommunications Law or licenses can be usefully added to this list. In the table below, we set these out in groups related to the general regulatory objectives of the provisions.

Regulatory Provision[2]	Objectives
Article 4(4) for setting and enforcing remedies to prevent anti-competitive practices;	Monitoring and preventing anti-competitive conduct
Article 43 prohibiting dominant service providers from setting anti-competitive pricing of telecommunications services, including setting prices below cost, and unapproved anti-competitive cross-subsidization	
Article 32 and Article 33 relating to cost studies and accounting practices, respectively, to prevent any conduct harmful to competition	
Article 59 of the Executive By-Law providing for DSP cost studies of all types as necessary.	
License Annexure I, sections 3.6, 3.7 and 3.8 on prohibiting predatory pricing (and setting an average variable cost standard for such), cross-subsidization and pricing squeezing.	
Article 4(6), Article 18(8)Article 19(1) for setting the terms of interconnection and access between service providers to facilitate low cost interconnection and access to facilities;	Wholesale price control
Article 29 for ensuring that tariffs are based on cost of efficient service	
Article 32 and Article 33 relating to cost studies and accounting practices, respectively, necessary for regulating tariff and prices	
Article 50(2) and (3) relating to costing interconnection and access	
Article 59 of the Executive By-Law providing for DSP cost studies of all types as necessary.	
Article 4(8) safeguarding the interests of consumers, including setting the rules for tariff regulation	Retail price control
Article 29 for ensuring that tariffs are based on cost of efficient service	
Article 32 and Article 33 relating to cost studies and accounting practices, respectively, necessary for regulating tariff and prices	
Article 59 of the Executive By-Law providing for DSP cost studies of all types as necessary.	
Article 39 requiring the costing of universal service provision	Additional cost studies
Article 59 of the Executive By-Law providing for DSP cost studies of all types as necessary.	
Article 70(d) of the Executive By-Law requiring the assessment of universal service costs	
License Annexure J that charges that it imposes for the provision of Number Portability are reasonable and cost-oriented.	
Article 4(10) requiring the provision of information to enable the regulator to perform its authorities and power	General transparency

[2] Admittedly, this list is non-exhaustive. There are other articles of relevance, such as Article 4(8) for safeguarding the interests of consumers, but these are of a more general nature. Also, Annexure I Sections 1.3 and 1.4 of Qtel's fixed license deals specifically with accounting requirements of the type that the RAS speaks to; however, no specific purpose is given for these requirements.

Ideally, ictQatar would not be pursuing all the above-noted objectives with the RAS proposed in this Consultation.

QNBN believes that similar regulatory provisions and objectives are found in virtually all regulatory jurisdictions. However, most jurisdictions do not attempt to address all these objectives with a single accounting approach. In many cases, multiple approaches are employed. For example,

- In many jurisdictions, the cost model that is employed for separated accounts is not the same for determining the cost-base for wholesale pricing.
- The cost model that is employed for separated accounts may be employed to determine retail price ceilings, but is not used to determine retail price floors.
- While it is true that the cost model produced for separated accounts are prepared for monitoring anti-competitive pricing, in price discrimination and cross-subsidization, they are typically only expected to provide a signal of *potential* abuse. It is acknowledged that separate cost studies generally have to be carried out for investigation of specific cases.

The reason for a multiplicity of costing approaches is that different regulatory objectives require different cost-bases and standards. ictQatar implicitly recognizes this in the Consultation Document, but never clarifies which approach would be used for which purpose. We discuss this in more detail under our response to Question 2.

Because of the necessity to keep the regulatory objectives and approaches distinct, we believe that it would be more effective to conduct separate proceedings on those objectives that require more detailed and specific treatment. ictQatar is currently conducting a separate proceeding on retail price regulation. It would have been appropriate there to speak about how the RAS would be designed (which cost-bases and standards selected and applied) to set cost floors and ceilings. Similarly, we believe it should conduct a separate proceeding on the cost-basis for the prices of regulated wholesale products of dominant service providers (DSPs).

That said, ictQatar has apparently decided to take up all of the issues related to regulatory costing in a single proceeding. To be constructive, Irrespective of our views on the value of separate proceedings, QNBN will respond on that basis. However, in any case, as part of setting out the various cost-bases that will be included in the RAS, the instructions should set out more clearly what they will be used for.

Urgency of implementing RAS and generating results

As indicated above, QNBN is concerned that ictQatar is trying to answer too many questions in one proceeding. However, we do not mean to imply that the industry could afford to wait for ictQatar to resolve a number of other issues before implementing a RAS. In fact, quite the opposite: implementation of the RAS should be accelerated and 'amplified' to help fill in the informational and safeguard gaps that are created by the absence of implementation on the other fronts. Certain elements of the RAS can be conducted “off-model” (e.g., service specific imputation tests and bundle analysis) and others can be introduced in later stages of RAS development.

The telecommunications market in the State of Qatar has already witnessed anti-competitive behavior. The propensity for such conduct persists and arguably, without further safeguards, the willingness to engage in such behavior will intensify. Competitors are currently aware of, are suffering from, but often can do nothing to fight against such behavior because they do not have sufficient evidentiary tools to prevent such abuse.

Proposed RAS can be greatly improved upon

Since ictQatar has placed emphasis and effort on developing a comprehensive RAS and, as it will form the basis for much regulatory accounting activity in the future, QNBN will suggest important and significant amendments. We believe that these amendments can increase the RAS effectiveness without delaying implementation.

In particular, QNBN strongly believes that ictQatar should amend its RAS proposal by adding substantive mechanisms for accounting separation and reporting that will facilitate identification of anti-competitive activity, e.g., tariff-based transfer pricing and publication of results to industry. These substantive mechanisms, found in other jurisdictions, are key to retail and wholesale price controls and combatting anti-competitive behavior. In fact without these additional mechanisms, we believe the RAS will be generally ineffectual, especially as concerns monitoring anti-competitive practices.

Furthermore, the cost standard applied to wholesale pricing i.e., Cost of Efficient Service Provisioning (CESP)-type adjustments, will require much stronger provisions than are currently envisaged. The adjustments foreseen to the FAC results to achieve “CESP” do not constitute a proxy for an efficient cost-base for price control.

As a final statement to its Preliminary Considerations QNBN believes that, under any circumstances, a RAS can only be a part of a solution to preventing anti-competitive behavior. Many jurisdictions have properly concluded that a form of accounting separation with additional mechanisms and safeguards are required and a more appropriate solution. QNBN will return to this issue in its concluding comments.

Response to Specific Questions raised by ictQatar

Question 1
Do you agree that currently Fully Allocated Cost (FAC) based on HCA is currently the required cost base and cost standard?

QNBN believes that the Telecommunications Law has a requirement for setting an appropriate cost-basis for various regulatory obligations, but it does not specifically *require* HCA-based FAC. On the other hand, HCA-based FAC is *consistent* with legal provisions in the Telecommunications Law as many of those provisions are broadly worded and not specific as to the cost-base and cost-standard.

To assess the value of HCA-based FAC, we have to speak in terms of specific objectives and applications. Certainly, in the short-run, HCA-based FAC will be critical in addressing a wide variety of issues. This value is simply due to the fact that no other cost-basis exists, and, by virtue of the progress made through the 2009 "dry-run" and this proceeding, it is the closest cost-basis at hand. With respect to monitoring anti-competitive pricing, if it is implemented with attributes beyond what ictQatar proposes, HCA-based FAC can be an important tool in a set of relevant safeguards.

However, an HCA-based FAC model is, in relative terms, rudimentary and will not be sufficient to achieve all the objectives ictQatar should have in mind for the RAS. For example, with respect to serving as a cost-basis and cost standard for wholesale pricing, we do not believe that an HCA-based FAC is in any way satisfactory. Regulatory practice throughout the world confirms this assessment. At best, HCA-based FAC can only serve as a starting point for a limited number of analytical complements to proper incremental pricing. We will address this more below.

Question 2
Do you currently see additional bases required for regulatory controls? If yes, which bases do you foresee and why?

There are a number of additional cost-bases that are required for regulatory control.[3]

With respect to the objectives of establishing regulatory accounts for monitoring anti-competitive pricing and retail price control, we believe that an additional cost standard that needs to be introduced in the short run is *CCA valuations* for assets. We agree with ictQatar that CCA valuations will ensure that the capital employed reflects the prices paid today for the equipment and that HCA values may over or under-estimate the real values, as seen today.

We believe that, in terms of testing for anti-competitive behavior, both these cost-bases should be applied to the FAC. In the interest of protecting competition within highly concentrated markets, ictQatar will

[3] We note that in the Consultative Document, ictQatar uses the term "cost-basis" to distinguish among HCA-based FAC, CCA-based FAC and CCA-CESP. It uses "cost standard" to distinguish between FAC and incremental costing. In response to this question, for ease of presentation, we interpret "cost-basis" more broadly to include all the costing approaches that the ictQatar has put forward.

likely want to err on the side of defense of competition and use a higher cost-basis where available-- the two valuations will enable it to do so. Thus, for separated accounts, ictQatar should introduce both a HCA- and CCA-based FAC must be introduced into the proposed RAS.

Quite a different cost-base is required for determining cost-based wholesale pricing. Here ideally *incremental costing* is required. As indicated above, we would have preferred that cost-bases relevant to regulated wholesale pricing be discussed more fully in a separate proceeding. However, as the intent appears to be to include such considerations within the RAS itself from inception, we make the following observations in support of including incremental costing:

1. a cost-base that reflects an extensive set of efficiency adjustments is critical for wholesale price setting;

2. such a cost-base (one reflecting a more efficient cost-base than what the DSP currently operates) should be restricted in application only to that of setting cost-based wholesale prices[4] and should not be applied to the separated accounts used for monitoring for anti-competitive behavior;

3. ictQatar's approach to determining the efficient cost-base should be to capture a great deal more effectively than what its currently proposed CESP is notionally designed for. We will discuss this and the related issue of incremental cost standard under Question 10.

Finally, license conditions at the moment refer to the derivation of *average variable costs* for the purpose of identifying predatory pricing. Such costs are unlikely to be identified adequately in a FAC model. Trying to articulate the FAC modeling to capture all relevant aspects of variable costing, if even possible, would likely create unacceptable delay in RAS implementation. Capturing this dimension of cost is better dealt with on an ad-hoc basis when predatory pricing cases arise and once an incremental costing methodology is developed.

Question 3

Are there comments or additional requirements on the overall guiding principles?

Again, the relevant principles for the RAS depend on to which purpose it is being applied. Arguably, given the scope of the RAS there are at least two sets of principles that would be relevant.

First, there are the principles which apply to accounting separation. This appears to be the intention of ictQatar's list.[5] For this purpose, we believe that most of the list is adequate, but that the concept of reliability should be unpacked more to emphasize the principles of cost-orientation and non-discrimination.

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[4] Clearly with respect to retail price control, Article 29 of the Telecommunications Law requires ictQatar to apply some form of efficient pricing as well. However, we do not make specific comments on retail price control as this the subject of another on-going consultation, except to the degree that it relates to more general competition concerns.

[5] ictQatar enumerates these principles as: relevant, reliable, comparable, verifiable, transparent and comprehensive.

With respect to cost-orientation, we believe the principle should state that the RAS must establish the link between costs and activities at as granular a level as possible, and that revenue and cost values should be attributed to network elements, services according to the activities that cause these revenues to be earned or costs to be incurred.

With respect to non-discrimination, the information being presented should not be slanted, either to favor one of the constituent businesses over another or to favor the businesses over third parties. In respect to the latter, we believe that ictQatar's approach to transfer charges need to be revised. We discuss this more in our response to Question 11.

Second, there is a list of principles that would pertain to costing itself. Elsewhere in the Consultation Document (Section 4.6.1), ictQatar has listed a set of principles for cost allocation, but this misses the mark on principles to be employed for determining an efficient cost-base, e.g., for pricing wholesale products. Those principles should include such concepts as:

1. Cost efficiency. The cost methodology for setting such prices should capture those costs faced by the DSP for providing services or network elements that would lead to prices found in an efficient market for provision of such elements or services; and

2. Cost minimization. The cost-base should allow the DSP to recover only costs efficiently incurred, reflect a properly dimensioned network and not lead to over-recovery of assets that are heavily depreciated or acquired at below market prices.

Question 4

Do you agree that ictQatar should have full access to the RAS and how can this be ensured?

Unequivocally ictQatar should have full access to all the elements of the RAS, including all inputs and assumptions of the underlying cost model(s). This can be ensured by specifying exactly what ictQatar has access to (which we believe ictQatar has done so in the consultation document), clarifying what sanctions are available to ictQatar should Qtel not comply and enforcing such sanctions should Qtel not comply.

The more important issue is the provision of access to RAS reporting to other interested parties. Indeed, one of the more disturbing aspects of this proceeding is the fact that ictQatar has not raised the matter of the role of other interested parties in the RAS. This is disturbing for two reasons:

1. QNBN respectfully submits that, however competent ictQatar views its ability to monitor costs and pricing associated with retail and wholesale products and services and effectively identify anti-competitive practices on its own, interested parties (who may be harmed by faulty costing practices and anti-competitive conduct) are oftentimes better placed to raise and identify significant issues.[6]

[6] Even the most competent of regulators in the world have not hesitated to recognize the importance of making cost and accounts information of dominant incumbents available to other interested parties. In large part this is in recognition of the valuable role to be played by those parties in achieving a truly balanced and dynamic competitive

2. As ictQatar wants to include the generation of cost-based wholesale prices in the RAS, other interested parties that will be paying these wholesale prices must have broader access to RAS approach, methodologies and results. All the more so when ictQatar later considers the issue of symmetry between service provider charges for like services.

Other interested parties should have access to the following elements of the RAS:

a) the description of the RAS,

b) separated Financial Statements (SFS),

c) audit and statement of compliance ,

d) driver and allocation information of the type described in our response to Question 17, and

e) the methodology, inputs, assumptions and calculations associated with the CESP-adjustments and derivation of relevant wholesale prices.

Access to elements a)-c) is usual practice and will allow those potentially subject to anti-competitive behavior to assist in identifying suspect behavior in the regulatory accounts statements. Access to element e) is usual practice for the development and implementation of cost models for regulated wholesale prices.

We understand that ictQatar must balance a number of competing goals in determining access to the RAS: ensuring the generation of useful financial information to ensure compliance with regulatory mandates, and not unduly burdening the regulated entity or exposing its truly confidential information. However, there is nothing in QNBN's proposal which unduly burdens the DSP or transgresses the protection of confidential information. ictQatar should be wary of incumbent's claims to the contrary.

If, however, ictQatar cannot convince itself of the inherent merits of providing interested parties with access to the kinds of disaggregated information that would enable them to assess, for example, what transfer charges are being applied in the model and how those charges flow through to inter-business financial statements, then ictQatar must find another viable solution and/or strengthen up other aspects of the RAS. In circumstances in which confidentiality prevents adequate vetting of the accounts, ictQatar should implement

- A means by which competitors can appoint an independent examiner to review DSP cost information under appropriate NDAs;
- More transparent ex-ante imputation tests carried out with participation of relevant competitors/interested parties; and
- Additional safeguards on how the Qtel wholesale portion of the enterprise interacts with other parts of the Qtel business such as its retail segment. As will be elaborated upon in the Conclusion section, ictQatar needs to implement additional safeguards for many reasons, over and above the

marketplace.

confidentiality issue.

Question 5

Do you agree that a wholesale unit is required? If not how should inter-operator costs be reported on?

QNBN is unequivocal in its belief that a wholesale unit should be created within Qtel separate and distinct from its retail operation. This is the simplest and most transparent means of capturing the non-discriminatory relations between services provided to other service providers and the DSPs retail customers.

Further, QNBN believes that not only should regulatory accounts be separate and distinct, but ictQatar should introduce other mechanisms, including policies and procedures, which prevent cooperation and exchange of competitive information between the wholesale and retail units. It is only in this manner that any real semblance of a balanced assessment of costs and pricing can be achieved as well as minimizing the potential for anti-competitive activity. Again, QNBN makes a number of proposals on this issue in its Conclusion section of this submission. QNBN is unambiguous in its support for mechanisms that render the wholesale and retail units of Qtel separate and distinct.

Question 6

Are there changes required to the RRUs? What are the changes and why are they required?

We are generally satisfied with the specification of the Regulatory Reporting Units (RRUs) in the Consultation document. However, we believe that it is not necessarily true that “International operations” and other activities that are irrelevant to domestic telecom-related services can be grouped in to the “Other” RRU”. It is quite possible that the domestic wholesale unit is supplying services to international operations and that international operations are supplying services to the retail unit. These arrangements may have significant implications for the cost-bases of particular services or network element. For example, if domestic wholesale assets are being used by international operations, or vice-versa, then the cost-bases of each should reflect the shared nature of those assets.

We note that the discussion of the reconciliation statement is cursory. The RAS instruction should state clearly the two primary purposes of the reconciliation statement. Firstly, it serves the general purpose of verifying that the HCA-based FAC modeling and reporting (including reporting across RRUs) does not hide or miss values. Secondly, the reconciliation statement must be designed so that all the adjustments involved in each cost-base reported in the separated accounts are accounted for. The reconciliation must be disaggregated enough to allow ictQatar and other interested parties to understand the nature of all differences—RAS vs. statutory—in the values by revenue, cost, asset and liability category.

Question 7

Please indicate if there are reasons for not using FCM as part of the CCA/CESP cost base.

QNBN is satisfied with ictQatar's use of Financial Capital Maintenance (FCM) over Operating Capital Maintenance (OCM) in its implementation of CCA. FCM is now generally accepted practice in regulatory proceedings. For example, the European Commission has stated:

> *The use of the OCM concept may systematically incorporate insufficient or excess returns into the level of allowed revenue (depending, respectively, on whether asset-specific inflation was expected to be lower than or higher than general inflation). This is not a desirable feature of any regulatory regime, as it would not provide appropriate investment incentives. Under FCM however, the returns to the providers of capital would equal the required return (as measured by the cost of capital) irrespective of whether replacement costs were rising or falling relative to general prices. Hence, if current cost accounting information is used as the basis to determine interconnection charges, FCM is the preferred capital maintenance concept.* [7]

Question 8

What are the features and timeframes for CESP reporting, if this is required?

As indicated above, we would have preferred that Cost of Efficient Service Provision (CESP) types of adjustments be the subject of a separate wholesale pricing proceeding. This is for three reasons:

1. Combining consideration of CESP-type adjustments with the other cost standards introduces a lack of clarity as to what the CESP adjustments are to be used for. For example, unlike HCA-based or CCA-based FAC, a CESP-based FAC should not have a role in monitoring anti-competitive behavior.

2. Ultimately a separate proceeding would allow ictQatar to differentiate the reporting requirements for CESP-type adjustments that would accelerate the production of the simpler FAC-based separated accounts.

3. While we applaud ictQatar's desire to produce an alternative to FAC to reflect an efficient, forward-looking cost-base for wholesale products, it remains that CESP is of dubious value. A separate proceeding would allow ictQatar to consider more appropriate approach to its determination of wholesale prices. In particular, as we understand it the CESP would involve four types of adjustments:

[7] See Commission Recommendation of 8 April 1998 on interconnection in a liberalised telecommunications market (Part 2 - Accounting separation and cost accounting) at http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31998H0322:EN:HTML

i. Revaluation adjustments of assets using Modern Equivalent Asset (MEA)[8].
ii. Adjustment of the number of assets and/or the configuration of these assets to reflect an efficient business structure.
iii. Spare capacity adjustments. The efficient spare capacity is required in the foreseeable future, as technically and/or economically warranted capacity and can be objectively justified in operational or economic terms.
iv. Revaluation of operational and maintenance costs.

In our view, the first of these adjustments is already covered in the CCA undertaking with respect to FAC. The other adjustments are not well defined and lack a methodological approach that would give confidence that they would be carried out to the extent necessary to achieve ictQatar's objectives. It would be far better to accomplish this, for example, through a bottom-up modeling exercise. In this regard, please see our response to Questions 9 and 10.

We will return to desirable features for CESP absent an incremental costing approach in our response to Question 10. With respect to timeframes, we note ictQatar's schedule for introducing HCA-based FAC for 2010-2012 by August 2013. If carried out through CESP adjustments to FAC as ictQatar proposes, an efficient cost-base could, and should, be implemented into Qtel's reporting by no later than the end of 2013.

Question 9

Is there a need for incremental costing and where would this be applied?

As indicated above, QNBN believes the role of any cost-base must be viewed in light of the regulatory objective to be carried out. For example, QNBN does not believe that incremental costing is required for the purpose of monitoring anti-competitive behavior via accounting separation.

However, there is a critical role for incremental pricing. Long-run incremental costing (LRIC) should be the fundamental approach to setting all regulated wholesale product prices.

Furthermore, even within the single cost standard of incremental costing, it is important to recognize that different cost-bases may and should be implemented.

For example, ictQatar has expressed the concern that some costing methodologies may be pro-competitive for service markets, but may not be for others. We share that concern. It is widely acknowledged, for instance, that CCA may lead to overvaluation of the price of legacy network. In case of infrastructure such as duct and trenching choosing such a CCA approach will inevitably lead to an artificial cost increases related to labour prices that are significantly higher than years ago when much of network was actually deployed.

QNBN believes, however, that the concern should not be misplaced. Incremental costing *per se* is not the problem. For example, using a LRIC approach with historic cost for non-replicable assets and reflecting

[8] We note that ictQatar uses the term "MEA" to capture all four of these adjustments.

actual depreciation can capture the benefits we associate with incremental costing without characteristics harmful to market entry.

Such flexibility in choosing the cost-bases *within* the LRIC modeling standard was shown in the early days of LRIC modeling in Hong Kong, for example, and has been reaffirmed more recently by the European Commission, which states that

> *…A consistent regulatory approach may therefore imply that NRAs use different cost bases for the calculation of cost-oriented prices for replicable and non-replicable assets, or at least adjust the parameters underpinning their cost methodologies in the latter case…. NRAs should ensure that access prices reflect the costs effectively borne by the SMP operator. NRAs should in particular take into account actual lifetimes of the relevant infrastructure and possible deployment economies of the SMP operator. Access prices should capture the proper value of the infrastructure concerned, including its depreciation.*[9]

A similar comment could be made regarding the value of land. It is quite likely that a large percentage of land currently used by Qtel was granted at no cost. . There is nothing in an incremental costing approach that would require that such an asset be valued at anything other than zero. Where land was granted to Qtel free of charge there is no reason to include the value or cost of public land in the costing exercise. This land was free when Qtel was granted access to it, and no law requires it to be otherwise. Therefore the replacement cost of this land is zero.

Similarly with respect to ducts, there may be a significant portion of duct infrastructure that Qtel recognizes today in its Asset Register and was in effect entirely paid for by Ashghal and other third party developers. While generally accepted accounting practices may permit Qtel to attach a valuation to such infrastructure for internal purposes, there is absolutely no basis or merit for the incumbent to pass on this valuation as part of the underlying costs of wholesale services or duct infrastructure.

Question 10

If an IC approach is required

a) how should it be implemented?

b) which increments should be defined?

c) what would be advantage?

As indicated above, QNBN believes an incremental costing approach should be required to the setting of cost-based wholesale products, and that such an approach should be subject to a stand-alone proceeding that focuses on the standard elements of a LRIC study such as:

[9] See the Commission Recommendation of 20 September 2010 on regulated access to Next Generation Access Networks (NGA) at http://eur-lex.europa.eu/LexUriServ/%20LexUriServ.do?uri=OJ:L:2010:251:0035:0048:EN:PDF

- Bottom-up vs. top down costing
- LRIC plus vs. pure LRIC
- Definition of Increments
- Pricing of Assets
- Modelling period
- Greenfield vs. Scorched node
- Technology assumptions
- Engineering and Dimensioning rules
- Asset Lives
- Depreciation
- Cost of Capital
- Treatment of Network Operating and Common Costs
- Demand assumptions
- Routing factors

In such a case it would not be necessary to delve into particular aspects of an incremental costing approach in the context of the RAS discussion. However, as ictQatar appears to want to have this proceeding deal with elements of incremental costing, we will be responsive to ictQatar's query regarding the defining of increments. We believe that a model or two models (one for core network and one for the access network) could be constructed that allowed for a variety of increments and therefore provided flexibility as to LRIC+ or pure LRIC of various services.

The advantage of an incremental cost approach is that LRIC would enable ictQatar to avoid the distortions and over-valuation that we believe would inevitably arise from a CESP approach. In particular, LRIC would allow implementation of a bottom-up approach that more systematically captures:

- efficient dimensioning of the modeled network through a scorched node or greenfield approach;
- availability of new technologies that were not present when the current network was established;
- more efficient arrangements to use and sharing of existing civil infrastructures; and
- opex measurements that take account of differences in the dimension of the network, reflect changes in unit costs over time and mimic increasing efficiency resulting from the use of more modern technology and productivity increases over time.

If ictQatar believes that constructing separate LRIC models would delay implementation of the RAS and therefore go forward with its CESP adjusted FAC, then it should develop CESP-type adjustments that mimic these additional efficiency elements. For example, it could:

- require Qtel to provide information that would allow it to compare optimal to actual route lengths between nodes and make corresponding adjustments to ducting and trenching costs;
- impose sharing assumptions on the use of infrastructure reflecting policy objectives of ictQatar rather than actual sharing that Qtel has implemented on the basis of commercial decision-

making; and

- Disallow opex and common cost that are greater than levels implied by relevant international benchmarks of expense factors and other mark-up ratios.

Question 11

Do you agree with the cost transferal approach? Alternatively, if cost transferals are to be based on for example the wholesale rates paid by other service providers then how should internal transfers such on an on-net call be defined, as these services are not available externally?

QNBN fundamentally disagrees with the proposed cost transferal approach. QNBN believes that the separated accounts must be based on transfer pricing between lines of business of the DSP that reflects the actual wholesale prices paid by other service providers. Doing otherwise eliminates a key benefit, if not *the* critical element, of the RAS as a tool for monitoring anti-competitive behavior.

The reporting statements of the RAS should reflect as closely as possible the performance of the parts of the notified operator's business as if they operated as separate businesses. Thus, the transfer charges should be equivalent to the charge that would be levied if the product or service were sold externally rather than internally. This has long been recognized as best practice.[10] QNBN urges ictQatar to do likewise.

Furthermore, the reporting requirement should require that the transfer charges between businesses and disaggregated businesses be disclosed in such a way that interested parties can verify that the appropriate transfer charges have been employed.

In this regard ictQatar should not be preoccupied with services that Qtel provides that are not provided to external third parties, e.g., on-net pricing. The point is where there is a price offered to a third party, which is regulated due to Qtel dominance, that price should be used in the reporting. It is quite typical in accounting separation practice that the transfer charge is set equal to the price (as stated in the Reference Interconnection Offer (RIO), any other Reference Offer or other document[11] containing the regulated service price *where a service is sold externally*. *Where a service is rendered only internally*, the transfer charge for the service is equal to the unit cost of service according to the notified accounting basis and accounting methodology.

In implementing this requirement in the RAS, ictQatar should include provisions that would prevent the DSP from introducing fictional tariffs created for anti-competitive ends. For example, transfer charges should include volume discounts or other kind of conditional discounts beyond what is actually provided to third parties. Thus, the RAS should include a provision that the DSP shall not apply to itself a discount higher than the average discount being provided to third parties.

[10] See, for example, Commission Recommendation 2005/698/EC of 19 September 2005 on accounting separation and cost accounting systems under the regulatory framework for electronic communications.

[11] Should the regulated wholesale product be sold under a different agreement than a reference offer, this requirement, assuming proper transparency, has the added benefit of assuring that undue discrimination is not taking place among service providers.

Furthermore, it is highly unlikely that every relevant service will be narrowly enough defined in the accounts to detect anti-competitive pricing. Therefore ictQatar must consider including, as part of the RAS, an imputation test methodology to ensure that Qtel will understand how such a test will be conducted. QNBN is unequivocal in its support for imposing imputation test requirements upon the DSP.

Such methodology could include the relevance of the equally efficient operator standard, the nature of relevant DSP's costs and other aspects of such tests as typically found in ex post competition law. Obviously, the provisions related to imputation or margin squeeze testing should be consistent with that determined in the context of ictQatar's on-going consultation on retail tariff control.

Question 12

Do you agree with the absorbed cost approach for business sustaining type costs or should these be allocated using a mark-up regime?

It is practically impossible for an outside party to determine whether "absorbed cost" approach is preferable to a mark-up regime without having a view as to how the drivers and other cost allocations will be deployed in the cost model. That said, if ictQatar conducts its review of the cost model ably with a view to achieving a "fairly presents" results, then an absorbed cost approach would be preferable.

Part of the reporting that should be available to other interested parties would be that illustrating how much of each type of cost is being allocated by which driver or activity-hierarchy. This would assist in an assessment of whether and how much the treatment of business sustaining costs carries a risk of misallocation. We touch on this further in our response to Question 17.

Question 13

Do you agree with the principles for moving the RAS to cope with NGN and NGA costs? If there are other suggestions, please elaborate.

We appreciate the problem that NGN&A pose for costing. We believe a shift to incremental costing for fixed and mobile networks developed in a separate proceeding would assist in minimizing the risk of convergence-induced cost distortion for wholesale pricing. Bottom-up modeling, for example, would allow more explicit articulation of the converged platform to map costs to services in a more rigorous fashion.

As it is, ictQatar will have to cope with converged NGN and NGA costs through a less sophisticated means of allocations through drivers. The drivers must be robustly justified by the DSP and supported with evidence that the basis for the driver—be it volumes, capacity, etc.—is valid. Publishing driver information as we have proposed in our response to questions 4 and 17, will enable interested parties to sense check the assumptions on NGN and NGA allocations.

Question 14

Fibre in the loop is expected to become a major cost and major service providing platform. Are there other approaches to ensure adequate cost information is available?

It is not entirely clear what is meant by the statement "to ensure adequate cost information is available". Properly implemented accounting separation can help determine what Qtel's actual costs are. This is something quite different from what they ought to be for pricing purposes.

Again, we don't believe that the proposed RAS as currently defined is best suited to set pricing for infrastructure. There is plenty of information available in LRIC models and that would be revealed in a proper LRIC modeling proceeding.

Question 15

Do you agree with the capping of WC and cash and is this a reasonable level?

We note that capping working capital (WC) and cash is part of a set of adjustment for achieving an efficient cost-base. Thus, this is more an issue for cost-based price determination than for monitoring anti-competitive activity. As such, it could be left out of the FAC analyses, but included in the CESP-type adjustments.

Again, we would prefer that it be taken up in a separate proceeding on wholesale pricing. However, we agree that there should be some limit implemented as part of CESP-type adjustments, and we do not have any objection to ictQatar's proposed approach to constituting such a limit.

Question 16

Do you agree with the retail cost allocation method? ictQatar is well aware of the limitations and the above approach is only an indication of a product's cost value and it cannot be taken as a definitive basis for evaluations and price controls. Price control precedures are not part of this Consultation.

In general, we can agree with ictQatar's approach to retail cost allocation. However, we note that the assignment of retail costs and revenues to tariff bundles rather than the services in each may cause an enormous expansion of the reporting requirement and complexity of the underlying model(s).

Ultimately, we believe that to monitor anti-competitive activity ictQatar will be forced to look at these bundles separately. It would be more practical to do so in the form of imputation tests that are conducted "off-model".

This is another reason why we believe ictQatar should make imputation test part and parcel of its accounting separation regime as discussed above.

Qatar National Broadband Network

Question 17

Have you any comments on the product reports (retail and wholesale), network element reports and SFS?

We believe that there are some reporting elements that should be added to ensure that access is more effective. In addition to the statements that ictQatar has identified, DSPs should also require the reporting of the drivers, costs types allocated by such drivers and % of cost allocated by such drivers.[12] Such information should be displayed in manner that the reader can readily understand which driver is applied to what type of costs and how significant the allocations are for each driver within the cost type.

The published accounts need to be in sufficient detail to enable other interested parties to vet the transfer charging between DSP businesses. Transfer charges cannot be so highly aggregated level that they prevent this. We are pleased that ictQatar has included in its Detailed Statement of Costs of Production volumes and unit costs. It should ensure that the detail is such that it will allow comparison with actual tariffs charged in the market. ictQatar should confirm with all interested parties that it has included all relevant services in its Wholesale product cost statement. That statement must be as comprehensive as possible.

Conclusion

We have three sets of concluding comments. Firstly, we summarize our proposed amendments to the RAS. Secondly, we set out the case for a second round of comments on the RAS. Finally, given that, on its own, even in the best case, the RAS is unlikely to stop Qtel from engaging in anticompetitive activity, we outline what specific actions need to be pursued to prevent anticompetitive behavior in the provision of wholesale services provided by Qtel.

Summary of proposed amendments to the RAS

QNBN's views on the regulatory objectives and recommended cost-bases is summarized in the following table:

[12] We have in mind the kinds of driver reporting found in, for example, the UK (see http://www.btplc.com/Thegroup/RegulatoryandPublicaffairs/Financialstatements/2012/index.htm), Guernsey (http://about.surecw.com/guernsey/regulation/) or, closer to home, in the Sultanate of Oman (http://www.tra.gov.om/newsite1/Portal/Upload/Documents/370_AS%20&%20RA%20Framework%20%20-%20final.pdf). However, we believe the driver reporting can be accomplished in a much more user friendly fashion.

Objectives	Recommended Cost-basis
Monitoring and prohibiting anti-competitive conduct	HCA- and CCA-based FAC for the production of separated accounts for all Qtel businesses. Tariff-based transfer charges utilized as per response to Question 11 below. Imputation test methodology should be developed as part of the RAS, but implemented on an ad-hoc basis as issues arise.
Wholesale price control	Preferred: Incremental costing (bottom-up) developed in a separate proceeding with appropriate cost standards to prevent overvaluation of Qtel assets as per response to Question 9; Second-best: utilize CESP-type adjustments to appropriate HCA and CCA FAC results, but improvements as per response to Questions 8, 9 and 10.
Retail price control	Not the subject of this consultation.
Additional cost studies	Produced on an ad-hoc basis
General transparency	Separated accounts to be published as per response to Questions 4 and 17 Costing methodology, calculation and results published as part of wholesale price control.

We believe that the main focus of this proceeding should be a set of separated accounts that assist the industry to safeguard against anti-competitive behavior. QNBN believes that ictQatar must introduce a number of changes if it is to achieve that objective. These changes include the following:

- the separated accounts must be based on transfer pricing between lines of business of the DSP that reflects the actual wholesale prices paid by other service providers. Doing otherwise eliminates a key benefit, if not *the* critical element, of the RAS as a tool for monitoring anti-competitive behavior; and
- other interested parties must have access to elements of the RAS to allow those potentially subject to anti-competitive behavior to assist in identifying suspect behavior in the regulatory accounts statements.

QNBN has offered the following additional CESP-type adjustments beyond what ictQatar has already put forth and that mimic the additional efficiency elements that would be captured in an incremental cost study:

- require Qtel to provide information that would allow it to compare optimal to actual route lengths between nodes and make corresponding adjustments to ducting and trenching costs;
- impose sharing assumptions on the use of infrastructure reflecting policy objectives of ictQatar rather than actual sharing that Qtel has implemented on the basis of commercial decision-making; and
- disallow opex and common cost that are greater than levels implied by relevant international benchmarks of expense factors and other mark-up ratio.

The need for a reply round

In the cover letter to this consultation reference was made to the possibility of a Response Document. QNBN urges ictQatar to include an additional reply round to enable interested parties to comment on the initial comments made by others and any further thoughts ictQatar has on this issue as a result of this initial round. This additional round is necessary for several reasons. Firstly, this is the first time ictQatar has consulted publicly on the RAS, and there are significant unresolved issues regarding objectives. This round of the consultation therefore has had a significant "scoping" element, in which interested parties are expressing views on basic issues such as what the RAS ought to concern itself with. It requires another round to be sure that all the substantive issues are bottomed out.

Secondly, the topic raises a number of issues not explicitly raised in the consultation document, so an additional round is needed to ensure that interested parties have a possibility to express their interest fully and in an informed way on additional matters raised in the first round responses.

Finally, the extensive role that ictQatar has proposed for the RAS in the regulatory regime means that the issues are more involved and complex than a consultation devoted simply to regulatory accounting separation. Interested parties are likely to have significant observations and comment on the material and opinion provided in the first round.

Accounting separation: Necessary, but not sufficient, to address anti-competitive concerns

Ultimately, QNBN has serious reservations as to whether accounting separation will be implemented effectively enough to prevent the anti-competitive behavior that we see in the market today. Even with the additional provisions that we have described in this submission above, ictQatar should not be deluded into thinking this RAS will *prevent* anti-competitive behavior. At best, it can only flag anti-competitive behavior in certain narrow circumstances and possibly provide evidence for cases ex-post.

If ictQatar is committed to preventing anti-competitive behavior and to discouraging such negative market activity, QNBN believes that ictQatar should institute additional safeguards, which would

1. require Qtel to create a separate management structure and brand for Qtel Wholesale;
2. require that Qtel Wholesale operate at 'arm's length' on price-related terms with Qtel Retail;
3. require that all service provider customers to Qtel Wholesale are provided the same commercial information about products, services, systems and processes;
4. prohibit any employee of Qtel, who is not working for Qtel Wholesale from directly or indirectly influencing the commercial arrangements of the wholesale division except through such mechanisms and processes that are also available to other service provider customers;

5. prohibit any Qtel employee working for Qtel Wholesale from disclosing customer confidential information to Qtel employees working outside its wholesale division except in exceptional circumstances; and

6. require internal arrangements and transparent reporting which facilitates the assessment of whether transactions between Qtel’s retail and wholesale customers is non-discriminatory or equivalent."

RAS Instructions to Qtel Qatar (Qtel) Q.S.C.,

Consultation Document

issued by ictQATAR 23 October 2012

Submission by Qatar Telecommunications (Qtel) QSC

29 November 2012

1. Introduction

1.1 Qtel welcomes the opportunity to provide comments on ictQATAR's draft RAS Instruction for Qatar Telecommunications (Qtel) Q.S.C. (Draft Instruction). The regulatory accounting system (RAS) has the potential to profoundly affect the telecommunications regulatory regime and the telecommunications market in general. Qtel appreciates the care and attention that ictQATAR has paid to this framework and provides the comments contained in this submission with the hope of contributing constructively to its further development.

2. General

2.1 Qtel notes that the Draft Instruction is an adaptation of the Draft RAS Instructions issued by ictQATAR on 8 August 2010. Qtel further notes that it provided ictQATAR with its detailed comments on the earlier draft RAS Instructions in March 2009, which are attached for convenience of reference. In the interests of brevity, we do not reiterate those comments here, but rather focus our comments on those aspects of the Draft Instructions that represent a material change from the prior version.

2.2 **Level of Detail required:** In general, Qtel is of the view that the RAS Instructions 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. Qtel's position is that the proposed requirements on RAS model and set of financial accounts are overly complex and unwarranted in light of the size of the Qatari telecommunications market. The levels of disclosure and complexity proposed in this document will likely result in increased developmental times and difficulty in meeting ictQATAR's proposed timeframe. Qtel would urge ictQATAR to consider the fact that international auditors perform a sufficiently detailed audit of the RAS submission to remove the need for many of the detailed reporting requirements.

2.3 **Use of RAS for Retail Regulation:** The Draft RAS Instruction makes reference to the use of RAS outputs with regard to regulation of retail prices. Qtel also notes that ictQATAR has made reference to the use of RAS outputs with regard to testing for anticompetitive pricing in the past. Qtel respectfully submits that while a historical cost accounting using fully allocated costs (HCA FAC) is commonly used as a means of establishing a wholesale or retail price control for a telecommunications operator deemed dominant in a particular relevant market, such price controls are ordinarily used as upper limitations on prices, rather than as a test for anticompetitive pricing below cost. Indeed, the position that prices below HCA/FAC are per-se anticompetitive is inconsistent with accepted notions of competition law and economic theory.[1] Qtel views the use of such a costing standard to have the potential to distortthe market, while inhibiting Qtel from competing effectively. Qtel would therefore urge ictQATAR to refrain from use of RAS outputs in analysing the competitive effects of Qtel retail prices until an appropriate incremental costing model is developed.

2.4 Based on our review of the two versions of the Draft RAS Instructions, we have identified the following elements as significant material changes upon which our comments are focused:

- **Qtel Group**: The revised draft Instruction proposed the scope of RAS being “the **entire** operations of the Qtel group”. This is a significant departure from the existing instruction where the scope was limited to Qtel domestic operations. The inclusion of Qtel Group would add considerable additional burden on meeting the RAS obligation, particularly in the time provided, as it will include all of Qtel’s operations across 16 different countries. The financial results of each are prepared in accordance with respective national accounting and taxation laws and requirements, including those of various stock exchanges. Their inclusion in RAS would necessitate a re-audit of each financial statement that has already been subject to external audit. For the purposes of clarity, Qtel understand the scope of the RAS is limited to Qtel’s domestic operations in Qatar, with a reconciliation to Qtel Group accounts. If ictQATAR intends that the RAS cover other aspects of Qtel Group activities, it would be helpful if specific details are provided, taking into account the additional burden and time required for such an expansion in scope.

- **Statement Disclosure Details:** Qtel notes significant additional information is requested as part of the SFS to be submitted to ictQATAR. Such additional information will add consider delays to the RAS development times, adding to its complexity, requiring the development of new models & processing routines in order to produce this information along with the necessary reconciliation and audit steps. [[redacted]].

  Qtel is of the view that all of this information is already contained within and easily accessible from the RAS models, which form part of the

[1] Qtel notes that the accepted position of the European Commission with regard to predatory pricing of telecommunications services is that prices below average variable cost are always to be considered abusive; prices below average total cost but above average variable cost are only to be considered abusive if they form part of a plan to eliminate competitors. See Case C-202/07 *France Télécom v Commission* [2009]. *Cf.* Qtel License, Annexure I, Article 3.6.

submission to ictQATAR. It should also be borne in mind that as the RAS requirements expand the more complex the models become, requiring additional expert resources on the part of ictQATAR. Qtel believes this additional information will not provide a great deal of additional insight into the RAS itself and is of limited value, while being in excess of that required by the more mature and advance regulatory regimes of Europe. Therefore, these additional burdensome requirements appear superfluous, ill proportioned to the size of the Qatari telecommunications market, and where more reliance should be placed on the RAS audit findings. Additional requirements:

- RRU - additional detailed network components listing, including separate disclosure of supporting operating cost and cost per unit of usage for each individual network element.

- RRU – additional product group listing, including separate disclosure of supporting operating cost, volumes and cost per unit of usage for each individual product group.

- Transfer cost schedules (stand alone & RRU specific) – **significant additional cost granularity** (as above), going down to individual product level. Transfer charges should be an RRU level not product group level, which is more detail than what one could realistically makes use of. The associated RAS developments for these requirements alone are significantly material.

- Wholesale RRU – this is a new requirement, which can be obtained from the individual three other RRU's.

- Additional cost types – new requirements are introduced e.g. overheads and business sustaining costs, which has significant implication of the RAS structure change.

- Special treatment of NGN – additional requirements are treatments are included in this respect. Qtel needs to ensure the principles of RAS are maintained provided underlying robustness to the model and its outputs.

- Working Capital – reference is made to "one month" of working capital as the upper limit. Qtel is of the opinion that this is unreasonable and presumably based on a European operator that has been subject to competition and regulation for many years and which has had sufficient time to adjust it business. Therefore, it would be unfair to enforce such requirements on Qtel in the early stages of competition.

- Mark up approach - this is applied to LRIC models and should not be applied in HCA FAC as it violates the principles of causality and consistency. This causes distortions in the transfer charges calculations and understands various network element costs.

2.5 **Concurrent RAS Development:** The Draft Instruction details the requirement to develop regulatory statements for fiscal years 2010, 2011 and 2012 concurrently. As Qtel has expressed in previous submissions, we view this requirement as overly burdensome and ultimately counterproductive in fulfilling our shared goal of a robust and useful RAS. Rather, Qtel would remind ictQATAR that it original proposal was for the RAS based year to be FY2010, while ictQATAR mandated FY2009. We believe that it is simply unworkable to continue with the type of review experienced with regard to Qtel's FY2009 RAS, which underwent 18 months of review and resulted in no change in structure, approach, methodology, configuration or calculations. Apart from the adjustment in working capital balances, the net effect of this review resulted in only very a slight change in outputs. Qtel is keen to avoid a repeat of this exercise in future RAS submission and draws ictQATAR's attention to the reliance of RAS on the associated audit performed by Qtel appointed international auditors.

2.6 In line with being pragmatic and practical, Qtel's proposal is that RAS FY2012 be developed first, ahead of FY2011 and FY2010. This will yield up to date information, relevant data, on which are, more reliance can be placed upon by ictQATAR.

2.7 **Use of Cost Model:** The Draft Instruction includes a requirement that Qtel provide the "cost model" to ictQATAR. Qtel is of the view that it is unnecessary to provide the full model to ictQATAR as all of the information required is contained in the SFS's. Further, ictQATAR should place more reliance on the final audit report as produced by Qtel's appointed independent auditors, at considerable expense. If reliance is not placed by ictQATAR on this audit report Qtel recommends this requirement to be removed. Rather, Qtel proposes to propose a framework instead.

2.8 **PPIA Auditing:** The Draft Instruction would require Qtel to supply audits of the RAS, SFS and reports to the level of Properly Prepared in Accordance with (PPIA), audit standard. Qtel is of the opinion that a PPIA audit is not feasible for FY2010 and FY2011 as in most instances network and traffic related information is not kept and we would have preferred AUP's. Any such audit will necessarily result audit qualification, which ictQATAR have stated they full expect. Further, in addition to a high level of audit assurance, the Draft Instruction would require a letter of representation from Qtel executives. This is a most unusual requirement given that external auditors are being engaged to audit the RAS. Qtel therefore recommends this requirement to be removed.

2.9 In addition, the PPIA audit standard requires that Ernst & Young, Qtel's selected regulatory auditor, review the model inputs, the RAS model itself, the SFS and the supporting documentation, and produce a statement of compliance to confirm (or otherwise) that they have been prepared in accordance with the RAS Instructions and Qtel's supporting documentation.

2.10 The output of the audit will be an audit statement (*i.e.* a PPIA statement), an audit methodology which sets out the detailed tasks undertaken by Ernst & Young, and an audit report that documents the results of the tasks undertaken and highlights any exceptions (*i.e.* where there are some differences between the approach taken by Qtel and the Instructions and/or RAS documentation). Ernst & Young, in line with international best practice, will place reliance on the statutory audit, and therefore the audit of RAS model financial inputs would seek to reconcile financial inputs to source (*e.g.* the general ledger or fixed asset register). In the case of operational inputs, the same approach applies; data is traced back and reconciled to operational engineering data.

2.11 In this context, Ernst & Young has reviewed the list of requirements (a - m) set out by ictQATAR in Section 4.10.4, and has some comments. In particular, requirement c) should be removed or amended, as it would appear to require Ernst & Young to take an opinion on Qtel's accounting records, which would more properly be the role of the statutory auditor. Further, requirement h) would require Ernst & Young to comment on capitalisation or amortisation approaches, again more properly within the scope of a statutory audit, and hence should also be amended. Ernst & Young considers that it may be appropriate for the regulatory auditor to review valuation policies but only where assets have been re-valued on a current cost accounting basis specifically for the purposes of constructing the RAS. Ernst & Young agrees that the allocation methodology should be within the scope of the audit.

2.12 **Other Comments:**

- Qtel believes that the proposed requirement in section 5.1 that “the HCA/FAC elements of the RAS, together with a description of the RAS, should be submitted for each financial year within 6 months of the end of the financial year” should instead require submission 6 months after publication of Annual Financial Statements. Similarly, the Accounting Manual should be submitted 2 months after Annual Financial Statements are published.

- Submission timeframes for FY2010, FY2011 and FY2012 RAS materials will have to be re-considered to incorporate the requirements contained in the final revised RAS Instruction. Qtel is of the view that in order to achieve the best and most reliable information, processes cannot be rushed and a realistic and reasonable approach is warranted.

- Pro-Forma

1. Definitions should be provided by ictQATAR as to what they intend to include in each of the components of the pro-forma and whether such a reporting format is should be considered fixed and includes the minimum information that is required or whether it should be considered flexible and depends on the availability of what can be submitted.

2. Clarification is required as to whether the term “business sustaining” includes all support costs or just common costs.

3. The Fixed Access, Fixed Core and Mobile RRUs should have the similar reporting as required in the Wholesale RRU, vice versa

4. Qtel suggests combining prepaid and postpaid into Mobile.

5. Clarification is required as to what products are required to be reported and whether the previously provided product grouping is suitable, and also whether such product groupings should be reported in the SFS.

6. Clarification and further definition is required with regard to efficiency adjustments in SFS and whether such adjustments are required for FY2010, FY2011 and FY2012.

7. Clarification is required with regard to asset Revaluations in SFS and whether this requirement applies for FY2010, FY2011 and FY2012.

8. Clarification of the need for Route Factors and NE unit cost per service on SFS if the models are in the capable hands of ictQATAR.

3. Qtel Answers

Question 1	Do you agree that currently Fully Allocated Cost (FAC) based on HCA is currently the required cost base and cost standard?

RAS is an evolutionary process, the first stage of which is to employ an HCA/FAC model that provides a sound basis on which to make an initial assessment of Qtel’s business and the Qatari telecommunications market in respect of cross subsidization and cost orientation. The essential element to this is question lies in the question of what the outputs of RAS will be used for. In respect of cost of Qtel’s services, HCA/FAC should only be used for well-established services that have been launched several years prior to the fiscal year reported and that do not require significant additional investment. If indeed, additional investment is required in such services, the RAS outputs may not capture the full impact of these investments until the next successive year's outputs. The RAS outputs should not be used in the evaluation of nascent services that are still growing and have yet to reach sustainable and profitable levels of customers, numbers and / or volumes.

In order to gain an informed view of behaviours and arrive at supportable conclusions, however, several years RAS submissions based on the same HCA/FAC methodology should be developed. A review of the multiple submissions will provide a rational basis on which to compare outputs from one year to another, something that cannot be easily performed when the base methodology is different between comparative years. It is often the case that any single year RAS submission may include one-off distortional impacts that are not present in prior years or the next successive year.

Such one-off distortional impacts, if taken in isolation, may lead to erroneous results and incorrect conclusions. Indeed, if for example, interconnection or wholesale rates are set on the basis of a single fiscal year, such rates may require subsequent revision once the following RAS year outputs have been considered. Such revisions would result in time-consuming payments/credits between affected operators, which very likely would lead to further disputes that may require ictQATAR intervention.

Question 2	Do you currently see additional bases required for regulatory controls? If yes, which bases do you foresee and why?

ictQATAR have stated in the RAS Instruction dated 8th August 2010 that the RAS methodology is expected to evolve from HCA/FAC to current cost account (CCA) and to some form incremental basis. This is entirely consistent with international best practice that is evidenced by many examples. However, a simple study of developed international telecommunications markets reveals that any RAS methodology is directly related to the level of deregulation and the number of years that competitive operators have been established. ictQATAR should take this into account when assessing the RAS methodology applicable for the level and state of competition in the Qatari market.

Question 3	Are there comments or additional requirements on the overall guiding principles?

The guiding principles are clear and consistent with international best practice. Qtel respectfully submits that the application of these principles should be consistent and that ictQATAR should avoid ad hoc variations from these principles. During the review of RAS FY2009, ictQATAR proposed a number of approaches that were inconsistent with these principles. Such variation can cause incorrect or inconsistent or non-causal cost attribution thereby skewing the output result.

Question 4	Do you agree that ictQATAR should have full access to the RAS and how can this be ensured?

ictQATAR's mandate is to ensure certain market practices are avoided and Qtel services follow a cost orientation basis. In respect ictQATAR does not require the detail RAS disclosures, statement and actual cost models in order to achieve this. It is normal best practice for regulatory authorities to place such reliance of RAS and its submissions on the auditors work, opinion and final report. In this respect, ictQATAR have instructed Qtel to direct its international auditors to audit RAS to a very high level of assurance, being properly prepared in accordance with (PPIA), that provides all necessary assurances for ictQATAR. This follows international best practice and avoids costly and unnecessary reworking of this review by ictQATAR, which will ultimately lead to the same conclusions. Further, it is Qtel's view that their appointed international auditors are independent and technically qualified to undertake this work, adhering to international audit standard, while persons conducting ad hoc reviews may not. Ultimately, the findings of the ad hoc review may be called into question. In short, ictQATAR should place full confidence in the auditor's opinion and avoid additional expenses and delays to RAS.

Question 5	Do you agree that a wholesale unit is required? If not how should inter-operator costs be reported on?

Qtel does not see the need for this wholesale unit requirement as this information can be obtained from the existing RAS submission as detailed in the current RAS Instruction. The inclusion of this requirement this will increase the RAS development time and add unnecessary delay to its delivery. Substantial re-working of Qtel FY2009 RAS model is required to achieve this objective, which will result in great complexity and require a significantly higher level of expert manual intervention.

Question 6	Are there changes required to the RRUs? What are the changes and why are they required?

Qtel is of the opinion that the existing number of type of RRU's are more than sufficient to meet ictQATAR's requirements. It is not clear what value any additional RRU will provide given the increased RAS model complexity that would be required to facilitate it. Moreover, this increase in complexity will necessarily extend RAS development times and increase the level of expert manual intervention required to run the models. ictQATAR should consider recent developments within in Qatar and how these will be applied in the RAS obligation, specifically the formation of Q.NBN. The informational value derived from the Wholesale Fixed Access RRU may be of limited value in the short term future.

Question 7	Please indicate if there are reasons for not using FCM as part of the CCA/CESP cost base.

A wider study of the use of FCM versus OCM should be conducted by ictQATAR as the application of one or the other approach will have a significant impact on the RAS outputs. This becomes all the more important as market impacting decisions will be based on these RAS outputs and which may be subject to legal challenge.

Qtel draws ictQATAR attention to a RAS submission made by Qtel in the draft RAS Instruction in March 2009, which addressed the issues on CESP.

Question 8	What are the features and timeframes for CESP reporting, if this is required?

Qtel draws ictQATAR's attention to a RAS submission made by Qtel in the draft RAS Instruction in March 2009 which addressed the issues on CESP.

Question 9	Is there a need for incremental costing and where would this be applied?

As RAS is an evolutionary process in which an incremental costing methodology is introduced at some point, towards the latter stages of development. It is normal practice that several years of RAS statements be produced based on the same underlying methodology, thus allowing a fair comparison of outputs from one year to the next. However, the sequence of its introduction is important and is preceded by a FAC current cost account approach. Qtel wishes to draw ictQATAR's attention to that fact that the results from HAC FAC cannot be used in the review of retail tariffs, where an incremental costing methodology is required. This can be simply demonstrated by the example of Qtel's FTTX program, where using an HAC FAC approach all FTTX costs would be allocated to a very small customer base given its early stage of customer adoption. Clearly, several years are required for the optimum numbers customers to be reached resulting in a profitable service. Using this approach of HAC FAC for retail tariffs would mistakably assume each of these customers is unprofitable, which is clearly not the case.

This point has been addressed above in paragraph 2.5.

Question 10	If an IC approach is required a) how should it be implemented? b) which increments should be defined? c) what would be advantage?

If an incremental costing (IC) approach is adopted a best international practice methodology and implementation is anticipated by Qtel. The IC approach should be used for retail tariff evaluation currently performed by ictQATAR employing current interconnection costs and retail mark-ups based on HCA FAC methodology.

Question 11	Do you agree with the cost transferral approach? Alternatively, if cost transferrals are to be based on for example the wholesale rates paid by other service providers then how should internal transfers such on an on-net call be defined, as these services are not available externally?

Qtel believes the current adoption and RAS submission provide more than the necessary information required by ictQATAR in order to evaluate Qtel's businesses and its impact on the Qatari telecommunications market. Any augmentation of this requirement will add additional development times to RAS and complexity into already complex RAS models. This will further necessitate a higher level of expert manual intervention in producing and running the RAS model. The relevant provisions in development times and added complexity should be taken into account by ictQATAR.

Question 12	Do you agree with the absorbed cost approach for business sustaining type costs or should these be allocated using a mark-up regime?

Qtel is of the view that all cost models are ultimately approximations in the derivation of service costs. The inclusion of additional complexity into these models will result in more refined results. Such complexity, however, is not without cost, and the benefits of which should be thoroughly assessed.

Cost mark-ups have been applied in other regimes but Qtel cautions ictQATAR on specifically how these are applied as they can often violate the causality and consistency principles of RAS, potentially leading to skewed RAS outputs. The impact of these results and any subsequent decision based on this may be open to challenge and result in the restatement of wholesale/interconnection rates leading to potentially credits and/or additional charges between operators.

Question 13	Do you agree with the principles for moving the RAS to cope with NGN and NGA costs? If there are other suggestions, please elaborate.

Qtel is of the opinion that the RAS is applicable to the actual network configuration, network architecture and topology during that financial year. Any adjustments to the RAS could have a large and unforeseen impact on Qtel's financial and operational costs that will change the RAS outputs. Such considerations should be well studied and the benefits of any modifications determined before a final decision is made. In short, any modification should be performed with an informed view.

Question 14	Fibre in the loop is expected to become a major cost and major service providing platform. Are there other approaches to ensure adequate cost information is available?

Qtel is of the opinion that any new technology and infrastructure (fibre included) should be treated in a consistent manner for RAS. However, the commercial implications of such infrastructure should be considered particularly in respect of large investments and the anticipated value of these investments in respect of wholesale service offerings, where such values may diminish. In short, ictQATAR should encourage Qtel to make such investment for the benefit of Qatar and provide the necessary framework to protect such investments in order to generate sufficient financial returns, as expected by its shareholders.

Question 15	Do you agree with the capping of WC and cash and is this a reasonable level?

Qtel is of the opinion that international best practice should be employed here, while considering the state of competitive market evolution in Qatar. Mistakenly, ictQATAR may use international bench marks from jurisdictions that have had competition for many years where the incumbent operators have had sufficient time to adjust it business and operation to meet the degree of competition. The specific case of Qatar should be considered.

Question 16	Do you agree with the retail cost allocation method? ictQATAR is well aware of the limitations and the above approach is only an *indication* of aproduct's cost value and it cannot be taken as a definitive basis for evaluations and price controls. Price control precedures are not part of this Consultation.

Qtel is not aware of any definitive basis of cost value methodology, as all costing methodologies serve only to produce approximate costing information. Further, Qtel is unaware of any definitive basis for evaluations for price controls. Typically, a number of different approaches are employed when making such evaluations. ictQATAR should consider all these different approaches in its study while taking only specific retail costs into consideration, as per best international practice. Qtel stresses that any form of retail price controls is suggestive of a failing in the market and of competition, therefore, prior to any retail price control study and market evaluation including all licensed operators should be conducted.

Question 17	Have you any comments on the product reports (retail and wholesale), network element reports and SFS?

Qtel is of the opinion that ictQATAR requirements far exceed those of other jurisdictions and cannot see the necessity for them. The current RAS requirements are excessive and onerous and only add to the delivery timescales. Any addition to these existing requirements will only seek compound these delivery timescales to add complexity to already complex RAS model that will require a high level of expert manual intervention to operate and run.

29 November 2012

Graeme Gordon
Assistant Secretary General
Regulatory Authority
ictQATAR
PO Box 23264
Doha

cc: Dr Rainer Schnepfleitner

Dear Graeme

Submission on the Regulatory Accounting System ("RAS") Instructions to Qtel Consultation Document dated 23 October 2012

Vodafone Qatar Q.S.C. ("**Vodafone**") welcomes ictQATAR's request for submissions on its RAS Instructions to Qtel Consultation Document dated 23 October 2012 ("**the Instructions**") and wishes to offer the comments set out below.

1 General Comments

1.1 The initial RAS instructions contemplated that separated accounts would be published by Qtel annually from 2010. However, implementation of those instructions is now three years late so the soft implementation that was envisaged in the previous instruction is no longer relevant.

1.2 Given the critical importance of getting the accounts published as soon as possible, Vodafone believes a certain amount of flexibility is required. As an industry, we are now in the unsatisfactory position of having to balance the trade-off between timeliness and relevance/reliability. To the extent that compromises have to be made in the near term, this should not prevent ictQATAR from insisting on further enhancements, beyond the initial set(s) of accounts, to maximise the relevance and reliability of the RAS. In this context, we request that ictQATAR make it clear to Qtel that work to implement the RAS within its systems should be sufficiently future proof to allow further enhancements to take place in a timely and cost effective manner.

1.3 It is crucial that the accounts are published and subject to industry scrutiny and that the RAS process not be seen as a once-off. Rather, it is an iterative process that requires the detailed input of the various stakeholders that interact with the Dominant Service Provider.

1.4 Vodafone is concerned that the Instructions require three sets of accounts to be published in one year. Given the speed of implementation to date and the clear concerns this raises relating to Qtel's willingness and ability to deliver necessary outputs in a timely manner we would encourage ictQATAR to consider requiring that Qtel put in place bonds against the key milestones.

1.5 Vodafone believes that, in the current circumstances, a transfer charging regime is crucial and that it is no longer acceptable to transfer costs as provided for in the Instruction. The Instructions should provide for a proper transfer charging regime (i.e. unit costs and volumes) between network/wholesale and retail with ex ante non-discrimination obligations imposed on Qtel. This is consistent with the new policy framework being established in

Europe where an ex ante margin squeeze regime will replace some of the cost-based remedies as an appropriate balance between investment incentives and competition.[1] A crucial component of this policy is the detailed assessment of the incumbent operators' tariffs to ensure competition is not squeezed. This is only possible when the financial statements of the incumbents' retail business show charges for wholesale inputs on an equivalent basis to alternative operators in the market.

1.6 Vodafone does not view Cost of Efficient Service Provision ("**CESP**") as critical in the near to medium term. It is widely recognised that Current Cost Accounting ("**CCA**") reporting in addition to Historical Cost Accounting ("**HCA**") reporting provides meaningful information for industry stakeholders. Vodafone has no objection to the principle of reflecting efficiency adjustments in the RAS but believes such adjustments should be the exception rather than the norm. All efficiency adjustments should be submitted to ictQATAR for approval and explicitly approved by an independent auditor. Vodafone does not see any meaningful role for LRIC reporting within the context of the RAS.

1.7 Industry involvement at a detailed level in the development process in the months ahead would improve the quality of the outputs. This can be achieved by allowing Vodafone and Q.NBN to engage external advisors (subject to appropriate confidentiality agreements and restrictions on reporting back on data). If the detailed views of Qtel's competitors are not heard the accounting separation regime will be ineffective – but this will not become apparent until 2014 which is far too late. This will mean that ictQATAR will not have appropriate data on which to make meaningful decisions on the pricing of wholesale services and on which to assess Qtel's compliance against its requirements for non-discriminatory behaviour.

1.8 Vodafone cannot comment on the detailed specifications as we have no view on materiality or any understanding of Qtel's cost structure. Therefore, we believe the instructions should be indicative only. Detailed implementation points should be deferred to Qtel with the quid pro quo being that the audit opinion should be as strong as possible ('fairly presents' audit standard).

2 Regulatory Context for the RAS

2.1 Since Vodafone's market entry, ictQATAR has sought to develop the building blocks of an effective and robust regulatory framework. However, a number of key elements remain incomplete, including the development of a consistent and coherent view on the regulation of wholesale markets and the development of Reference Offers for key services.

2.2 Vodafone considers the RAS a critical next step leading on from ictQATAR's Market Dominance Designation. If the RAS functions effectively it will support a number of important decisions ictQATAR will be required to take in the coming months and years to support the development of sustainable and effective competition and realise the benefits of the same for Qatar. This is of particular importance for the development of sustainable competition in fixed line markets. As noted in the aforementioned Policy Statement.

> ***Competition needs a level playing field.*** *In particular, alternative players should not have to compete with one hand tied behind their backs: incumbents should not be able to discriminate between their own retail arms and others'. Although often undervalued in today's regulatory practice, securing truly equivalent access by alternative operators to incumbent networks is probably the most important guarantee of sustainable competition, on existing and new networks.*[2]

[1] http://europa.eu/rapid/press-release_MEMO-12-554_en.htm
[2] *Ibid.*

2.3 The Applicable Regulatory Framework in Qatar provides for the development of a level playing field, the RAS is a critical component to facilitating this outcome. We look forward to working with ictQATAR on the next steps required to implement a regulatory regime that is consistent, coherent and provides for a level playing field.

3 Responses to Consultation Questions

Question 1 *Do you agree that currently Fully Allocated Cost (FAC) based on HCA is currently the required cost base and cost standard?*

Vodafone agrees that FAC based on HCA is appropriate at this time but also believes there is a role for CCA as explained below.

Question 2 *Do you currently see additional bases required for regulatory controls? If yes, which bases do you foresee and why?*

Vodafone believes there is a role for CCA within the context of the RAS. To the extent that future regulatory pricing decisions will be based on RAS information, it is only current cost information that can yield the appropriate build/buy decisions which are a fundamental feature of regulatory price controls for wholesale products. Given that Qtel's network is relatively new (by international standards) Vodafone does not believe the implementation of CCA should be used as a reason to further delay the publication of the RAS. Rather, CCA should be implemented as soon as practically possible. It is imperative that systems implementation work undertaken by Qtel to meet their RAS reporting requirements allows for CCA reporting as well as HCA reporting.

Question 3 *Are there comments or additional requirements on the overall guiding principles?*

As set out in section 1 (General Comments) above, Vodafone believes that the overall guiding principles should be amended to require Qtel to implement a full transfer charging regime between its network/wholesale business and its retail business. This will require wholesale products to be established which Qtel will be required to sell – on a notional basis – to its retail business on equivalent terms to the way the product is sold to other service providers. It is only with such a regime that ictQATAR and industry stakeholders will be able to identify whether Qtel is engaging in discriminatory behaviour to the detriment of competition. This is especially crucial where wholesale products are not necessarily cost based. In the absence of a transfer charging regime based on principles of equivalence, a dominant firm can engage in a margin squeeze which will not be identified through the regulatory accounting process, even though this is one of the purposes of implementing regulatory accounting.

The exact nature of the transfer charging regime will need to be implemented on the basis of materiality and a detailed understanding of Qtel's cost structure. As a general principle, where a wholesale product to third parties already exists, the transfer charge should be the price charged to third parties. In cases where there is no wholesale product sold to third parties, a notional product should be established with the transfer charge based on unit cost.

Question 4 *Do you agree that ictQATAR should have full access to the RAS and how can this be ensured?*

Vodafone agrees that ictQATAR should have full access to the RAS. Furthermore, other licensed operators should be empowered to engage experts who are able, with ictQATAR's supervision, to access the RAS and advocate for any amendments on behalf of their clients subject to appropriate confidentiality obligations including reporting and information sharing restrictions.

Question 5 *Do you agree that a wholesale unit is required? If not how should inter-operator costs be reported on?*

Yes, a wholesale unit is required to ensure the transfer charging regime as described above can be implemented.

Question 6 *Are there changes required to the RRUs? What are the changes and why are they required?*

No additional changes are required to RRU's other than those noted above.

Question 7 *Please indicate if there are reasons for not using FCM as part of the CCA/CESP cost base.*

Vodafone agrees that FCM is the appropriate form of CCA in this context.

Question 8 *What are the features and timeframes for CESP reporting, if this is required?*

The only element of CESP that Vodafone considers essential is CCA. This should be implemented as soon as possible but without delaying the publication of FAC/HCA accounts, as explained above.

Question 9 *Is there a need for incremental costing (IC) and where would this be applied?*

Vodafone does not believe there is a need for incremental costing within the context of the RAS. It is possible that ictQATAR might conclude that incremental costing is required to set the price of a regulated service/(s) for a dominant firm in the future. Such an exercise should not impact on the RAS requirements for which FAC/HCA and FAC/CCA will be sufficient for the coming years.

Question 10 *If an IC approach is required a) how should it be implemented? b) which increments should be defined? c) what would be advantage?*

N/A – refer to Question 9 above.

Question 11 *Do you agree with the cost transferral approach? Alternatively, if cost transferrals are to be based on for example the wholesale rates paid by other service providers then how should internal transfers such on an on-net call be defined, as these services are not available externally?*

No – as explained above, refer to Question 3.

Question 12 *Do you agree with the absorbed cost approach for business sustaining type costs or should these be allocated using a mark-up regime?*

We believe the allocation of business overhead costs should be in line with the principles of cost causality. Qtel should prepare accounts using the methodology it believes appropriate and the external auditors as part of their audit will need to decide whether Qtel's methodology is in line with the cost causality principle that underpins the RAS.

Question 13 *Do you agree with the principles for moving the RAS to cope with NGN and NGA costs? If there are other suggestions, please elaborate.*

The approach appears reasonable although the description of the approach is only high-level. The actual implementation of such an approach will need to be done in accordance with ictQATAR and the external auditors to ensure the principles of the RAS are not compromised.

Question 14 *Fibre in the loop is expected to become a major cost and major service providing platform. Are there other approaches to ensure adequate cost information is available?*

We believe the general approach of the RAS is sufficiently generic such that the evolution to fibre will not present a problem.

Question 15 *Do you agree with the capping of WC and cash and is this a reasonable level?*

We believe the RAS should present all the assets of Qtel. To the extent that Qtel holds any excess cash or other short-term assets, these should be separately identified and presented in either the retail or 'other' business unit as advocated by ictQATAR. We cannot comment on the one month time limit suggested by ictQATAR – we believe the limit should be set according to Qtel's typical cash cycle (receipts and payments).

Question 16 *Do you agree with the retail cost allocation method? ictQATAR is well aware of the limitations and the above approach is only an indication of a product's cost value and it cannot be taken as a definitive basis for evaluations and price controls. Price control procedures are not part of this Consultation.*

Vodafone agrees with the general approach to retail cost allocation. The principles of cost causality must be maintained and opined upon by the external auditors. Regarding bundling, Vodafone can accept that the revenue of the bundle does not need to be split out to the various components as long as the following conditions are met:

(a) There is full transparency regarding the allocation of cost to the bundle;

(b) the costs that are allocated are on the same basis as would be allocated for the individual services;

(c) only genuine bundle-related synergies are reflected in the cost allocation; and

(d) the bundling is not anti-competitive (although this is relevant to retail pricing rather than RAS).

Question 17 *Have you any comments on the product reports (retail and wholesale), network element reports and SFS?*

The pro forma statements appear reasonable and consistent with international best practice, however, we cannot comment in detail without knowing the materiality of the different line items. We consider it part of the role of ictQATAR, on the basis of the 2009 accounts it possesses, to ensure the accounts are presented at the right level of granularity.

We trust the above is helpful and thank ictQATAR for the opportunity to comment on these important issues.

Yours sincerely

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RAS

for

Qatar Telecom (Qtel) Q.S.C.

The Supreme Council of Information and Communication Technology
“ictQATAR”

Response Document
and
Consultation Document for the Second Stage Consultation

ICTRA 2013/01/23A
23 January 2013

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1 Executive Summary

This Response Document (**RD**) takes into account the submissions of the parties to the first consultation document (ICTRA 2012/10/23). It analyses the submissions of the parties and gives ictQATAR's analysis and preliminary conclusions.

It also serves as a Consultation Document (**CD**) in a Second Round to define the final Regulatory Accounting System (**RAS**) Instructions that the Supreme Council of Information and Communication Technology (**ictQATAR**) proposes to adopt for regulatory accounting reporting in Qatar. These regulatory accounting requirements apply to Qatar Telecom (Qtel) Q.S.C. (**QTel**), which is designated as having a Dominant Position as a Dominant Service Provider (**DSP**).

The first round of consultation (from October until 29th November 2012) provided details of the RAS system, the methodology to be applied and the RAS outputs that are expected. The consultation also identified the legal framework behind the requirements for RAS reporting and how the RAS may be used, The detailed application of the outputs of the RAS was beyond the scope of the first round of consultation.

This RD:

- Summarizes the responses to the first round of consultation;
- Examines the key issue areas, as raised by the questions on the first CD, while giving due consideration to the Respondents' views; Sets out the methods that are to be employed in the RAS, taking into account the responses.

ictQATAR is conducting this second round of consultation in response to requests from the industry. This allows additional constructive comments to be made by all parties to assist ictQATAR in the finalization of the RAS Instructions.

The full details of the RAS are contained in the Draft RAS Instructions (ICTRA 2013/01/23B), which is a separate document to this CD. This Draft RAS Instructions includes the final output that is the result of ictQATAR's considerations of the comments received so far. This Draft RAS Instructions document is released to allow final comments to be received and to enable some possible final adjustments. This will then be issued as the final RAS Instructions.

The approach used in this RD examines the general points raised by all respondents. The detailed replies to each question in the first CD are then examined. ictQATAR discusses the main points and then sets out its conclusions. These conclusions were then used to refine the draft RAS Instructions.

2 Instructions for Responding To This Consultation Document

2.1 Consultation Procedures

All interested parties are invited to submit responses to the questions specifically identified in this document and to provide their views on any other relevant aspects. Comments should reference the number of the question being addressed or the specific section of this document if not responding to a particular question.

ictQATAR asks that, to the extent possible, submissions be supported by examples or relevant evidence. Any submissions received in response to this consultation will be carefully considered by ictQATAR when progressing to revised RAS Instruction. Nothing included in this consultation document is final or binding. However, ictQATAR is under no obligation to adopt or implement any comments or proposals submitted.

Comments should be submitted by email to rschnepfleitner@ict.gov.qa **by 7 February 2013** at the latest. The subject reference in the email should be stated as "RAS Instruction 2012 – second round". It is not necessary to provide a hard copy in addition to the soft copy sent by email.

2.2 Publication of Comments

In the interests of transparency and public accountability, ictQATAR intends to publish the submissions to this consultation on its website at www.ictqatar.qa. All submissions will be processed and treated as non-confidential unless confidential treatment of all or parts of a response has been requested.

In order to claim confidentiality for information in submissions that stakeholders regard as business secrets or otherwise confidential, stakeholders must provide a non-confidential version of such documents in which the information considered confidential is blacked out. This "blackened out" text should be contained in square brackets. From the non-confidential version it has to be clear where information has been deleted. To understand where redactions have been made, stakeholders must add indications such as "business secret", "confidential" or "confidential information".

A comprehensive justification must be provided for each and every part of the submission required to be treated as confidential. Furthermore, confidentiality cannot be claimed for the entire or whole sections of the document as it is normally possible to protect confidential information with limited redactions.

While ictQATAR will endeavor to respect the wishes of respondents, in all instances the decision to publish responses in full, in part or not at all remains at the sole discretion of ictQATAR. By making submissions to ictQATAR in this consultation, respondents will be deemed to have waived all copyright that may apply to intellectual property contained therein.

For more clarification concerning the consultation process, please contact Dr. Rainer Schnepfleitner, Manager Economics & Licensing, rschnepfeitner@ict.gov.qa.

2.3 Answers sought

Given that this is the second round of consultation, we ask Respondents to provide reasoned views on general aspects of the consultation. Nevertheless, ictQATAR considers some of the issues as especially critical and hence raises some specific questions later in this document.

Question 1	Are there further refinements or adjustments needed to the draft RAS Instructions (see accompanying document)? Please do not adddress issues already covered in the intitial consultation stage.

3 Analysis of Responses to the first round of consultation

The first CD set out the aims and the proposed approach for determining the cost of capital. That CD defined the general purpose and the details of the RAS system.

Three responses were obtained from:

- Qatar Telecom (Qtel) Q.S.C.(**QTel)**;
- Vodafone Qatar QSC (**Vodafone**); and
- Qatar National Broadband Network Co. (**Q.NBN**).

3.1 General points raised

Only primary points are noted in the following. In some cases points were raised by service providers both under the topic of "general points" and then again in the answers to the detailed questions. These are mostly not discussed here under the general points, unless they are particularly relevant to these more general discussions on the RAS. The point is covered later under the detailed answers.

3.1.1 General points raised by Q.NBN

Q.NBN noted that the RAS should not attempt to answer all costing questions that may arise. The key requirement is to produce information to protect against anti-competitive behavior. There are serious reservations whether the RAS can meet this key requirement.

Cost based wholesale pricing should be the subject of a separate consultation and should consider other techniques. This includes Bottom Up Long Run Incremental Costing (BU LRIC).

Specific analysis of optimal network usage was proposed.

The purpose of the RAS was raised as a central issue – how it is to be used. Q.NBN notes that the RAS, defined by ictQATAR is intended to be a generic system to address costing and anti-competitive conduct, but it believes that one system cannot fulfill all roles.

Regulatory provisions in the Telecommunications Law were used to highlight the need for retail and wholesale price controls as well as control of anti-competitive conduct. All objectives are not usually addressed using only a cost accounting system.

Limitations identified included: wholesale prices may need other approaches; cost accounting may be useful for retail price ceilings but not cost floors; the system may identify only potential anti-competitive conduct and other cost studies may be required. For example "off-model" imputation tests and tariff bundle analyses are identified as being additional, though these should be developed as part of the RAS.

Enhancements to the RAS were requested to address anti-competitive pricing and to include transfer pricing based on actual tariffs (see also question 11). Adjusting the FAC structure will not deliver efficient costs suitable for price controls – other methods are required.

The accounts as defined in the pro forma of the CD should be published, along with calculations and internal details. Access should be given to parts of the RAS.

Some efficiency factors were identified, which are assumed by ictQATAR to be related to other cost models, such as: optimal routes between nodes; network infrastructure sharing assumptions; and OPEX levels to be set by international benchmarks.

An additional consultation round was requested, in particular to discuss wider objectives and other issues that are not directly part of the RAS CD. Related to these points are additional requests for functional separation of a wholesale business unit from the rest of QTel.

3.1.2 General points raised by Vodafone

Vodafone noted the unsatisfactory delay in getting the accounts, after the 2010 consultation. With three accounts due in 2013, there is concern over further delays.

The separated accounts must be published.

Transfer charging should be based on prices charged to other service providers.

CESP costs are not critical but CCA based FAC costs are required. No real benefit of LRIC is seen.

Access to the RAS is desired, possibly using external experts to cover confidentiality issues.

Some other wider issues were raised such as supporting competition and ensuring non-discrimination between other service providers and the QTel retail business through equivalent access.

3.1.3 General points raised by QTel

The instructions in the CD are considered too onerous and are not warranted. The disclosure and complexity make it hard to achieve the timescales. The audit removes the need for detailed reporting.

HCA FAC data is not a suitable basis for anti-competitive testing as pricing below FAC HCA levels is not used in competition law. Incremental costing is proposed as the basis for retail price evaluations.

The inclusion of QTel group to the accounts creates considerable additional burden. A re-audit is required of the financial statements.

The more detailed disclosure demands, compared with previous instructions, create new developments and are superfluous and excessive for Qatar. QTel then states that "this information is easily accessible from the RAS models."

Producing 2010, 2011 and 2012 costs concurrently is unreasonable. Reviews, as carried out on the RAS 2009, are not workable and apart from working capital, other changes were small. 2012 RAS should be produced first.

Providing the cost model to ictQATAR is not necessary and audit should be relied upon. A statement from QTel executives is not required.

PPIA audit is not possible for 2010 and 2011 accounts. The auditors may have to make opinion on the statutory financial statements.

The RAS cannot be delivered until 2 months after annual financial statements are published.

A number of detailed points on the pro forma accounts were included. These included questions on asset revaluations, efficiency adjustments, definitions of business sustaining and combining pre and post-paid mobile services.

3.1.4 ictQATAR's analysis of the general points

Naturally some of the general points and discussions raised by the service providers are also partly covered on the detailed questions of the CD. Such points are returned to below in this RD when the detailed questions are discussed: therefore there is some repetition in this discussion.

3.1.4.1 Objectives and aims

All parties made comments about the overall objectives and the purpose of the RAS. ictQATAR appreciates that the RAS CD has to focus on the RAS structure and features, but the assessment of the these depends on the wider objectives and how it will be used. The assessment must also consider the fact that some of the ways that the RAS data could be used are not yet fully specified. The RAS may be used as part of other consultations or as inputs to other analysis. For example specific additional analysis will need to be developed, depending on the type of cost and revenue investigation that arises. These cannot be precisely defined in this RAS consultation. In addition it must be appreciated that every possible future requirement cannot be accommodated in the RAS reports. This would make the reports excessively complicated.

The objectives of the RAS are *inter alia*, but not limited to:

- The RAS is a supporting tool to assist ictQATAR to meet its general objectives to develop competitive telecommunications markets in QATAR and promote competitive services in the country;
- The RAS provides a platform for additional analysis, in support of the above. Therefore information from the RAS provides insights to costs and profit margins that can be combined with other investigations to assist with decisions on such issues as costing and pricing;
- The RAS provides an overview of the DSP's profit margins and therefore supports regulatory decisions that may be related to market distortions;
- The insights provide a basis for other decisions such as general price controls or tariff rebalancing;
- The RAS provides an initial basis for price controls – retail and wholesale;
- The RAS provides some information for evaluation for anti-competitive behavior investigations and evaluations of price squeezes;
- The RAS gives insights to the cost base of the operator that can inform evaluations on such issues as new wholesale products' costs, cross subsidizations and cost/profit trends;
- To give transparency to ictQATAR and the rest of the industry of the status of services, costs and margins being made, and so assist with competitive market developments.

ictQATAR appreciates that the RAS has certain limitations and it is not itself always a solution to a regulatory decision on its own and cannot be expected to give definitive answers in all situations. It is therefore important to appreciate what the RAS is not intended to do. Limitations include:

- The RAS does itself not set prices (retail or wholesale). Data from the RAS provides inputs to such price control processes, or to help evaluate prices. In some cases the cost-values from the RAS may be used to define a price, but this would be based on assumptions that the RAS produces a reasonable price and that other factors are not critical and need not be included. Please note that pricing is outside the scope of the RAS, as additional assumptions and analysis will be used along with RAS data;
- The RAS does not clearly identify or stop anti-competitive behavior. RAS based information could be used, with other evidence and analysis to evaluate such behavior;
- The RAS itself does not identify efficient costs or force operational efficiencies. The latter may be encouraged by price setting or from competition development – but this is not directly related to the RAS.

As the RAS provides inputs to a wide range of diverse evaluations and decisions, it must be flexible and it must provide enough detail to support a wide range of evaluations, some of which are not yet defined: it is inevitable that new questions on services will arise and these cannot be predicted in advance. The RAS must also balance the desire to answer as many potential questions as possible (which implies a very detailed system and many analytical breakdowns) with the practical reality of what can be achieved with cost accounting tools and the realistic expectations from an operator with the scale of QTel.

ictQATAR believes that the currently defined RAS provides as much reporting as is practical. A significant granularity of costs by product and network elements is provided. The breakdown of the product markets and reporting units is sufficient. No inputs were received that identified better alternatives. The RAS CD also reflects what is currently achieved in the RAS 2009 or else can be achieved in the QTel costing system without extensive further developments.

The RAS consultation and the system itself are emphasized to be not directly addressing the needs for pricing tools or price setting methodologies. The RAS outputs are *inputs* to such methodologies. A number of service providers' discussions related to price setting and the use of benchmarks or bottom up cost models. These have a role to play, but are not part of the RAS. In general, ictQATAR has put these discussions to the side in this RD. They may be raised in other consultations or investigations that require additional or alterative cost analysis.

3.1.4.2 Publication and release of the SFS and accounts

Publication raises a number of issues and was addressed as both a general point and in response to specific question.

ictQATAR is strongly of the view that some of the RAS accounts (as defined in the pro forma of the Instructions) should be published and so made available to the service providers. Specifically, all of the following the RAS accounts should released:

- Each of the RRU's profit and loss and balance sheet reports. This includes all retail and wholesale units;
- The cost of production – the wholesale products' costs;
- The transfer cost statement;
- Network report; and
- The reconciliation report.

This provides the transparency and assurances on the market status, to help with investment decisions or to identify issues with competition or pricing that can then be raised and investigated. No commercial harm is foreseen and the confidence and insights provided to the industry are clear benefits.

This RD provides an additional opportunity to comment on this. The SFS will be published unless there are clearly-identified, quantified and qualified dangers, or harm, caused by the information.

Question 2	Are there any parts of the SFS that should not be published? If so, please identify the specific values and provide justifications why they should not be released.
Question 3	Are there any other parts of the SFS that be published? If so, please identify the specifics and why they be released.

Related to this is the issue of access to the RAS, which is covered again later. ictQATAR does not intend to allow other operator's access to the RAS system or QTel internal data. If there are specific concerns, then these should be raised with ictQATAR who has access rights and can carry out investigations, subject to the normal rules of procedure following a complaint or request.

3.1.4.3 Complexity and timing, including audit

A general concern that was raised is with the complexity of the impact in the time needed to produce the RAS. This is also related to the statutory accounts and audit issues. The SFS are not seen as excessive and ictQATAR is of the view that the existing RAS system provides most of this information anyway: it simply needs some additional reporting analysis. The existence of most of the information and functionality was also agreed by QTel. Pre and post-paid mobile products (see above QTel point that is referred to above in section 3.1.3) are already analyzed so these should be maintained as this does not add any new complexity.

The need to do this RAS has been clear for a long time, and the audit requirements are not new. Each year's RAS has many similarities, so there are economies of scale in the work. ictQATAR requires the timelines to be met. Please refer to the draft Instructions for the updated timeline.

The reasons for the past delays are not relevant to moving forward. ictQATAR notes that a number of important issues were identified in the RAS 2009 and these had to be resolved before there was any point in considering moving to RAS 2010. Further refinements are expected over time in an iterative manner. All product-issues were not resolved: these can be checked and refined in the RAS 2010+. This is an additional reason that ictQATAR requires the model. Audit does not fully address such detailed issues such as, for example, the alternative treatment of costs relevant to some products – ictQATAR will need to understand the impacts and then it may define a final approach. Furthermore audit does not impact the need to release the SFS – the release of SFS is to help with transparency. The SFS are not required to check or audit the RAS but to give the required inputs to the industry and ictQATAR.

If there are audit issues, such as proper records were not taken in 2010, this does not negate the need for the audit, but it may result in (unfortunate) qualifications in the audit report. It is vital that audit is performed. Eventually this might result in less checks and investigations to be carried out by ictQATAR, but confidence on the RAS is not yet at such a level. In any event ad hoc analysis may need more than the SFS – some underlying data might need to be identified. ictQATAR still requires full RAS access, to cover such eventualities.

Statutory audit should not delay the process as almost everything in the SFS preparation can be completed and the amount of change caused by the latter-stages of a statutory audit to the accounts, are small: no major changes to the RAS are likely and so the SFS need not be delayed long after statutory accounts are approved.

Audit of the SFS is very clearly not an audit of the statutory accounts. These statutory accounts are taken as correct and approved. There is no intention that regulatory audit should check or adjust any such figures of the statutory accounts. The connection to statutory accounts is mainly in the reconciliation and confirmation that all inputs are from the audited source. There is no major new complexity introduced in the consultation compared to the last RAS consultation (or compared to the RAS 2009) from including Qtel Group accounts. They are required simply for the reconciliation but no breakdown is required other than to enable the RRUs to be identified and all RRUs to be reconciled to the audited group accounts. This is a pre-existing requirement. Overseas business need not be analyzed or broken down.

For the absence of doubt ictQATAR clarifies, that only a minimum of Qtel group-level accounts for the non-Qatari businesses, are required to be included. This should be sufficient to ensure that the RAS accounts can be reconciled with a set of the audited statutory accounts.

The requirement for an executive statement is reasonable and remains in place.

3.1.4.4 Other points raised

These include:

- Definition of business sustaining costs:
  They are defined more fully in the updated Instructions. These are the common business costs that are allocated in the RAS using proxy cost drivers rather than a mark-up. These costs have weak cost drivers and their costs would not change significantly with a change of any product's or network element's output volume;
- Bottom up models and imputation tests:
  These are not part of the RAS scope;
- Efficient costs:
  This is addressed in questions related to CESP. This can be examined in BU models or by benchmarks, but these are not part of the RAS scope;
- Analysis of price bundles:
  This is something that is beyond the scope of the RAS. The RAS provides some insights and information. ictQATAR believes the approach recognizes the limitations of any costing system and the limited solidity of retail cost allocations, in particular. The RAS provides a basis that is as detailed as is practical. Price bundles are recognized to be increasingly more important over time, but the solution to their evaluation is not within the RAS. This may be taken up in other proceedings.

3.2 Responses to the specific questions of CD 1

In the following ictQATAR summarizes the responses. These are discussed and then the ictQATAR view is defined.

3.2.1 CD1 Question 1 Do you agree that currently Fully Allocated Cost (FAC) based on HCA is currently the required cost base and cost standard?

Q.NBN's submission

Q.NBN supports the use of FAC HCA but notes that its use depends on how the RAS outputs are to be used. FAC is not considered sufficient for wholesale pricing and it requires additional attributes to be used for monitoring of anti-competitive pricing.
Related points are raised under question 2.

Vodafone's submission

Vodafone agrees with FAC HCA and notes merits with CCA.

QTel's submission

QTel did not answer this question directly, but discussed the general use of the RAS and how RAS outputs may not be relevant to emerging services. Several years' worth of RAS data may be more useful.

ictQATAR's analysis

The general support for FAC HCA is noted. The consultation did not address the details of how RAS information would be applied. That could be the subject of other consultations, for example on retail or wholesale price controls.

ictQATAR is aware of the limitations of HCA FAC for certain decisions. It is fully understood that many decisions might require additional information and data. In some cases this may require another cost basis or even other cost models. In general these are not directly part of the scope of the RAS consultation but ictQATAR has addressed these above in the discussion of general points.

The use of other cost bases to give enhanced information is returned to below when other costs are discussed in response to other questions.

The need for several years' worth of RAS data (QTel) is in line with ictQATAR's requirement for 2010, 2011 and 2012 costs to be produced.

ictQATAR's conclusion

A RAS based on FAC HCA is an essential requirement that provides key inputs to other decisions and analysis. This is specified to be an urgent priority for delivery in 2013. The FAC HCA is a starting basis, with information from 2010 providing a first input, as RAS 2009 was not intended to be used for regulatory decisions. Subsequent years (2011 and 2012 and so on) will naturally provide the more robust data. The earlier years then provide insights such as trends – these can be used in other decision processes that are likely, of course, to place the greater emphasis on the latest data. ictQATAR sees the RAS to be something that can evolve over time: the level of robustness will increase in the 2012 accounts (over 2010) and refinements such as CCA may be added (see for example CD1 Questions 2 and 7 below) in future years.

ictQATAR is aware of the limitations but that is addressed in other consultations and processes that make use of the RAS. FAC HCA is necessary, but may not be sufficient. CCA FAC provides an additional economic basis that may be better. This is discussed below under question 2. Other cost models and analysis may also be required, but these are not part of the scope of this CD.

3.2.2 CD1 Question 2 Do you currently see additional bases required for regulatory controls? If yes, which bases do you foresee and why?

Q.NBN's submission

CCA based assets are supported as a supplement to HCA to assist with anti-competitive price analysis. Incremental costing is specified as the preferred basis for wholesale prices. This should include efficient cost adjustments. Average variable costs were noted but these were not proposed to be calculated in order to avoid delays to the RAS implementation.

Vodafone's submission

Vodafone requests that CCA is considered as this provides the right economic signals. The fact that QTel's network is relatively new means that the CCA changes might be small and therefore CCA introduction should not delay a FAC HCA RAS.

QTel's submission

An evolution to CCA and incremental costing is stated be consisted with international practice. QTel states that the RAS should take into account the level of de-regulation, but QTel does not specify how this should be taken into account.

ictQATAR's analysis

The general support from all parties for CCA is noted. ictQATAR agrees that CCA based costs might provide a better economic input to other decisions and analysis work. The widespread use for FAC/CCA for price controls and accounting systems in Europe is also noted.

The separation of price control and RAS, is re-iterated. The RAS only provides inputs, and the pricing or anti-competitive analysis etc. are not in the scope of the RAS consultation. The issue of whether the RAS provides a useful starting point is of course relevant. FAC CCA is used as a basis for wholesale price controls in some countries, for example, and this typically provides a better economic basis than HCA.

The introduction of efficiency adjustments and CESP analysis is noted by ictQATAR to be desired by some parties and this may give better economic inputs to the other-analysis work (outside of the RAS). Given the evolutionary basis of RAS, ictQATAR believes that sound FAC HCA must be completed first and then FAC/CCA. A move to CESP or even LRIC may follow, but clear proposals have not been received on the types of CESP adjustments or the types of LRIC models. There are many types of LRIC (LRAIC, LRIC+ pure-LRIC etc.) and many different increments than can be calculated. Proposals for these have not been given. A need for CESP reporting has not been identified and efficiency issues may be addressed in the off-model analysis that could be carried out in price evaluations.

ictQATAR notes that Q.NBN indicates that additional models have validity and this leads to their support of bottom up (BU) LRIC models. ictQATAR appreciates that BU models have a role to play in regulation and costing analysis. BU model are particularly useful for efficient cost analysis, which is currently not a RAS requirement.

ictQATAR's conclusion

ictQATAR notes the support for CCA from all parties, including QTel. It is a fact that FAC CCA does not require major changes to any FAC HCA cost allocation system. This means that CCA can be introduced by relatively simple developments of a separate CCA system that produces similar asset inputs that are used with the current HCA based RAS.

ictQATAR concludes that CCA is a sensible step and believes that this should be introduced. This date will be defined after further consideration. CCA is *not* expected for the FY 2012 accounts, to be produced in 2013.

ictQATAR will discuss the CCA methodology separately. CCA often considers the selection of the best/efficient assets, or else altering the equipment volumes when the valuations are used. Therefore CCA might not "simply" re-value the existing assets to today's prices. Therefore CESP and CCA discussions are often linked. It is also possible to introduce some CESP related concepts while still using a HCA based system. Some excess costs may be removed or else special treatment of some costs such as land that was acquired at very low values, can be introduced in HCA FAC systems. At present ictQATAR sees no immediate requirement for CESP, and no clear directions for how this can be included in the RAS, have been received in this RAS consultation. ictQATAR does foresee some potential efficient-cost changes even with HCA, and certainly *some* special/efficient cost adjustments may be needed if CCA is considered without a full CESP reporting requirement. This is returned to later under the responses to question 8, see section 3.2.8.

Question 4	Are there any specific suggestions to ensure that robust CCA is introduced quickly? Do you agree with the timeline indicated?

3.2.3 CD 1 Question 3 Are there comments or additional requirements on

the overall guiding principles?

Q.NBN's submission

The principles were seen as adequate but that "reliability should be unpacked more to emphasize the principles of cost-orientation and non-discrimination." Cost and revenue allocation should be at the most granular level possible. The cost base for wholesale pricing was discussed and the needs for efficient costs and cost minimization are introduced.

Vodafone's submission

Vodafone requested that the transfer charging be enhanced as this introduces some equivalence between retail and wholesale to the prices given to other service providers.

QTel's submission

QTel thought the guiding principles were clear and in line with international best practice. Ah hoc variations from the principles should not be used as they may skew the outputs.

ictQATAR's analysis

ictQATAR returns to transfer charging in the reply to question 11. Pricing related points are covered in the general remarks above.

ictQATAR agrees that the allocations need to be at a granular level, but this must be appropriate. The service breakdown and the network component list in the RAS is considered sufficient. Detailed changes were not proposed in any response.

Issues of non-discrimination and cost minimization are outside the RAS consultation, however the RAS will give some insights on the non-discrimination effects with the transfer charging and the cost of service reporting (as seen in the pro forma statements).

ictQATAR's conclusions

The main principles are supported. ictQATAR is not sure what QTel refers to with regard to ad hoc variations. ictQATAR did not fully understand the "unpack" comment from Q.NBN.

The main RAS principles are not likely to change and the essential structures of the RAS are supported by all parties. From time to time detailed changes will inevitably be required – especially as products and technologies change. ictQATAR certainly sees ad hoc analysis and investigations of the RAS, along with external analysis when it comes to investigations and price setting work – but these do not alter the principles, nor do they change the RAS itself. The ad hoc work is to support other regulatory aims, that are outside the RAS consultation.

3.2.4 CD 1 Question 4 Do you agree that ictQATAR should have full access to the RAS and how can this be ensured?

Q.NBN's submission

ictQATAR should definitely have complete access to the RAS system. Q.NBN suggests access is required by other interested parties. As other service providers pay cost-based prices based on the RAS, they should have access to the RAS.

Access should be given to: the RAS description; financial statements; the audit statement, driver information; and the methodology relating to CESP.

If full access is not given then access should be given to an independent examiner under a non-disclosure agreement.

In addition, ex ante imputation tests should be carried out.

Vodafone's submission

Full access by ictQATAR is supported. Independent experts should also have access under a non-disclosure agreement.

QTel's submission

QTel suggest that full access is not required and reliance may be placed on the auditor's report (to PPIA standards) and this is international best practice. This avoids ictQATAR duplicating effort and ad hoc reviews may be called into question as ictQATAR's representatives may not be qualified.

ictQATAR's analysis

ictQATAR cannot see how access to the model would create significant additional work, as the system must be documented and be accessible to the auditor. Even if the RAS moves to a proprietary platform there are a number of approaches that can enable secure remote access, if the system cannot be ported.

The work of the auditor will not be checked or investigated by ictQATAR. ictQATAR desires access to increase confidence in the system, which is needed as it evolves, and to understand the underlying causes for the outputs seen. As QTel noted in other replies, the costs of services, especially new services, can seem anomalous due to initial investments and low volumes. This is correct and not something that would need audit comments, but such insights are needed by ictQATAR. These insights mean ictQATAR access rights are necessary for analysis and investigations (pricing and other tasks) that make use of the RAS results and data.

A clear statement was not given by Q.NBN or Vodafone on what additional details are required beyond the RAS SFS reports given in the pro forma statements. If there are specific issues that are of concern then these could be raised with ictQATAR using existing processes. Independent investigations without a defined purpose do not seem to give value, and it has not been specified what additional reports are to be supplied that go beyond the audit report and the SFS. Such reports should also not reveal business-confidential information.

The development of RAS 2009 has shown that investigations by ictQATAR have resulted in improvements in the RAS. Given that the system is still evolving, these investigations and improvements may continue unit the SFS and the RAS is considered fully evolved. It is not yet at this fully evolved stage where ictQATAR investigations are not required.

Q.NBN identifies a range of possible disclosures. A description of the RAS, the SFS and the audit statement. are all sensible and do not raise confidentiality issues. Details of all the drivers reveals internal information about the company staffing and activities. Alternatively, defining the drivers and costing calculations, but without releasing the confidential numbers may give some more insights but requires documentation in two forms: one for ictQATAR and QTel's use and another with disguised information. The value of this "detailed attribution methodology" document in Qatar is not clear. ictQATAR knows that some such information (allocation principles without values) is revealed in the UK for BT's costing system.

CESP methods have not been defined, nor has a time plan been set for the introduction of CESP.

ictQATAR's conclusions

The RAS should be made fully available to ictQATAR, along with documentation.

Other service suppliers will not be given access, nor will independent service provider's experts be given access under a confidentiality agreement. The benefits of this have not been defined and are not obvious. If there are areas to investigate then this may be put as a request to ictQATAR.

A description of the RAS, the SFS and the audit statements should be released.

Attribution data (numerical values) or detailed attribution methods are not required to be released to service providers.

3.2.5 CD 1 Question 5 Do you agree that a wholesale unit is required? If not how should inter-operator costs be reported on?

Q.NBN's submission

Q.NBN believes this is definitely required. Q.NBN proposes separation of procedures between retail and wholesale units to reduce anti-competitive activity and the enable a balanced assessment of costs and prices.

Vodafone's submission

A wholesale unit is required.

QTel's submission

The wholesale unit is not required and will delay the RAS due to the need for substantial re-working and manual intervention.

ictQATAR's analysis

The reporting of costs and revenues is not seen as a major change to the RAS and this structure is in line with other countries. Some wholesale-specific costs do exist and can be identified, as has been pointed out by QTel ".. as this information can be obtained from the existing RAS ..". It makes the inter-operator costs more transparent.

Functional separation as proposed by Q.NBN is a different regulatory step to accounting separation, as proposed by the consultation. This would require a separate consultation. Such regulatory changes are not common, but it has been proposed by the European Commission as a possible remedy and it is used for example in the UK.

Without prejudice other possible actions, ictQATAR would need to see clear proposals of the implementation of functional separation, including how it would be supervised/enforced, plus analysis of the costs and benefits, before it moves in this direction. However this is not within the scope of the RAS CD, and in any case the RAS reports would still remain even if there was additional functional separation.

ictQATAR's conclusion

The wholesale unit is required. Accounting separation of the wholesale unit from the other units is needed, especially as the wholesale business will inevitable expand to involve more than small teams, as other service providers expand in Qatar.

3.2.6 Question 6 Are there changes required to the RRUs? What are the changes and why are they required?

Q.NBN's submission

Q.NBN supports the proposed structure.

The international businesses were noted to have a possible impact if they use domestic (Qatari) systems or buy or sell to the domestic units.

Reconciliation should enable the differences of RAS and statutory accounts to be transparent. It should include adjustments to the cost base.

Vodafone's submission

Vodafone supports the proposed structure.

QTel's submission

No additional RRUs are required. The wholesale unit may be of limited value in the short term. Reasons were not fully explained, other than increasing the RAS complexity and a reference to the existence of Q.NBN – this latter point was not elaborated on.

ictQATAR's analysis

The wholesale unit is understood to give value even in the short term while there are very few costs in this unit today. But, we see the benefits as the Qatari wholesale business expands.

The purpose of the RAS reconciliation covers the Q.NBN desires. International unit transfers would be made transparent either through transfers to network units or from buying services via the wholesale unit.

ictQATAR's conclusion

The RRU structure, as proposed, is required.

3.2.7 CD 1 Question 7 Please indicate if there are reasons for not using FCM as part of the CCA/CESP cost base.

Q.NBN's submission

Q.NBN supports FCM.

Vodafone's submission

Vodafone supports FCM.

QTel's submission

QTel does not address the question, but proposed a wider study of FCM versus OCM. CCA is supported. QTel makes reference to CESP issues in an earlier QTel submission (presumably responses 11 and 31 for example).

ictQATAR's analysis

CESP is not related to OCM or FCM. The RAS structure is not altered by CCA, and the impacts of CCA on reporting are small – mainly in reconciliation to HCA.

The need for CESP in accounting reporting has not been convincingly argued for – see also question 8.

ictQATAR's conclusion

ictQATAR believes that the move to CCA should use FMC wherever possible. Further discussions are required on CCA.

3.2.8 CD 1 Question 8 What are the features and timeframes for CESP reporting, if this is required?

Q.NBN's submission

Q.NBN sees CESP as something to be addressed as part of wholesale pricing. Some problems are seen in the alternative use of CESP HCA or CESP CCA. CESP is seen to be of dubious value. CESP has four main components: asset revaluation; adjustments to asset numbers to efficient levels; adjustment for spare capacity and adjustment of operational costs.

CESP is desired by the end of 2013.

Vodafone's submission

Vodafone supports CCA as the only essential part of CESP.

QTel's submission

QTel referred to its reply made to an earlier RAS consultation. See the relevant QTel document and the replies to requests 11, 12 13 and 31. These supported CCA but noted issues with efficiency adjustments.

ictQATAR's analysis

The support for CCA is noted by all parties as a central step. ictQATAR sees currently limited relevance of HCA CESP *if* CCA already exists. But some CESP changes are certainly possible using HCA based costs. CCA is not an absolute prerequisite to CESP. CCA is agreed to be the next step in the evolution of the RAS.

Some CESP changes might be required with the move to CCA, even if full CESP changes are not implemented. An example of this is: land. If land (or other assets) were acquired at low or even zero costs (i.e. effectively it was a gift), CCA based values could allow an unreasonable return on the re-valued assets if defined to be at today's replacement cost. The current value of the assets could be considerable. The economically efficient value or treatment of the asset might require a value for the asset that is altered from that defined by conventional CCA techniques that look at the current-replacement of the asset. Therefore a move to CCA might necessitate some CESP adjustments even without a full CESP costing system.

The detailed method and benefits of CESP need to be evaluated. This must be balanced against the costs of CESP's introduction and against issues that arise from: uncertainly in both the values and the types of adjustments that may be required. ictQATAR believes this is something that is best addressed in further discussions. Its introduction by the end of 2013 is not feasible. At present there is no clear benefit from having CESP in the RAS.

Some adjustment to costs and other factors may be needed in a price setting process and some efficiency factors could be introduced then. This is not part of the RAS reports or systems, and so may be addressed in the shorter term in pricing or other investigations that define *how* RAS data may be used and adapted.

ictQATAR's conclusion

The CCA is a primary next step in the evolution of the RAS. Full CESP *may* be considered after. It is noted that CESP changes are possible, in theory, with HCA costs. Some use of CESP-type changes could be introduced with the change to CCA (see the above discussion of land) without implementing a full CESP system.

Further discussions on the details and timing of CCA are required, and then on *if* full CESP might follow. The date of CCA introductions will be defined after the discussions.

ictQATAR notes, that efficiency adjustments may be relevant to other investigations and price setting. These adjustments may be carried out in analysis is external to the RAS, and so it is not part of this consultation.

Question 5 Which other topics do you envisage to be covered in a forthcoming consultation?

3.2.9 CD 1 Question 9 Is there a need for incremental costing and where would this be applied?

Q.NBN's submission

Incremental costing is not relevant to anti-competitive analysis but is relevant to wholesale pricing. LRIC is therefore required.

CCA issues were raised and concerns that CCA may increase the cost of some infrastructure. LRIC approach with non-replicable assets is seen as beneficial to market entry.

CCA re-valuation issues with land were also raised especially if the land was obtained at no cost. Similarly there were concerns with other assets such as ducts paid for by Ashghal.

Vodafone's submission

Incremental costing is not required in the near term.

QTel's submission

CCA is the first required move. QTel discussed the use of RAS in particular with respect to retail price controls where HCA FAC was deemed unsuitable, and incremental costing is required.

ictQATAR's analysis

Discussions on CCA are not directly relevant to the incremental question. CCA is assumed to be a pre-requisite, but does not alter the general incremental calculation principles.

The re-valuation of assets that had little or no purchase cost can be addressed in the details of the method to be used for CCA in 2013 accounts. See CD question 8 above. ictQATAR notes that an asset that is fully depreciated normally still has no value under CCA. Assets that had no purchase value may also still have no value under CCA.

Some replicable assets, with little or no purchase value may need further consideration under CCA. Different treatment of assets that were acquired when a government owned operator, compared to later commercially-acquired assets, has been seen elsewhere. This will be addressed in the CCA approach, but it does not directly affect the RAS principles or structure.

Retail and wholesale price methods are separate to the RAS. The support for incremental costing for retail pricing (QTel) may be contrasted to the support for incremental costing for wholesale pricing (Q.NBN).

The benefits of adding in incremental costing in addition to CCA, or applying some efficiency or other adjustments in a price-setting process, have not been defined. The assumption that LRIC might give lower costs may be behind the support for each of the QTel and Q.NBN propositions. ictQATAR is not biased to low costs – rather it desires appropriate and reasonable prices that may be cost based. ictQATAR would expect any incremental analysis to be most likely based on LRIC plus some common costs, although this and other alternatives were not discussed by the service providers. This is likely to be close to a FAC CCA result in any case.

ictQATAR's conclusion

A solid argument for incremental costs has not been proposed, nor were clear definitions of the required increments given. If there are investigations that require the incremental (variable) or even the marginal cost of one service, then this may be estimated by additional investigations: it does not warrant the general introduction of incremental approaches for all services in a RAS.

3.2.10 CD 1 Question 10 If an IC approach is required a) how should it be implemented? b) which increments should be defined? c) what would be advantage?

Q.NBN's submission

This was linked to the reply to question 9. Q.NBN suggests that this should be subject to a separate proceeding. The list of points relate mainly to the creation of a bottom up cost model for wholesale service costing (pricing). Core and access network models were identified.

Vodafone's submission

Incremental costing is not required in the near term.

QTel's submission

Best international practice should be followed. What constitutes "best international practice" was not defined. Incremental is required for retail tariff evaluation (see also question 9). The approach should use the retail mark ups on the wholesale costs based on HCA FAC.

ictQATAR's analysis

Bottom up LRIC is a modeling technique that is well known and has merits for some cost analysis. This is not directly relevant to the RAS, which is top down and accounts based.

QTel did not define the increments to be used in retail and ictQATAR does not follow the discussion of mark-ups and HCA FAC where elsewhere CCA and incremental costing for retail costs were proposed by QTel.

Q.NBN introduced a wide range of points about costing and pricing that also identified LRIC plus and pure LRIC. The discourse did not lead to specific detailed recommendations on the RAS. ictQATAR notes that exact increments were not defined, and any further developments would require a specific consultation. The Q.NBN discussions on (for example) scorched node and greenfield assumptions or technology assumptions are related to bottom up incremental analysis and so could be part of other consultations: this type of incremental costing is not usual in top down RAS systems.

As noted in the RAS consultation, retail cost allocations are difficult and so the effect of using LRIC for retail costs would typically define a low marginal retail cost and a high stand alone cost. With such widely separated floors and ceilings, the retail insights from incremental costing could be limited, at least for most products. Any LRIC plus mark-up costs, would be no more solid than the FAC approach defined in the consultation.

ictQATAR's conclusion

The use of bottom up modeling is not relevant to the RAS, and so this is not discussed further. This may be considered in specific projects that need to identify costs in this way – this is something that may arise in wholesale or retail price discussions, but it is not part of this consultation.

No service providers defined clearly the specific incremental approaches that are applicable to RAS systems. The volume increments, the approaches to defining the variable costs, how fixed/common costs or incremental specific fixed costs would be identified, how the cost floors or cost ceilings may be defined, the approach to distributed LRIC costs, etc. were not identified. Furthermore, the RAS provides identification of the wholesale costs of production, separation of the business sustaining costs and a breakdown of the retail costs to general cost pools as well as defining final costs by products (which provides some insights to the cost floors and ceilings): the added insights and benefits of incremental costs to these RAS outputs was not clarified.

There is insufficient evidence provided to support the immediate introduction of LRIC in the RAS.

3.2.11 Question 11 Do you agree with the cost transferral approach? Alternatively, if cost transferrals are to be based on for example the wholesale rates paid by other service providers then how should internal transfers such on an on-net call be defined, as these services are not available externally?

Q.NBN's submission

The ictQATAR-proposed approach (transfer at cost) was not agreed with.

Transfer charges should be equivalent to those sold externally. The concern is not with services sold internally but with those also sold externally.

Vodafone's submission

Transfers should be based on the charges to third parties, if this service is used internally or on the basis of cost where the service is only used internally.

QTel's submission

No change to the transfers was proposed as the current method is more than adequate. Changes may increase complexity and take development time,

ictQATAR's analysis

The merits of RIO based prices (externally available prices) in the transfer regime is noted. This shows the net impact of RRUs treating each other in the same way that other service providers are treated. The RAS accounts do show cost based transferrals and these can be compared to the RIO or to other prices. This can also be used "manually" to adjust the RRU accounts to see the effect of applying the alternative price. Without this adjustment, the network RRUs will always recover the regulated cost of capital: making this profit report of limited value, other than as a basic check of the correct functioning of the system.

The Wholesale RRU enables the margins of externally-supplied services to be seen. The input cost is the cost of production, and the revenues are from the other service providers. So this RRU provides a useful additional transparency to the service providers. This is not affected by the internal transfers between retail and network RRUs and between network RRUs.

The current RAS system transfers services at cost between RRUs. Some detailed changes will be required to the RAS to show some transfers at a specified price (the same is provided to other service providers) while all other remain "at cost." The change is logical and provides more realistic effective P&L results for all RRUs. Against this are the additional complications caused by updating the RAS system and reporting.

The changes affect the Retail RRU and the transfers with it and the fixed and mobile wholesale RRU. This demonstrates the equivalent treatment or Retail compared to other service providers. ictQATAR believes that the complexity of these changes is not excessive – the main services affected are retail fixed to mobile and mobile to fixed products, which should incur the same termination prices paid by the service providers. The transferred costs are then, not the costs of production, but the termination price times volume (which becomes the revenue for the network RRU).

The detailed technical changes required in the RAS to implement this change are not a major concern of ictQATAR. Some adjustments of the transferred-in costs to Retail and to revenues of the network units should be possible without major changes. Further, if the RAS is updated to accommodate NGN techniques that include the concept of “partial products” then the termination product costs can be identified and substituted by the RIO prices more easily.

ictQATAR’s conclusions

The transfer payments for the services that are both sold internally and externally, should be at the same price as sold externally. This shows equivalence of charging and this is a sensible enhancement. This has the most obvious impact to the use of fixed to mobile and mobile to fixed termination prices. These should be at the external interconnection price levels.

Retail products generally do not use the same products as supplied to other services providers. Therefore an on-net mobile call does not incur any termination charges (it incurs only the cost of production). A mobile to fixed call in contrast has the mobile network costs plus the fixed termination charge. This termination should be the same charge as incurred by other service providers. This demonstrates the equivalent charging. As prices tend towards cost, then the wholesale RRUs will tend to recover exactly the cost of capital and any over (or under) recovery of costs is clear in the SFS.

All services sold *only internally* should be transferred at cost (as proposed in the initial consultation). There is no equivalent service to (for example) an on-net mobile call, that is sold to other service providers. So any transfer price, other than the cost, is not defined. There is no benefit to define any on-net call transfer prices that are “close to twice the wholesale termination charge.” Inter-RRU transfers are therefore “at cost of production” unless the same service is supplied to other service providers, in which case the price charges to the service providers must be used.

3.2.12 CD 1 Question 12 Do you agree with the absorbed cost approach for business sustaining type costs or should these be allocated using a mark-up regime?

Q.NBN’s submission

Q.NBN noted that the details of absorbed costs were not easy to evaluate without further information, but absorbed costs would be preferred with the use of the higher “fairly presents” standard of audit.

Reports on the amount of costs are allocated by each driver was requested.

Vodafone’s submission

The approach is accepted if it complies with cost-causality requirements and if approved by the auditor.

QTel’s submission

QTel opposed additional complexity. Mark-up methods were not supported

ictQATAR’s analysis

Mark-ups were not proposed in the CD and so the absorbed cost approach, as used already, gives no complexity increase.

ictQATAR notes that common cost mark-ups are a central issue in LRIC costing. Mark-ups are also used in other models. So the mark-up technique is a key requirement in LRIC costing which is supported by both QTel and Q.NBN. The mark-up would not be relevant however if the incremental cost is analyzed without any consideration of the common (non-incremental) cost, but incremental costs are usually considered in business analysis along with fuller-costs that include a contribution of the common costs. So mark-ups would certainly need to be discussed if LRIC were to be followed.

QTel supports some use of LRIC and so this contradicts its opposition, elsewhere, to the consideration of mark-ups. However as ictQATAR has *not* proposed mark-ups, and incremental costing is *not* required by ictQATAR, this mark-up discussion is not an issue that affects moving the RAS forward.

ictQATAR’s conclusion

As LRIC is not being followed and no opposition to the absorbed costs was given, the absorbed costs will be used. ictQATAR will have access to the model and so the amount of absorbed costs can be verified to be at a reasonable (low) level and the approach should be reviewed by the auditors to ensure costs, where possible, are allocated on a cost causal basis. This provides adequate assurances. Note also that the SFS requires the absorbed cost to be separately identified – transparency is assured. This is in the pro forma accounts.

Fairly presents audit standards requires a lot of additional work, and is not very commonly used on regulatory systems (though it is certainly used). In any event PPIA audit is required as a first stage.

3.2.13 CD 1 Question 13 Do you agree with the principles for moving the RAS to cope with NGN and NGA costs? If there are other suggestions, please elaborate.

Q.NBN’s submission

Bottom up incremental modeling was proposed. More information of the RAS cost drivers was requested.

Vodafone’s submission

The approach proposed by ictQATAR was supported though it was noted to be not defined in great detail.

QTel’s submission

QTel noted that any adjustments to the RAS could have unforeseen outcomes and modifications should be performed with an informed view.

ictQATAR’s analysis

The request for driver data was addressed under other question 4. BU modeling is not part of the RAS.

ictQATAR’s conclusion

The “informed view” provided in the original CD shall be the basis for moving forward. Details of the developments will form part of the evolving RAS specification and approach that will emerge annually as NGN and NGA develops.

3.2.14 CD 1 Question 14 Fibre in the loop is expected to become a major cost and major service providing platform. Are there other approaches to ensure adequate cost information is available?

Q.NBN’s submission

LRIC is proposed (ictQATAR presumes BU LRIC) for pricing purposes.

Vodafone’s submission

The approach proposed by ictQATAR in the RAS consultation was seen as sufficient.

QTel's submission

QTel stated that ictQATAR should encourage QTel to make investments.

ictQATAR's analysis

BU LRIC is related to price controls.

QTel's discussion is not related to the RAS consultation.

ictQATAR's conclusion

The RAS approach as defined in the consultation will be used. Detailed refinements may be introduced over time, but this would not require further consultations or changes to the RAS Instructions.

3.2.15 CD 1 Question 15 Do you agree with the capping of WC and cash and is this a reasonable level?

Q.NBN's submission

WC caps should be part of CESP analysis and left out of FAC analysis. Some limits to WC are agreed to be required and the ictQATAR approach is sensible.

Vodafone's submission

The working capital should be included and excess levels be assigned to Retail or "other" RRUs. The WC level should depend on the business cycle times of receipts and payments.

QTel's submission

QTel says that international best practice should be used (but this was not specified). Benchmarks were opposed. The Qatari situation should be considered.

ictQATAR's analysis

Although capping WC is effectively part of some efficiency adjustment, ictQATAR has noted how WC levels can fluctuate and distort the results. Some limit is therefore required. Excess levels must be reported on, once separated from the main regulated units: the working capital is included on the overall SFS to ensure reconciliation.

QTel did not identify any best practice. ictQATAR did not propose benchmarks. In the RAS 2009 ictQATAR accepted the QTel WC values, excluding a specific cash item that was agreed to be not relevant. ictQATAR expects similar levels are reasonable in future years,

QTel used the proposed WC cap in the RAS 2009 and this cap level was not exceeded. It is therefore not an excessively low limit: it can be met.

ictQATAR's conclusion

The cap should be used as defined in the consultation and draft Instructions.

3.2.16 CD 1 Question 16 Do you agree with the retail cost allocation method? ictQATAR is well aware of the limitations and the above approach is only an indication of a product's cost value and it cannot be taken as a definitive basis for evaluations and price controls. Price control procedures are not part of this Consultation.

Q.NBN's submission

The approach is supported. Additional reporting complexity may result from allocations to bundles. Tariff bundles may need an imputation test that is outside the cost model. Imputation tests are proposed to be part of the accounting separation.

Vodafone's submission

The general approach is supported. Revenue for bundles need not be split out to component products. Bundle costs should: be transparent; cost allocations should be on the same basis as other products; and only genuine bundling synergies should be considered. Bundles must not be anticompetitive, but Vodafone identified that this was not part of the RAS but is part of retail price analysis.

QTel's submission

QTel does not answer the question directly, but notes that there are alternatives and ictQATAR should evaluate these.

Retail price controls indicate a market failing and market evaluation is required.

ictQATAR's analysis

Imputation tests, as suggested by Q.NBN are not part of the RAS. These relate to price approvals and evaluations of anti-competitive pricing and so are not directly relevant to this consultation.

The cost allocation in the RAS should be transparent and the approach acknowledges the inherent limitations of retail cost allocations.

QTel's response provides no inputs on a better approach and market analysis is not part of the consultation: markets have been defined and analyzed in other work.

ictQATAR's conclusion

The approach defined in the consultation shall be used.

3.2.17 CD 1 Question 17 Have you any comments on the product reports (retail and wholesale), network element reports and SFS?

Q.NBN's submission

The cost driver data should be reported on.

The detail in the SFS should show cost of production, volumes and unit costs, as defined by ictQATAR. All relevant wholesale products should be confirmed by ictQATAR to be included

Vodafone's submission

The pro forma SFS are reasonable and consistent with international best practice. ictQATAR should ensure the right level of granularity is produced and material items are transparent.

QTel's submission

The requirements are excessive and exceed other jurisdictions, but QTel did not provide details. The only significant comments were that any additional requirements to those used in the 2009 RAS may increase the time to deliver and require more manual interventions to the system.

ictQATAR's analysis

ictQATAR does not see the need to divulge cost driver values. Even the UK, which probably has more information on its costing system made public than anywhere else, does not include driver values in its reports. Confidentiality issues arise and also there would be considerable work required to make information that is existing within "working costing system documentation" into a form that is suitable for general publication.

The details in the SFS pro forma have been shown, in ictQATAR's investigations of the 2009 RAS, to be mostly features that exist already. Most of the SFS can be delivered by additional add-on reporting-analysis is required: no major structural changes are required. The costing system already has detailed cost categories that enable the cost-types to be reported on.

ictQATAR's conclusion

The structure defined in the consultation pro forma shall be used.

Annex I Specific questions of this CD2

Views and comments, on the fullest extent possible, on this CD are invited from industry participants, other stakeholders and interested parties. We would ask to provide views and comments on this CD generally and on a number of specific questions in particular. A complete list of the questions is contained in the following list of questions:

Question 1	Are there further refinements or adjustments needed to the draft RAS Instructions (see accompanying document)? Please do not adddress issues already covered in the intitial consultation stage.	5
Question 2	Are there any parts of the SFS that should not be published? If so, please identify the specific values and provide justifications why they should not be released.	9
Question 3	Are there any other parts of the SFS that be published? If so, please identify the specifics and why they be released.	9
Question 4	Are there any specific suggestions to ensure that robust CCA is introduced quickly? Do you agree with the timeline indicated?	12
Question 5	Which other topics do you envisage to be covered in a forthcoming consultation?	18

الشركة القطرية لشبكة الحزمة العريضة
Qatar National Broadband Network

February 7, 2013

Mr. Graeme Gordon
Assistant Secretary General
ictQATAR
P.O. Box 23264, Al Nassr Tower
Doha, Qatar

Re: RAS Instructions 2012 Stage 2 Response Round

Dear Mr. Gordon,

Please find attached the Submission of Qatar National Broadband Network (QNBN) to the Stage 2 response round of the RAS Consultation Document issued on 23 January 2013.

Our major points, which are developed in our Submissions below, can be summarized as follows:

1. ictQATAR should clarify or modify the inter-RRU financial and service flows set out in section 3.4 of the instructions;
2. In the absence of access to the RAS by other service providers, we suggest additional means by which ictQatar could raise increase confidence that the results of the Qtel modeling and reporting can be properly vetted for anti-competitive pricing;
3. CCA can be introduced for FY2013 accounts, particularly if stripped away of additional efficiency adjustments; and
4. We reiterate our understanding of the topics required for future consultations.

Sincerely,

Philip Brazeau
Head of Regulatory
Qatar National Broadband Network

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Introduction

QNBN welcomes the opportunity to respond to ictQatar's Stage 2 Response Round Consultation ("CD2") on the proposed Regulatory Accounting System ("RAS"). Although ictQatar supported some, but not all, of QNBN's suggested changes in Stage 1, we believe the revised proposed RAS is significantly improved.

As requested by ictQatar, we do not bring up previously discussed issues in this Submission. We respond only to the new questions raised in CD2.

Qatar National Broadband Network

Response to Questions raised by ictQATAR

Question 1

Are there further refinements or adjustments needed to the draft RAS Instructions (see accompanying document)? Please do not address issues already covered in the initial consultation stage.

QNBN believes that several changes in Figure 2 are necessary in order to clarify inter-RRU financial and service flows:

- The Retail RRU should be making Inter RRU charges and payments (blue arrow) only to the Wholesale RRU. At the moment, the blue arrows suggest that the Retail RRU is making payments to the Wholesale Fixed Core RRU and the Wholesale Mobile RRU. We do not believe this is what ictQatar intended. If ictQatar did in fact mean to place these blue arrows between the Retail RRU and Wholesale Fixed Core and Mobile RRU, ictQatar should clarify what services the payments are made for.

- ictQATAR should also consider an alternative formulation, which has the Retail RRU purchasing Fixed network inputs from Wholesale RRU and Mobile network inputs directly from Wholesale Mobile RRU. This would have the advantage of facilitating comparable financial relationships should an MVNO be introduced.

- There should be a green arrow from the Wholesale RRU to the Retail RRU to mirror the green arrow between the Wholesale RRU and Other Service providers. Should Retail RRU purchase from Wholesale Mobile RRU (under the alternative formulation) then a green arrow should exist between those two RRUs as well.

  Finally, we think that ictQatar should clarify what it believes the Wholesale Fixed Network Access RRU, Wholesale Fixed Core RRU and the Wholesale Mobile RRU are selling to one another.

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Qatar National Broadband Network

Question 2

Are there any parts of the SFS that should not be published? If so, please identify the specific values and provide justifications why they should not be released.

We believe that ictQatar has set out a minimum set of results that should be published. Therefore, QNBN is of the opinion that there are no parts of the SFS that should not be published.

Question 3

Are there any other parts of the SFS that [should] be published? If so, please identify the specifics and why they [should] be released.

We welcome the fact that that ictQatar has decided to implement the tariff-based transfer prices. We believe this will greatly facilitate the assessment of anti-competitive pricing.

However, we are disappointed that ictQatar is of the view that other service providers cannot have access or appoint their own examiners under suitable non-disclosure agreements to have access to the RAS system. We believe that without this access it may prove difficult for service providers to assess the anti-competitive nature of tariffs. They will be totally reliant on ictQatar to evaluate properly the reasonableness of cost allocation, etc. Furthermore, they will not be able to verify how the tariff-based transfer prices were implemented in the modeling and reporting and whether the implementation was done correctly. QNBN is strongly of the view, as demonstrated time and time again in all jurisdictions, that competitors are best placed to highlight inappropriate anti-competitive conduct. QNBN is of the view that ictQatar is being over-confident in its belief that it is the unique and best guardian to oversee the totality of the information provided and prevent potential anti-competitive activity within a reasonable timeframe.

In the absence of the unfortunate limited access to the RAS, QNBN urges ictQatar to:

a) Ensure that it has the time and resources to properly vet the model, the methodology, assumptions and implementation of all aspects of the RAS;
b) Require Qtel to publish SFS inter-RRU accounts and product P&Ls under *both* the cost-based transfer assumption and the tariff-based transfer charge assumption—this will provide for greater comparability of results;
c) Require Qtel to spell out in detail how it implemented the tariff-based transfer charges in its published documentation.

These actions will increase the likelihood that potential anti-competitive pricing will be identified in a timely manner.

Question 4

Are there any specific suggestions to ensure that robust CCA is introduced quickly? Do you agree with the timeline indicated?

QNBN's only specific suggestion on introducing CCA quickly is follow-on from its previous comment on efficiency adjustments from Stage 1 of this consultation. QNBN believes it would be best to introduce CCA without additional efficiency adjustments. Additional efficiency adjustments may be introduced later after separate consultation that is focused on the specific issues that such adjustments are meant to address.

With respect to the timeline indicated for introduction of CCA, we are not aware that ictQatar made a specific proposal for a timeframe within the CD2. We note that that ictQatar has said that CCA is "not expected" for the FY2012 accounts. We assume therefore that ictQatar is proposing that it be introduced for the FY2013 accounts. This, in our view, is satisfactory.

Question 5

Which other topics do you envisage to be covered in a forthcoming consultation?

It is not entirely clear what ictQatar is intending with this question. The placement of Question 5 within CD2 suggests that ictQatar is speaking of a forthcoming consultation on CCA and CESP. This is how we address this particular question.

With respect to CCA, QNBN believes that any consultation should be fairly straightforward as the topics to be discussed and in accordance with accepted regulatory practice.

With respect to CESP, in its response to the First Consultation document, QNBN put forth a number of topics that it would expect to be covered in consultations related to efficiency and price setting. QNBN is still unconvinced that CESP is worth pursuing as part of the RAS and issues related to CESP should instead be discussed as part of separate consultations on price setting for regulated retail and wholesale products. With respect to pricing regulated wholesale products, as we have stated previous, QNBN believes CESP should take a back seat to a discussion of long-run incremental pricing.

RAS Instructions to Qtel Qatar (Qtel) Q.S.C.,

Response and Consultation Document

issued by ictQATAR 23 January 2013

Submission by Qatar Telecommunications (Qtel) QSC

7th February 2013

1. Introduction

Qtel is encouraged by ictQATAR's approach in managing the RAS process, including the release in October 2012 of the Draft RAS Instruction (ICTRA 2012/10/23) ("First Consultation"). Qtel is fully supportive of the First Consultation's open, fair and highly professional approach, which has been carried forward with the recent release of the *Response Document and Consultation Document for the Second Stage Consultation*("Second Consultation") and revised *Draft RAS Instructions* ("Revised Draft Instructions"), on 23 January 2013 (RA/ECLI/01-23 01 2013). Indeed, the apparent level of engagement by all parties is testament to widespread industry support for ictQATAR's transparent and methodological approach to RAS development.

Qtel welcomes the opportunity to provide comments on the Revised Draft Instructions. The regulatory accounting system (RAS) has the potential to profoundly affect the telecommunications regulatory regime and the telecommunications market in general. Qtel appreciates the care and attention that ictQATAR has paid to this framework and provides the comments contained in this submission with the hope of contributing constructively to its further development.

2. General Points on the draft RAS Instruction Response Document and Consultation Document for the Second Stage Consultation

2.1 *Delay in RAS filings*

Vodafone Qatar's comments express concern regarding delays in "getting the accounts after the 2010 consultation" and over further delays in finalizing the 2010, 2011, and 2012 RAS submissions. (Page 7, Section 3.1.2) In order to minimize the impact of any such delays, Qtel proposes that ictQATAR reverse the order of RAS development such that the RAS submissions for FY2012 are developed first and delivered to ictQATAR before finalizing RAS filings for FY 2010 and 2011. FY2012 is the most relevant year for dealing with regulatory matters, and the FY 2012 submission will be based on information that is relatively recent. As such, the information derived from the FY2012 RAS is the most applicable, relevant and material in the formation of regulation and/or for inputs into, for example, retail and wholesale pricing evaluations and other studies.

Qtel has concerns that the longer the FY 2012 RAS submissions are delayed, the less relevant their outputs will be and therefore the applicability of any study or assessment that ictQATAR wishes to make will be limited. The early development of FY2012 RAS submissions has the additional advantage that the original RAS development timelines will be largely re-established creating the best environment for RAS FY2013 development.

Subsequent to the filing of the FY2012 submission, submissions for both FY 2011 and FY 2010 will be developed, the outputs of which will be less relevant as these are prior years that reflect a number of material or transitory changes within Qtel organisational structure, operations and network. Ultimately, even with submissions of FY 2012, FY 2011 and FY 2010 inevitably there will be changes in FY 2013 that may render any approach taken these prior years less useful, though the latter is less likely.

In short, RAS development should be understood as a fluid process, and at best one can only rely on the most up to date information. It is Qtel's assertion, aligned to that of Vodafone Qatar's and Q.NBN's requests, that RAS FY2012 submissions be developed first, to be followed by submissions for FY2011 and then FY2010. The added benefit of conducting the process in such a manner is that the RAS timetable is brought back onto the original schedule, with outstanding years FY 2011 and FY 2010 also for submission at a later stage in 2013. This procedure would allow FY 2013 to be developed entirely as per the existing RAS timelines as defined in the 2nd draft RAS Instruction.

Moreover, developing 2012 RAS submissions first would fulfil the requirement for up to date costing information has been stressed by ictQATAR and the industry players. Further, ictQATAR themselves have stated that the most up to date and relevant costing information is required for tariffs approval in addition to existing wholesale termination rate negotiations with Vodafone Qatar.

ictQATAR concerns over the robustness of the findings based on FY2012 submissions resulting from subsequent review of FY2011 and FY2010 submissions can easily be allayed by placing appropriate conditions on any findings related to the 2012 submission as interim and subject to potential modification as a result of review of FY2011 and FY2010 submissions.

2.2 *Objectives and Aims*

Qtel appreciates ictQATAR's clarification on this initial phase of the RAS Consultation, which focuses attention to the RAS structure and its features. IctQATAR's assessment is very much dependent upon the wider RAS objectives and how these will be used, which is not fully specified. Qtel agrees with ictQATAR that the outputs or derivations from RAS should be applied with caution and in conjunction with other supporting information, data or analysis. IctQATAR has clearly dispelled the notion that the RAS is a 'one size fits all' construction and that development of such a regulatory system as a part of the RAS is neither conceivable nor practical. Qtel agrees with ictQATAR that RAS is a very useful "*supporting tool*" in the arsenal of ictQATAR to meet its "*general objectives*" but caution should be exercised when applying its findings to specific instances and notes that such findings cannot be used on their own in decision making. In short, RAS provides a good initial indication of costs and behaviour, which can then be further investigated using additional relevant analysis and approaches.

The Second Consultation correctly states, in Qtel's view, that RAS derived results provide "*insights*" into developing estimates of costs and prices, which necessarily require additional analysis and supporting information. Qtel agrees with ictQATAR that using historical fully allocated average costs will not necessarily be representative of the current costs of services and as such other factors such as competitor price, service volumes, and incremental capital investment will require consideration. Further, while not part of this RAS consultation, commercial pricing models should also be developed that allow actual customer behaviour and usage to be estimated and costs apportioned accordingly.

ictQATAR states that RAS provides a basis for "*price controls*", Qtel maintains and supports this notion, but highlights that price controls should be recognised within the context of the competitive market and any such regulatory mechanism developed in the context of a comprehensive consultation and in accordance with international best practices.

ictQATAR observes that RAS has "*certain limitations and it is not itself always a solution to regulatory a decision on its own,*" (p.8). Qtel concurs with this statement for the reasons mentioned previously. ictQATAR has stated than an important aspect of RAS, namely, that in the associated applications of its outputs, that other supporting sources of information are required in order to make informed regulatory decisions and that the outputs of RAS do not set retail or wholesale pricing.

ictQATAR judiciously notes that RAS must balance the numerous desired outcomes with the "*practical reality of what can be achieved with cost accounting tools and the realistic expectations from an operator with the scale of Qtel.*" (p.8). This point is something Qtel has been previously conveyed to ictQATAR, and it is gratifying that this common view is held by both parties.

Elaborating this point further, it should also be borne in mind that as RAS is already an obligation upon Qtel that it should be maintained within the scale of the Qatari telecommunication market size. Excessive details and application of RAS would inevitably lead to more complex and sophisticated models that would not only extend deliverable timelines (some of which are outside of Qtel's control, such as its audit), add considerable overhead to its audit but may be inconsistent with the size of the Qatari telecommunications market. In short, ictQATAR should implement a RAS that is proportional to this market size without undue burden and costs on Qtel that will ultimately be passed on to Qtel customers. Any additional RAS requirements that ictQATAR may consider should be clearly discussed within a cost-benefit analysis study, which takes into account any potential impact on its annual delivery.

Further, ictQATAR astutely clarified the common misconception associated with RAS and retail pricing, and disassociates the two. Qtel recognises that the two subjects are inter related but are not in themselves the only input for assessment of retail pricing.

Qtel looks forward to future consultations on price setting, the use of benchmarks and bottom up costing methodologies as and when required by ictQATAR in order to provide a balanced view from all market players under the same professional, open and spirited consultative framework.

2.3 *Publication and release of the SFS and accounts.*

The Second Consultation states that some of the RAS outputs and statements should be published and placed into the public domain. (Section 3.1.4.2, p.9). Qtel is not averse to this practice, which is typical in other jurisdictions. However, a review of the RAS data published and placed in the public domain in countries in the region (Bahrain, Kingdom of Saudi Arabia, Oman, and United Arab Emirates) clearly demonstrates that very little published data actually exists today. Qtel believes that this is indicative of two principle factors;

- firstly, the nascent stage of RAS development, where the release of results prior to having several year of submission may lead to errors or corrections of prior year result;
- secondly, the commercial sensitivity of and limited audience for such detailed information.

The highly disaggregated RAS information that the Second Consultation proposes to release is only likely to be of use to regulatory authorities and competitive operators that have the necessary expertise to interpret the results and outputs. Qtel is concerned that without the necessary specialist skills to interpret the RAS outputs, reviewing parties may reach erroneous or misleading conclusions. Such erroneous conclusions are likely to raise questions directed towards and solicit clarifications from ictQATAR that may overburden their existing resources.

Indeed, some of these questions and/or queries may require engagement by Qtel and take already stretched resources away from the current intensive RAS development. If ictQATAR do pursue some level of publication of RAS outputs Qtel would seek some relief on the RAS development timelines in order to accommodate potential investigations raised by other market players. It should be stressed that Qtel has no such concerns with requests from ictQATAR themselves as it is in Qtel's interest to provide all necessary help and assurances regarding RAS but offers its views from a purely practical position in the RAS development schedule.

It is Qtel's view that RRU statements containing balance sheet, P&L and the associated reconciliation statements could be placed in public domain at the appropriate time but with some reporting lines removed. However, Qtel is clear that this time will not be reached in the short to medium term. Qtel accepts that it is standard international practice to place RAS statements into the public domain after several years of RAS submissions but that the level of disclosure should not be to the level submitted to ictQATAR due to commercially sensitive information being at the disposal of competitive operators.

The point on the timing of publication cannot be understated, as Qtel is of the view that RAS is not yet sufficiently well established as a process and changes from one year to another will be required which may require restatement of prior years' results. These changes will require some explanation and will necessarily raise questions from other industry players that will be directed at ictQATAR, possibly with some loss of confidence in the robustness of the RAS result by the wider community.

The publication of the cost of production information and in particular the network report will provide highly detailed and commercially confidential information to Qtel's detriment and will be to the commercial advantage of its competitors. Indeed this information, if placed in the public domain, will allow competitors to focus their own commercial activities in areas of high margin service only, effectively cherry-picking', while avoiding the launch of less profitable services, which would only be provided by Qtel.

Such practices could create abnormal market distortions with adverse effects on competition and commercial offerings to Qtel customers. Currently, in the neighbouring countries, no accounting separation results are published. Qtel strongly urges ictQATAR to take into account these important and market-changing considerations when making its final decision in the respect of publication of RAS result and to bear in mind the practice observed regionally.

The information contained within the SFS and other reports, if taken in isolation, may lead to erroneous conclusions of the reviewer given that the simple reporting of product or service profitability may not be how customers actually consume such services. This is demonstrated by way of example, PSTN connections and rentals are sold together, where one cannot be bought without the other. In considering the profitability of a service, all relevant components and relevant factors must be taken into account and failure to do so may lead to a distorted view of service profitability. An alternative to this would be to include percentage of costs for each cost element that has been apportioned or attributed to that particular service.

ictQATAR states that publication of detailed RAS reports will provide "*transparency and assurance*". Qtel is of the view that both of these important requirements can be provided though a summary of the auditor's report following audit of the RAS. This will indeed allay such concerns on transparency and assurance. Qtel therefore recommends, at the appropriate time, publishing of the summary audit report as an alternative to the detailed SFSs and network reports. Again, it should be noted that such accounting separation reporting does not exist within the neighbouring countries.

Qtel agrees wholeheartedly with ictQATAR's intention of not allowing other operators access to the RAS system or Qtel internal data, which is an important and wise decision that is consistent with best international practice.

2.4 *Complexity and timing, including audit.*

The Second Consultation states that the complexity and detail within the SFSs are "*not seen as excessive*" (Section 3.1.4.3, p. 9). Qtel maintains its position, however, that such granular and detailed statements do add significantly to the respective development and auditing timelines. Put simply, reporting on, checking and validating a single statement entry is easier than reporting several disaggregated entities, each of which will necessitate validation and audit checks. As such, ictQATAR must appreciate that the more disaggregated the RAS outputs the more work is required in producing and auditing such outputs. Qtel respectively urges ictQATAR to reconsider this finding.

Qtel notes that the Revised Draft Instructions include revised timelines for the final delivery of RAS FY 2010 and 2011 submissions, with a number of prior requirements for monthly status updates and reports. Qtel is encouraged by this extension of the final RAS delivery, which will be required to implement the more granular reporting requirements, the additional transfer tariffs re-working (including associated checking, validation and external auditing) and the simultaneous delivery of RAS submissions for FY 2010 and 2011.

In light of the comparative year requirement for successive RAS submissions it should be noted, however, that the FY 2009 submission will require re-working into the FY2010, 2011 and 2012 formats. This is a substantial exercise and some special dispensation is requested from ictQATAR in order to complete such efforts or a decision not to implement this requirement for FY 2009, as this was the base year development.

The Second Consultation makes reference to the fact that not all product-related issues were resolved and that these issues "*can be checked and refined in the RAS2010+*" (p. 9). In order to meet the demanding RAS delivery timelines for FY2010, 2011 and 2012, Qtel requests that such issues be discussed and agreed with Qtel as soon as possible and ahead of actual model modification work. ictQATAR must appreciate that any such last minute changes to the RAS may require some or (more likely) extensive model reworking that could be avoided if such changes are known as early as possible. Qtel will also have to communicate such changes to its external auditors for appropriate action and incorporation into their procedures.

Qtel is concerned by statement in the Second Consultation that "*the alternative treatment of costs relevant to some products – ictQATAR will need to understand the impacts and then it may define a final approach*" (p. 9). This statement suggests that ictQATAR intends to change cost treatments with a pre-emptive understanding of the resulting outputs or to manipulate cost treatments in order to produce a desired outcome. Qtel is of the opinion that this is not ictQATAR's intention and seeks further clarification on this statement. Such practices raise a number of important issues that may violate some of the founding RAS principles, as a result of their arbitrary nature, thus potentially invalidating any RAS outputs.

The external audit of RAS submissions will provide assurance as to whether the RAS submissions comply with the RAS principles. Such assurances should be sufficient for ictQATAR's purposes, in particular that the cost causality principle has been correctly adhered to. Qtel respectively urges ictQATAR at best to treat with extreme caution such ad hoc cost treatments and otherwise to refrain from such practices without prior discussion with Qtel on the wider implications within the RAS system.

Qtel wishes to reiterate that expression of these concerns is not intended to any way to inhibit ictQATAR's right to review Qtel's RAS submissions and subsequent detailed investigations, on the legitimate concerns on the inconsistencies that such treatments could introduce.

This issue raises a very important point on the filing and subsequent ictQATAR acceptance of Qtel RAS submissions. There should be a clear distinction between Qtel's RAS submissions as per the relevant RAS Instruction and any changes ictQATAR may require. Experience of RAS FY 2009 demonstrated that such changes can add significant delays to the acceptance of RAS. Qtel requests that this process be considered in two stages, first, the submission of RAS as per the relevant RAS Instruction, along with the audit report, and second, the consideration and implementation of alternative cost treatments.

The Second Consultation also states that the RAS of prior years may result in *"(unfortunate) qualifications in the audit report*". Qtel has previously explained to ictQATAR that much of Qtel's data requirements for RAS, in particular network data, is current and updated regularly over time, and that no historical data is maintained. Estimations of this data will have to be made for prior years that will inevitably lead to some qualified audit opinions. This point has been made previously to ictQATAR on several occasions and should not be held against Qtel in ictQATAR's subsequent review and acceptance of RAS submissions for FY2010 and 2011.

This particular point becomes all the more important, as the longer FY2012 development is delayed with 2012 data becoming less and less current as we progress into 2013. This fact is further support for Qtel's request that ictQATAR consider the development of the FY2012 RAS submission prior to submissions for FY 2010 and 2011.

The Revised Draft Instructions maintain the requirement for an executive statement in spite of Qtel's previously expressed concerns (p.31). Qtel requests reconsideration of this necessity on the account that it is not best international practice and the audit performed by Qtel's appointed external auditors along with reconciliation schedules is sufficient to provide the necessary assurance to ictQATAR of the RAS integrity.

2.5 *CD1 Question 1 Do you agree that currently Fully Allocated Cost (FAC) based on HCA is currently the required cost base and cost standard?*

Qtel notes that the Second Consultation states that it "did not address the details of how RAS information would be applied." It further states that such issues, "could be the subject other consultations," (p. 11). Qtel would very much welcome the opportunity of a consultation on this matter which would provide clarity on how and to what RAS information should be used and importantly where it cannot be applied, without the requirement of additional supporting analysis and information.

Qtel does not disagree with the requirement to have several successive years of RAS submissions, as such information would be helpful in trend analysis and possible projections of costs taking into account future changes. Whilst interesting though these studies are, they tend more to be of an academic interest than a practical viewpoint. It is well known with regulatory costing that the projection of costs is a notoriously difficult exercise that often leads to incorrect outcomes. The primary reason for this is that it is very difficult to project the nature of Qtel's business and competitive environment, which drives this changes (organisational, operational and network), in addition to continued network investments in future growth areas and businesses.

This difficulty becomes all the more pertinent in the context of forward looking costing methodologies being used to form pricing standards that will be binding on industry players. Any revision of these prices with more up to date RAS information may require cost revisions and subsequent retrospective corrections of revenues and costs. Much of this speculative cost projection can be removed by having an up to date starting point, namely, FY 2012. ictQATAR states that its decision processed will "*place greater emphasis on the latest data*" (p. 11), which is entirely consistent with Qtel's request for ictQATAR to reconsider the order in which RAS development should occur.

2.6 *CD1 Question 2 Do you currently see additional bases required for regulatory controls? If yes, which basis to you foresee and why?*

Qtel agrees with the conclusion in the Second Consultation that CCA is an industry-accepted evolution from HCA FAC and that this standard should be introduced once HCA FAC has been firmly established. The resources and changes required for the introduction of CCA, however should not be underestimated and Qtel disagrees with ictQATAR's view that "*It is a fact that FAC CCA does not require major changes to the FAC HCA cost allocation system*." (p.12).

This statement is an over simplification, as under the CCA accounting methodology many of Qtel's current assets will be re-valued to current cost levels in an absolute manner or using appraisal or indexing techniques. Where this is not possible due to technological advances, modern equivalent assets (MEA's) would be required which often offer higher functionality than those that being replaced leading to some apportionment of the CCA value. In the instance where assets are composed of many separate and distinct elements, it is frequently the case that only certain parts or classes of assets should be re-valued leading to some judgement call on the importance or otherwise of the remaining asset or components. This factor then adds some degree of uncertainty to the exercise, which may be open to challenge by industry players.

While accepted as international best practice, the introduction of the CCA methodology has proven to be highly subjective and as a result has led to a number of indices or appraisals that are used throughout the industry. The very fact that several indices exist demonstrates the subjectivity and uncertainty of asset re-valuations under CCA. Therefore, it is important that the relevant indices be used that reflect the situation in Qatar and the application of, for example, European based indices may not be reflective of that which can be achieved in Qatar.

Once assets have been re-valued such assets must be re-constructed in financial terms for a virtual asset register, with appropriate lifting's, costs, opening/closing balances, net book values and depreciation. None of these factors currently exist with the existing RAS system. Indeed, the fixed asset register information is an input into RAS, the integrity of which is subject to statutory audit. The CCA enhancement will require substantial development. Indeed, the subsequent external audit of such enhancements will also be extended, as it is not part of the existing RAS under the HCA FAC methodology.

Further, the introduction of CCA should be performed in a consistent manner following best international practice. While CCA is not an unfamiliar RAS methodology, having been applied extensively across European jurisdictions, it should be stressed here that all assets should be re-valued to current costs. However, it is occasionally the case that those assets whose costs have not varied greatly over time could be reasonably excluded from re-valuations. Any selective re-valuing of assets should be avoided as this practice may lead to distortional results and misleading conclusions. This becomes all the more relevant in the case of MEA, where not only the core asset may be re-represented by its modern equivalent but also any relevant supporting assets and other depending components would also require re-valuation or be re-represented by their MEA. Such is the case with all IP based networks, where a partial replacement by IP based equivalent assets may not be technically practical or even feasible.

Clearly, with the introduction of MEA some degree of efficiency is introduced and Qtel concurs with ictQATAR that it may be possible to introduce some efficiency or CESP adjustments in to the RAS. The nature and type of such efficiency adjustments has not been detailed, so Qtel will confine its responses to a general context when discussing this topic.

Again, Qtel draws ictQATAR’s attention to the consistency in the treatments of such efficiency adjustments, as such adjustments would need to have some rational basis that is well understood and feasible in practical terms. Without following such rigour, it may be the case that such efficiency adjustments are only those of a theoretical nature and do not represent those which could be practically achieved. Therefore, those efficiency adjustments that reflect the situation in Qatar or the wider region should be employed and caution should be exercised when using, for example, European or other benchmarks. It should also be borne in mind that European benchmarks are formed after many years, where competition has evolved over time. It would be imprudent to use such levels for Qatar in the early years of competition. Such non sustainable cost treatments will inevitably lead to possible distortional results and spurious outcomes. ictQATAR have wisely stated that given RAS is an evolutionary process, with successful submissions improving data quality and robustness, the CCA and CESP implementation should be considered after such RAS output consistency has been reached. Qtel welcomes a detailed discussion on this topic at the appropriate time.

Page 17 of the draft RAS Instruction, 2nd issuance states that “*In principle efficiency changes can be applied to HCA cost basis*”, which seems to imply that the historical costs of Qtel can be manipulated to form outcomes which may not be achievable. Qtel’s historical costs are that and cannot change by definition and the associated cost have been incurred. The meaning of this statement is, therefore, assumed to be that any efficiency changes deemed appropriate by ictQATAR will be made outside of the RAS submissions, possibly secondary cost models. Wherever possible, Qtel urges ictQATAR to use benchmarks or other evidence as supporting information in support of such efficiency adjustment. Further, it should also be recognised that such efficiency adjustments should not impact ictQATAR’s own RAS review and its eventual acceptance. Previous experience has demonstrated that such changes or modifications can take some time, thereby delaying RAS acceptance. Qtel urges ictQATAR to make a clear distinction between the acceptance of RAS in accordance with the prevalent RAS instructions, along the auditor’s report and any subsequent changes required to it.

Qtel does not disagree with the evolution of RAS to CCA from HCA FAC but seeks some recognition from ictQATAR that this next step is complex and requires additional development times for which some provision would be sought at the appropriate time.

2.7 *CD1 Question 3 Are there comments or additional requirements on the overall guiding principles?*

Qtel applauds ictQATAR for the further clarity and completeness of the RAS Instruction that removes much confusion and ambiguity through this proceeding.

The Second Consultation states that some elements of Qtel response to this question were not understood. In its response to the First Consultation, Qtel was referring to any inconsistent adjustments or RAS Instruction misinterpretations or cost treatments that may be implemented without regard to the wider RAS compliance implications and guiding principles as detailed in the RAS Instruction. Qtel is not adverse to such RAS cost treatments and interpretations, but draws ictQATAR’s attention to the consideration of the wider implications, such that there should not be any inconsistency or confusion with the RAS Instruction. Any change in a particular cost treatment should be made throughout the RAS system and not in an isolated instance. Further, Qtel welcomes any additional evidence or analysis that may be required by ictQATAR to further provide rigour in support of the RAS outputs.

2.8 *CD1 Question 4 Do you agree that ictQATAR should have full access to the RAS and how can this be ensured?*

Qtel wishes to clarify that it in no way seeks to limit or inhibit ictQATAR’s access to RAS in the exercise of its duty to regulate the Qatari telecommunications market. Qtel’s comments on this question in response to the First Consultation are within the context of practicability and the goal of a proportional RAS that befits such a market size as Qatar. Qtel is further cognisant of the need to avoid overburdening both Qtel and ictQATAR with this important obligation and the practical use of the RAS outputs (clarification of which is in the next paragraph). From time to time Qtel may wish to suggest improvements to the RAS process and deliverables that ictQATAR it may wish to consider.

Qtel fully supports the conclusion in the Second Consultation that access to RAS information will be limited to Qtel and ictQATAR and that such information will not be shared with any third parties. Qtel would be strongly opposed to any change to this point.

Qtel notes the statement in the Second Consultation on the issue of the applicability of RAS to new or legacy services that costs "*can seem anomalous*", (p. 14) is an astute observation and one that should be borne in mind which applying RAS outputs. Within the confines of an HCA FAC methodology it is the case that all costs will be ultimately allocated to a service through a number of allocations, attributions and apportionments. In the case of new (growing) and legacy (declining) services it is frequently the case that the total costs of such investments are applied against a relatively small customer base resulting in an apparent 'loss-making' service. In short for such services, maximum customer numbers have not been reached or are declining in order to optimise this investment. Such is the case with Fibre broadband, LTE etc. This important point should be considered when considering the costs of such services, which may require additional analysis or supporting evidence from which secure conclusions can be drawn.

2.9 *CD1 Question 5 Do you agree that a wholesale unit is required? If not how should inter-operator costs be reported on?*

Qtel retains its view that the reporting requirements as set out in the Revised Draft Instructions are excessive and will provide information which is of little practical use. ictQATAR is directed to the Omani RAS Instruction, which provides details of SFS requirements in appendix B.[1]These detail relatively simple financial formats, which are consistent with similar requirements in other jurisdictions and which Qtel views as more suitable in the context of Qatar. Indeed, the SFS requirements for the Qatari market are far in excess of that required in Oman. Indeed, Bahrain, UAE and the Kingdom of Saudi Arabia TRAs have a similarly concise SFS requirements.[2]

Qtel, therefore, urges ictQATAR to follow regional practice for concise SFS reporting requirements. Clearly, the concise nature of SFS formats from **four** different regional jurisdictions indicates the level of information that is required to effectively manage their respective telecommunications markets.

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[1]Available at:
(http://www.tra.gov.om/newsite1/Portal/Upload/Documents/390_ASRA_Framework.pdf)
[2]see, e.g., http://www.tra.org.bh/EN/pdf/Final_AS_en.pdf, section 10
http://www.tra.gov.ae/TRA%20Regulations.php
http://www.citc.gov.sa/English/New/PublicConsultation/Documents/Attachment2AccountingSeparationGuidelines3.pdf, annex A.

2.10 *Question 8 What are the features and timeframes of CESP reporting, if this is required?*

Qtel agrees with the conclusion in the Second Consultation that CCA is the next evolutionary step in RAS methodology from HCA. It should also be emphasized the CCA is a prerequisite for any form of incremental costing approach. Qtel has previously made comments on CCA, which for conciseness will not be repeated here, but draws ictQATAR to these comments.

2.11 *Question 9 Is there a need for incremental costing and where would this be applied?*

Qtel notes ictQATAR's observation that "*The assumption that LRIC might give lower costs may be behind the support for each of the Qtel and Q.NBN proposition*" should be clarified. It is Qtel's view that LRIC may not always result in lower service costs given CCA is a prerequisite, which may indeed raise costs from those that Qtel currently has within its asset registers. The LRIC methodology is that which RAS will evolve to at the appropriate time regardless of the outcome on service costing.

2.12 *Question 11 Do you agree with the cost transferral approach?*

Qtel seeks clarification on the issue of how transferral costs are to be determined. For example, if external costs are based on, for example, the wholesale rates paid by service providers then how should internal transfer costs such as on on-net or IDD calls be defined, as these services are not available externally?

Qtel notes ictQATAR's comments on changes to the existing transfer tariff regime but maintains its initial position that the current implementation is sufficient to meet RAS requirements. A more detailed implementation may not be the more practical way of achieving ictQATAR requirements and Qtel suggests the use of off-line adjusts to RAS outputs that will present clear and unambiguous outputs using actual interconnection tariffs that are in place for that financial year. This approach will allow both the unit costs of services and RRU profitability (from RAS) to be compared and contrasted with that using prevalent wholesale tariffs at that time.

Any departure from this approach may in fact create some confusion of transfer tariffs and their applicability to internal services; such services are not defined and sold, as is the case for external services. If ictQATAR wishes a more detailed transfer tariffs, some being at actual interconnection rates, to be implemented Qtel wishes to highlight the additional time and resources required to implement such changes. In support of this Qtel notes ictQATAR's statements "*additional complications caused by updating the RAS system and reporting*" and "*detailed technical changes required in the RAS to implement this change are not a major concern of ictQATAR.*"(p. 21)

Further, It is Qtel's view that ictQATAR should be concerned with the additional complication associated with implemented RAS changes as this will impact delivery times. It would be imprudent for ictQATAR to mandate RAS changes without regard for their practical implementation as they may lead to differing expectations between ictQATAR and Qtel. Essentially, extensive redesign of the existing RAS system is required in order to accommodate these changes together with changes in the reporting formats along with the additional checking, validation and auditing tasks.

2.13 *CD 1 Question 12 Do you agree with the absorbed cost approach for business sustaining type costs or should these be allocated using a mark-up regime?*

The Second Consultation notes that Qtel's previous response to this question contradicts prior statements with respect to mark-ups. (p. 22). Qtel notes that while the mark-up on certain overhead and common costs is an accepted practice when adopting LRIC cost methodologies, it is not cost causal and therefore inconsistent with cost causality principle of HCA FAC used in the current RAS. If and when LRIC costing is implemented Qtel sees no concerns with the mark-up approach (assuming it is adopted as per wider international practice) and as it is internationally recognised. At the same time, Qtel sees no reason why such overhead and common costs cannot be attributed on a rational and more accurate basis if such allocations exist. This more robust approach should be taken into consideration when ictQATAR reviews such allocations. Further, any changes to the existing cost attribution methodology proposed by ictQATAR should be performed outside of RAS submission and acceptance, as previous experience has demonstrated that such changes can take some time for implementation thus delaying RAS acceptance by ictQATAR.

Qtel is, in general, in support of LRIC costing once its advantages to the telecommunications market have been identified with a practical and workable development timelines defined.

Given the comments by both Q.NBN, "*details of absorbed cost were not easy to evaluate without further information*" and Vodafone Qatar "*The approach is accepted if it complies with cost-causality requirements and if approved by the auditors*", (p. 21). Qtel feels that some more clarity and therefore discussion on this point is required. There a number of accepted approaches for mark-up each with their individual merits and limitations, which also should be discussed further within the broader context of the telecommunications market. Further, ictQATAR should detail the proposed approach and relevant timeframes.

2.14 *CD 1 Question 14 Do you agree with the principles for moving the RAS to cope with NGN and NGA costs? If there are other suggestions please elaborate.*

Qtel welcomes ictQATAR's conclusion that NGN and NGA will form part of evolving RAS specification and looks forward to further discussion on this important technical evolution at the appropriate time. It should also be stressed that at this time given the early developmental nature of both of these technical progressions that currently no internationally accepted standard, approaches or methodologies exist. This complex subject is still under active discussion within the wider telecommunications community, whose implications are wide and far reaching. Indeed, related subjects such as specific cost of capital concerns are also intertwined in this discussion that would have a profound effect on potential investment decisions and recovery of such investments.

2.15 *1 Question 14 Fibre in the loop is expected to become a major cost and major service providing platform. Are there other approaches to ensure adequate cost information is available?*

Qtel seeks to clarify its response to this question in response to the First Consultation, as ictQATAR's observation is that Qtel's response to this question is not related to RAS. Qtel believes the existing RAS structure is sufficient to ensure that granular costing associated with fibre in the loop can be obtained from RAS given the granular nature of the existing access infrastructure. The fibre in the loop deployment would similarly be captured in the same manner and subject to the appropriate cost treatments. These cost components would then be reported on in the same way as within the proposed reporting requirements. Therefore, Qtel sees no rationale why the current RAS Instruction and approach would not capture information related to this technical evolution. Further, fibre in the loop is only just beginning to be deployed and will continue to be over the next several years where the resulting RAS costing would change over time and may not accurately reflect the costs of service provision, which should be treated with some caution. This point has been previously elaborated in response to question 4.

Importantly and as made in Qtel's previous comments to this question, ictQATAR should be cognisant of the wider investment implications as a result of basing important decisions on preliminary RAS findings on fibre in the loop. Such investments and associated risks should be recognised and factored in to any consideration by ictQATAR of regulatory pricing or other decisions based on the RAS impacting this technology.

2.16 *CD 1 Question 15 Do you agree with the capping of WC and cash and is this a reasonable level?*

Qtel appreciates ictQATAR's acknowledgement that WC can and will fluctuate which in turn will have distortional impacts on the final RAS outputs. It is important to note that such WC fluctuation can be a requirement of the fast evolving nature of the telecommunication business as old business models are replaced by new business and markets which require large amounts of WC to be invested for establishment and sustained growth.

Further, the rapid pace of technical evolution means that technology is typically obsolete within five years, and the longer its replacement is delayed, the more costly the eventual upgrade will be. Therefore, Qtel seeks ictQATAR's recognition of this accepted norm within the telecommunication industry and that it provide for the necessary levels of WC in order to meet these changes. This practice should not lead to any inefficient or excessive levels of WC, which are viewed as a separate issue and should be treated at such.

Additionally, sufficient levels of WC should be allowed in the RAS framework to effectively maintain the business for a number of months. Qtel proposes this to be not less than three months and urges ictQATAR to consider this in their final conclusions. Qtel also urges caution in the use of benchmarks, as use of examples from markets with many years of competition may not be appropriate for Qtel in such early stages of competition.

2.17 *CD 1 Question 16 Do you agree with the retail cost allocation method? ictQATAR is well aware of the limitations and the above approach is only an indication of a product's cost value and it cannot be taken as a definitive basis for evaluations and price controls. Price control procedures are not part of this consultation.*

Qtel seeks to clarify its initial response to the above question as ictQATAR stated it did not answer the question directly. Retail costs are borne by the business part of the marketing and selling of such services. Under the existing RAS methodology, such retail costs will be attributed to products and service in a causal manner wherever possible. The Revised Draft Instruction, states "*Proxy cost drivers may be employed, even if the cost relationship may be low.*" (p. 26). This statement is a cause of concern, as the Revised Draft Instruction would use "*proxy cost drivers*" instead of more robust analysis as performed by Qtel based on information directly from the concerned operational costs centres (sales, marketing etc).

Further, the Revised Draft Instruction indicates that such proxy cost drivers may have a low cost relationship. Such alternative approaches should be used with caution, as the resulting outputs many have distortions that do not exist in reality. Any resultant decisions based on these results may be open to challenge and interrogation by market players.

It appears ictQATAR is relating RAS outputs and retail costs for tariff approvals together, while ictQATAR has previously stated that "*The RAS does itself not set prices (retail or wholesale)*", Qtel urges ictQATAR to use RAS derived information with caution, as they are by definition historical (related to the prior year), and in conjunction with other analysis, workings and information.

2.18 *CD 1 Question 17 Have you any comments on the product reports (retail and wholesale), network elements reports and SFS?*

As stated previously, Qtel's concerns about the level of detail within the SFS stems more from a practical view than any other. It should again be clarified that Qtel in no way seeks to restrict or inhibit ictQATAR in the execution of its duties in respect of RAS. ictQATAR should bear in mind the additional resources required, ultimately impacting audit and delivery times, in producing such granular statements for which some allowance should be made.

3. Specific question to CD2

Question 1 Are there further refinements or adjustments needed to the draft RAS Instructions (see accompanying document)?

Qtel fully supports ictQATAR in the development of future consultations on the important issues of CCA, CESP and LRIC methodologies, their benefits, specific implementations and timing of introduction.

Page 14, Section 3.4.2 Wholesale Fixed Core RRU

The section makes reference to internal and external services provided by this RRU (and presumably, although not stated by other network RRU's). For the avoidance of doubt and any subjective interpretations of such services (by ictQATAR, Qtel and/or the external auditors) Qtel requests that ictQATAR define each RRU against all services types, such as mobile-to-mobile, mobile-to-fixed, mobile-to-international calling etc.

Reference is made to the sale of wholesale services between this RRU and the wholesale RRU. This will involve the transfer of associated costs (to the Wholesale RRU) and revenues (to the Wholesale Fixed Core) for the respective RRU's. The Wholesale RRU will in turn sell services to the retail RRU with the equivalent cost transfers. As there is some potential for double counting and mark-up of costs, Qtel requests ictQATAR to explain this and other wholesale-to-wholesale transactions in greater detail.

Page 15, Section 3.4.4 Retail RRU

In respect of the RAS reporting requirements, this section states that products shall be grouped by Relevant Markets, as defined in the Market Definition and Dominance Designation report. Qtel assumes that this required format is embedded within the pro form statements provided by ictQATAR along with this draft RAS Instruction.

Page 23, Transfer Charges

This requirement has the potential to become highly complicated when applied to the numerous services offered by Qtel. For the sake of clarity and the avoidance of potential audit failings due to alternative interpretations, Qtel requests that ictQATAR provide a definition of each calling type and service as internal or external and to define both the internal call/service or notional call/service type and external call/service type. An example of this matrix could be:

	Internal/ External	Internal Service	External Service
Mobile Call Termination	E	-	MTR
Mobile to Mobile	I	M2M	-
Fixed to Mobile	Both	Fixed	MTR
Fixed to IDD	Both	Fixed	IDD
Leased Lines			

Page 24, Section 3.7.3 Cost Allocation Hierarchy

For the purposes of clarity for both Qtel and its RAS auditors, Qtel requests ictQATAR develop a detailed specification of both ‘business sustaining costs’ and ‘supporting operating costs’. At present these terms are not defined and are subject to some interpretation that may need be detailed as an exception in the subsequent audit findings.

Page 27, Section 3.11 Deliverables required on an annual basis

One of the RAS deliverables is “the cost model itself.” Qtel is currently investigating the purchase of a commercial activity based costing software in which RAS models will be constructed and run. In order for ictQATAR to have a copy of the RAS cost model, the necessary license of the relevant software supplier will need to be purchased by ictQATAR and suitably qualified personnel trained in order to have access to the cost model. It should also be stated that many incumbent operators use commercial software in order to produce RAS statements for accounting separation purposes and the regulatory authorities do not typically receive any models or purchase software licenses in order to run such models.

Page 28, Section 3.11.2.1 Model inputs and parameters

In respect of RAS input values ictQATAR makes reference to “date of collection.” For the avoidance of doubt Qtel assumes this to mean the period of collection of this data.

Page 31, Section 3.11.4 Audit and Statement of Compliance

Qtel is concerned with the detailed auditor requirements as set out in the Revised Draft Instruction, as these requirements could violate the impartiality of any audit findings. Qtel has engaged the service of one of the global top four auditors to be its RAS auditors, and such selection was based both on, among other considerations, their extensive RAS experience and reputation as one of the global leading experts in the field of regulatory accounting.

Qtel is of the opinion that these auditors are themselves the most qualified to draft procedures in respect of the RAS audit to properly prepared in accordance with standards taking into account ictQATAR’s specific requirements while delivering standards of best international practice. Qtel therefore urges ictQATAR to modify the Revised Draft Instructions accordingly.

Page 32, Section 4.2 Specific provisions for RAS 2010, RAS 2011 and RAS 2012

Qtel observes that ictQATAR have gone to some lengths in defining specific requirements and deliverables in respect of the development of RAS for FY 2010, 2011 and 2012. Further, a dispensation has been provided for the delivery of RAS FY 2010 and 2011 until 20th June 2013. No doubt this reflects this continued consultation on RAS with specific deliverables still being formulated and the additional complexity of the new transfer tariffs regime. On this latter point, it is important that Qtel seeks clarification on its implementation prior to any initiating any modifications or enhancements to the existing RAS system.

3.1 Page 37 Annex V

Qtel seeks clarifications or specific definitions from ictQATAR in respect of the following:

- Retail and Wholesale RRU pro forma should not include 'Investments in subsidiaries & associates' and 'Available-for-sale investments' as these are not applicable.
- In the 'Statement of Retail common and direct costs', please specify the definition of cost categories under 'Common retail cost pools'. It should be stated that HCA FAC will form average costs over the year and promotional levels granularity do not exist. This requirement is seen as particularly demanding and a major enhancement to the existing RAS system. Indeed, the requirement for promotional information is not a requirement in any regional accounting separation instructions.
- The definition of Common retail cost pools and direct cost of retail products (excluding common retail costs including network wholesale costs of production excluding general costs.
- The meaning of Retail pro forma & Wholesale pro forma, "international carrier admin".

Question 2	Are there any parts of the SFS that should not be published? If so, pleaseindentify the specific values and provide justifications why they should not berelease.

Investigation of public disclosure requirements of RAS information within neighbouring jurisdictions shows that no information is currently published. In support of this, the Bahrain TRA issued a determination in which detailed network and retail costs (for example, page 63) are removed from this publication.[3]Further, no RAS information is published on the TRA web sites of Oman, UAE and Kingdom of Saudi Arabia. This is reflective of two principle reasons:

1. The nascent stages of RAS development. Typically, RAS results are only stable and reliable following several years of development. Thus, the premature publishing of RAS results may require some restatement of prior year results at some point in time during this evolutionary development. Possible consequences include a lack of confidence in RAS derived data by market players and the restatement of financial figures. While both of these consequences are very serious, the latter may require the revision of determinations made on the basis of RAS results which subsequently changes and retroactive adjustments to payments made to/from operators.

2. The sensitive nature of the disclosed information, the high potential for competitors to gain unfair commercial advantages, the inevitable misinterpretation of such granular information by market players and financial analysis seeking greater insights into Qtel's financial position.

Qtel therefore requests that the following information should **not** be placed in public domain until such time as a separate consultation is held on this very important point:

- Statement by Cost Category
- Detailed Statement of total "costs of production" of Access RRU
- Analysis of transfer charges
- Detailed Statement of [RRU] product costs

These documents are highly detailed and contain specific information on Qtel's business. It is presumed that these latter statements are required in order to aid regulatory decision-making for example with respect to tariff filings and other commercial matters, in which case they are by definition

[3]Determination issued by the Telecommunications Regulatory Authority to Batelco Telecommunications Company B.S.C. pursuant to Article 65(f) of the Telecommunications Law regarding Batelco's pricing of mobile originated international calls available at: http://www.tra.org.bh/EN/pdf/MCD1112144Batelco-FINALDETERMINATION(publicversion)-FINAL.pdf

not suitable for publication. Each of these statements could lead to market distortions, for example, ‘cherry picking’ of high margin services. This, of course contrasts, to the regulatory goals and neutral player role of ictQATAR.

In summation, Qtel wishes to draw ictQATAR’s attention to the early stage of RAS development in the region and the practice of other regulatory authorities, which do not require such publication.

Question 3 Are there any other parts of the SFS that should be published? If so, pleaseindentify the specifics and why they be released.

At the appropriate time, following several years of RAS submission where confidence in its outputs has been achieved and after consultation, Qtel sees that following could be published in public domain if ictQATAR deems it is in the public interest:

- The Balance sheet,
- P&L,
- Return on mean capital employed,
- Statement of mean capital employed and statement of turnover

It should be stressed that at this present time and for the near term that Qtel does not view the public disclosure of RAS results as being warranted.

Question 4 Are there any specific suggestions to ensure that robust CCA is introducedquickly? Do you agree with the timelines indicated?

Qtel has previously made comments views the introduction of CCA in response to **Page 11, Section 3.2.2 CD1 Question 2 Do you currently see additional bases required for regulatory controls? If yes, which basis to you foresee and why?** And draws ictQATAR’s attention to these. Qtel’s supports ictQATAR’s prudent view in respect of the introduction of CCA in that it should be following by a consultation.

Question 5 What other topics do you envisage to be covered in a forthcoming consultation?

At this stage Qtel feels that ictQATAR have covered the full range of subject matter areas of RAS and applauds ictQATAR's efforts in this regard.

07 February 2013

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

Cc: Rainer Schnepfleitner

Dear Graeme

Response Document and Second Stage Consultation on Regulatory Accounting System for Qatar Telecom Q.S.C ("Qtel")

Vodafone Qatar Q.S.C. (**"Vodafone"**) refers to the Response Document and Second Stage Consultation on Regulatory Accounting System for Qatar Telecom Q.S.C, dated 23 January 2013 ("**Response Document**"). We welcome this step towards the completion of Qtel's regulatory accounts.

We thank ictQATAR for its consideration of Vodafone's input. In particular we support the proposed amendment to provide for a wholesale unit and to ensure transfer payments for services that are sold both internally and externally be the same as the price for services sold externally.

Please see below for Vodafone's response to the questions provided in the Response Document

Question 1: Are there further refinements or adjustments needed to the draft RAS Instructions (see accompanying document)? Please do not address issues already covered in the initial consultation stage.

Vodafone has no new issues to raise.

Question 2: Are there any parts of the SFS that should not be published? If so, please identify the specific values and provide justifications why they should not be released.

All part of the SFS should be published unless there are clearly identified harms caused by the publication of the information.

Question 3: Are there any other parts of the SFS that be published? If so, please identify the specifics and why they be released.

As above, the preference should be that all elements be published. The transfer cost statement may be of particular relevance to those using Qtel wholesale inputs for retail services.

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Question 4: Are there any specific suggestions to ensure that robust CCA is introduced quickly? Do you agree with the timeline indicated?

Vodafone notes ictQATAR's point that the RAS is separate from cost control action. Therefore, completion of CCA and CESP does not preclude ictQATAR from consider issues of efficient cost if required for particular price control issues. In that context Vodafone is comfortable with the proposal in the Response Document.

Question 5: Which other topics do you envisage to be covered in a forthcoming consultation?

To the extent that the RAS is part of a broader programme of work in relation to both wholesale and retail regulation, Vodafone would like to better understand ictQATAR's priorities for using the data produced by the RAS in support of that programme. Vodafone would appreciate the opportunity to understand ictQATAR's priorities for making use of the data in support of wholesale regulation, particularly given that Qtel has been instructed to produce a Reference Interconnect Offer. Furthermore, Vodafone would like to understand whether there might be a transition from current retail price controls based on proxies for costs to controls based on the use of data from the RAS. Given the significant changes this could bring to the retail market there should be very early clarity on the form and timing of such changes. Any such transition should be undertaken following the completion of work at a wholesale level.

If you have any questions in relation to the above please do not hesitate to contact me.

Yours sincerely

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Final Response Document

Regulatory Accounting System (RAS) Orders

issued to

Qatar Telecom (Qtel) Q.S.C.
(Ooredoo)

The Supreme Council of Information and Communication Technology “ictQATAR”

ICTRA 2013/03/31-A
31 March 2013

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1 Executive Summary

This Final Response Document (**FRD**) takes into account the submissions of the parties to the second stage consultation document (ICTRA 2013/01/23A issued 23 January 2013). It analyses the submissions of the parties and gives ictQATAR's analysis and final conclusions.

This FRD completes the consultation to define the Regulatory Accounting System (**RAS**) Orders that the Supreme Council of Information and Communication Technology (**ictQATAR**) will adopt for regulatory accounting reporting in Qatar. These regulatory accounting requirements apply to Qatar Telecom (Qtel) Q.S.C. (**QTel**), which is designated as having a Dominant Position as a Dominant Service Provider (**DSP**).

The first round of consultation (from October until 29th November 2012) provided details of the RAS system, the methodology to be applied and the RAS outputs that are expected. The Consultation Document (**CD**) also identified the legal framework behind the requirements for RAS reporting and how the RAS may be used. The second round (CD 2 document):

- Summarized the responses to the first round of consultation;
- Examined the key issue areas, as raised by the questions on the first CD, while giving due consideration to the Respondents' views;
- Set out the methods that are to be employed in the RAS, taking into account the responses.

The second round of consultation (from 23rd January to 7th February 2013) allowed additional constructive comments to be made by all parties to assist ictQATAR in the finalization of the RAS Orders.

The full details of the RAS are contained in the final RAS Orders (ICTRA 2013/01/31-B), which is a separate document to this FRD. The RAS Orders includes the final output that is the result of ictQATAR's considerations of the comments received.

The approach used in this FRD examines the general points raised by all respondents on CD 2. This is followed by the responses to the specific questions of CD 2. A number of points were raised after the CD 1, and these were analyzed at length in the ictQATAR response that was contained in the CD 2 document. The primary ictQATAR findings that were given in the CD 2 document, are reproduced in this FRD.

The response to the CD 2 from QTel also included additional replies to many of the questions originally set out in CD 1. These "amendment" responses were in addition to the replies given to the questions contained in CD 2. All of the questions in CD 1 are therefore included in this FRD to include the replies already issued in CD 2 as well as the additional amendments. This ensures that this FRD is comprehensive as it covers the earlier stage replies plus any new comments since received during the CD stage 2. The final ictQATAR views on the CD 1 questions are included in this FRD.

2 Overview of the consultation

ictQATAR thanks all respondents for their inputs. Both consultation stages resulted in inputs from:

- Qatar Telecom (Qtel) Q.S.C.(**QTel)**;
- Vodafone Qatar QSC (**Vodafone**); and
- Qatar National Broadband Network Co. (**Q.NBN**).

A number of useful and constructive inputs were given that allowed the RAS Orders to be refined for the second stage of consultation. The comments on the resulting draft RAS Orders were mostly very positive and supportive of the approach taken. ictQATAR has examined carefully the further issues raised in the CD 2 responses and has carried out some further clarifications and adjustments. These are explained in this document and included in the final Orders.

This FRD closes the consultation process. Therefore no new questions are included in this document.

There may be a need for follow up points or discussions related either to the final Orders or, from time to time, related to RAS work in future years. These should be directly addressed to the relevant contacts in ictQATAR.

It is noted that the RAS system and the Separated Financial Statements (SFS) plus other possible reports may need to change from time to time. New products and new network technologies will be introduced. Some new or alternative cost/revenue analysis may be needed. The RAS Orders therefore **cannot** be a template that can be rigidly applied: some adjustments *will* inevitably be required. This is not anticipated to require new consultations or new Orders, unless there are major structural changes or the overriding principles are fundamentally altered. ictQATAR may issue *clarifications and adjustments* to QTel, that must then be followed and included as supplements to the Orders. This allows adjustments to be included.

Adjustments to the RAS may be accepted by ictQATAR based on changes proposed by QTel. QTel must submit details of the RAS design and this may include adjustments to reflect new products or reporting improvements. ictQATAR may then approve such changes along with ictQATAR-specified adjustments that will then be reflected in the “Description of the RAS” before the final implementation. Therefore some variation from the Orders’ specified formats may be considered and agreed from time to time. This requires ictQATAR’s approval of the RAS procedures and its detailed methods, before the final accounts are produced and checked for compliance with the Orders principles and with the procedures specified in the approved Description of the RAS.

This follows international practice, and has been seen in the region, where the RAS system and its outputs are adjusted annually to meet changing requirements and to improve reporting.

The responses to CD 1 noted the delays in the RAS production. Q.NBN requested that production of the “RAS should be accelerated” and Vodafone noted the “critical importance of getting the accounts published as soon as possible.” In the same response Vodafone also proposed that performance bonds should be used against key milestones in the production of the RAS. QTel also noted the general desire to produce 2012 accounts quickly and supported Vodafone’s desire in the QTel response to CD 2, but QTel proposed more rapid production would be ensured by removing the ictQATAR plans to produce 2010 and 2011 accounts before 2012.

ictQATAR agrees with the urgency and sees a need to ensure the RAS production is not further delayed. This end ictQATAR plans to put in place performance bonds on QTel to help ensure the RAS time plans (as defined in the Orders) are met.

3 Summary of Responses to the second round consultation (CD 2)

The approach taken in the following considers the general points raised by each party and then the responses to the specific questions raised in CD 2. Where points relate to the questions or issues of CD 1, then these are mostly dealt with in the next section 4, or in this section if they are more related to the CD 2 questions.

3.1 General points raised in the second round

Only the primary points from the respondents are noted in the following. QTel's general points were more extensive than from the other respondents.

3.1.1 General points raised by Q.NBN

Q.NBN asked that the inter-RRU transfers be modified and clarified.

Q.NBN requested that there be additional means to ensure adequate insights are available to identify anti-competitive pricing.

Current cost accounting should be introduced for 2013 accounts.

3.1.2 ictQATAR's analysis of the general points from Q.NBN

The inter-RRU transfers are noted to be an area of a RAS that can be complex to implement and to understand. As a result, this is elaborated on later in this document and additional clarity has been added to the RAS Orders. Q.NBN raised points about the transfer charging and RRU structures in the first consultation and again in the second consultation. The consistent request is for a RRU and transfer structure that has the wholesale unit as a service-providing unit that serves both the QTel Retail Unit and other service providers. This has the merit of showing equivalent service provision and separates the retail and network (i.e. internal- wholesale network) units, by having the wholesale unit as both an internal and external supplier.

The Q.NBN approach fits with a functional separation of the retail and network units. This was discussed in the ictQATAR CD 2 document, in reply to CD 1 responses. ictQATAR believes that this functional separation structure would be complex to implement physically in the QTel business. The merits of the wholesale RRU as requested by Q.NBN come mainly when there are wholesale processes (and costs) that form a barrier for other SPs to access wholesale services. ictQATAR cannot see this as a practical business structure within QTel, without major changes, as the structure does not exist at present. Without such changes, it means that the separation is then "only" a notional accounting separation. The specific wholesale costsrelate to external service providers. In this case, having the wholesale unit between the network and the retail unit is not sensible, but having the unit as the interface to other service providers, is logical.

ictQATAR introduced the wholesale unit to provide more accounting clarity and to capture the small (but surely rising) costs of dealing with wholesale *external* services (to other Service Providers). This removes these costs that were previously within the network-wholesale units. This level of detail in the SFS, plus the detailed cost of production of wholesale services, provides good insights. The change is not very radical as the Wholesale unit simply buys and sells products to external operators, in much the same way that the retail unit sells services to the consumers. The RAS system therefore can deal with the costs and revenues in a similar manner as is done for Retail, but it provides a useful additional level of transparency.

ictQATAR appreciates the wider concerns about equivalent services. The costs of introducing equivalent wholesale services that are both supplied to the downstream QTel retail unit and to other service providers, is likely to be excessive in a small operator. The theoretically ideal situation of having delivery of "Equivalence of inputs" to both internal downstream units and to other external service providers is not likely to be achievable without major changes to the business: this would need to be part of a different consultation process and it requires the application of a specific new regulatory remedy (and hence it is out of the scope of this RAS consultation). It is therefore inevitable that most services provided to downstream retail and to external service providers will need to have differences between them. Where there are issues with this "Equivalence of outputs[1]" then this can be addressed with other requests to ictQATAR to ensure other service providers have access to services that they can use to compete fairly with the QTel retail business. This however is not an accounting issue. Therefore ensuring accounting transparency and establishing robust costs (in part assessed by the specified RAS RRUs) should be sufficient: the information can be used to help set the fair prices for equivalent output services which may be different in detail to the internal services delivered to the downstream retail unit.

This equivalent service provision is more logical if there is a split within the network business. Basic infrastructure services are then produced and provided to a downstream network business and then to the retail unit[2]. This was not proposed by Q.NBN but this is more in line with some practices, or proposals, seen in Europe. This is an even more radical regulatory approach that is both not part of the RAS and a cost/benefit evaluation, if carried out, might not be passed. ictQATAR does not see a need to start a move towards such structures, and clear needs or benefits from such a move have not been provided.

ictQATAR will use the RRU structure as defined in the CD 2 and in the Orders.

The points about anti-competitive pricing were dealt with in the CD 2 document. This is a regulatory issue that concerns all parties, but it is not part of the RAS. It is expected that RAS data will provide inputs to such investigations, but on its own the RAS is not a complete solution to anti-competitive pricing nor are its results an absolute test to prove if such behavior has taken place or exists.

It is useful at this stage to clarify some terminology, as common usage of "wholesale" services can mean provision to external service providers and also the internal transfer of services within the business: as between a network business and its own downstream retail business unit. There are therefore internal-wholesale services as well as external-wholesale services. Where possible the term Network units is therefore used to identify the internal supplying businesses, and these supply the internal-wholesale services[3] to the downstream units (the Retail and the Wholesale unit). These in turn sell the retail services (to consumers) and conventional wholesale services (to external service providers).

3.1.3 General points raised by Vodafone

Vodafone did not raise any new general points. It supported the amendments carried out to the Orders following CD 1, in particular the transfer charging at a tariff price, plus the introduction of the wholesale unit.

Vodafone provided short comments that were focused on the specific questions of CD 2, which are covered below in section 3.2.

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[1] The delivery of equivalent service outputs to the other service provider, but based on processes and systems will inevitably differ from the internal service provision to the retail unit

[2] Access infrastructure services (copper and ducts) may be delivered to a downstream access network business, and other versions of this (but with different interface points and network management interfaces) could be delivered to other service providers. The services to downstream and to external businesses are not exactly the same

[3] These could also be termed "network services" to emphasise that they are provided by network RRUs to the other units as they are not strictly wholesale services that are, by implication of the name, also available to other service providers. These internal-wholesale services are not usually available to other service providers

3.1.4 General points raised by QTel

QTel brought in a number of general points, some of which are related to the previous consultation stage. ictQATAR has given these due consideration. These are addressed using the same order as given in the QTel submission.

The ictQATAR views on the points are included at the end of each sub-section, as there were a range of general points raised by QTel.

Delay in RAS filings

QTel noted Vodafone's concerns over the delays (which have also been expressed by ictQATAR) and QTel proposes that delivery of 2012 accounts be made the priority, with 2010/11 accounts to follow. If there were concerns, then the 2012 accounts may be accepted by ictQATAR as interim accounts and these may be modified after the 2010/11 reviews. This has the merit of getting the 2012 results (which are the most important ones) out earlier.

<u>ictQATAR Response</u>

ictQATAR has re-examined the approach but remains of the view that the 2010/11 accounts should still be produced first, and this should not be a cause of significant delays to the 2012 accounts. The reasons for this include:

- RAS development is "a fluid process." The use of 2010/11 will help to ensure that the 2012 results are more solid. It will help gain more understanding of the QTel cost base to help give a "baseline" to the 2012 figures;
- This requirement is not new – it is long-standing. If there is a lack of data recorded for the 2010/11 accounts then QTel has to cater for this. It is understood that this may cause some deficiencies in the RAS results or even qualifications in the Audit report. Deficient data is not a sufficient reason to not deliver 2010/11, and this deficiency is of QTel's making;
- Although data in the 2010/11 RAS may be different, the fundamental structure of the costing system should still be similar, so the additional system-development work should not be excessive.

This approach avoids having less than satisfactory 2012 results that may be interim (as suggested by QTel) and then modifying these later – something that could require two audit stages or else delaying the RAS 2012 audit until late in 2013 (after the 2011/11 versions are complete).

QTel noted issues with publication of the SFS in particular with respect to areas that might have errors or not have very solid calculations – leading to mis-understandings. Such issues will tend to become less as the RAS develops. This is surely another good reason to have the 2010/11 accounts done rapidly – to identify deficiencies and so help ensure the 2012 results have as few deficiencies as possible. One purpose of publication is that service providers can analyze the results and this has led, in other countries, to the identification of flaws in the costing calculations.

The time-varying nature of costs, as noted by QTel is an important issue. To this end ictQATAR specifies a small additional enhancement of the SFS – to show total product costs for the previous period. This has a limited impact but it does mean that product codes (numbers used as unique identifiers in most RAS models) should not be altered to minimize matching results from the previous year in the report.

Objectives and Aims

QTel notes the key clarifications provided by ictQATAR on how the RAS may be used and how it is, in itself, not usually a solution to many regulatory issues such as retail and wholesale pricing, but a useful input to solving these issues.

QTel notes the RAS burden and requests that, if there are additional RAS requirements, then these are subjected to a cost-benefit study. The use of benchmarks and other studies were noted.

ictQATAR Response

Generally the QTel discourse supports and agrees with the ictQATAR position. The regulatory issues that are analyzed such as pricing, are however outside the scope of the RAS itself. With respect to price controls and other remedies, specific Qatari circumstances *will* be taken into account. The RAS is therefore only one input.

ictQATAR notes the remarks and welcomes the positive attitude to developing a "professional, open and spirited consultative framework."

All regulatory changes are carefully considered by ictQATAR and the inherent costs and burdens are considered against the benefits and the legal obligations that ictQATAR must meet.

Publication and release of the SFS

QTel is not against publication of some information but notes the lack of publication in the region. The lack of publication was suggested to be either due to the lack of development of the RAS system (not mature) or due to the commercial sensitivity.

It was suggested that the detailed SFSs are only of use to experts who are able to interpret the results. This could result in questions and work for QTel that could deflect resources from the RAS work. Publication could increase the work required by QTel.

The published information should be only after several years and it should be less than is disclosed to ictQATAR. The "costs of production" and the network report were identified to be confidential and the release could be to QTel's detriment and to the advantage of other operators who could "cherry pick" their commercial offerings. This could distort the markets.

The published information could lead to erroneous conclusions by reviewers as "‥, the simple reporting of product or service profitability may not be how consumers actually consume such services." An alternative to actual values, percentage cost contributions to a service were proposed.

Transparency and assurance are claimed to be provided by the RAS audit.

QTel agrees with ictQATAR's principle of not providing access to the RAS system to other service providers.

ictQATAR Response

ictQATAR is aware of the regional status and the potential sensitivity of publication of the SFS. ictQATAR remains of the view that publication is beneficial, but could be withheld on some areas *if* there is evidence of harm. Any such harm has to be balanced with the benefits to the other service providers and the harm caused to other service providers from *not* releasing information.

QTel notes that other service providers could identify products with high margin – this cherry picking is seen as unfair. This is a key benefit of publication, as without this, only QTel knows which products have high or low margin – which gives a significant advantage to the player that already has significant market power. Publication provides transparency to help other service providers make competitive decisions based on the same insights that QTel has, and publication helps identify possible abuses of the market power (of course fully assessing such abuse would require more than just the RAS data). Therefore publication reduces the asymmetry in knowledge: currently only QTel has the market insights.

A benefit for competing service providers is not seen by ictQATAR to be clearly harmful – the ability to compete more fairly, even if it might reduce profit margins of QTel, is not a "harm" that ictQATAR considers to be something that should always be avoided. ictQATAR notes QTel's correct use of terminology: the objections to publication were not defined as unreasonable harm, but were identified as unreasonable benefits to other service providers. ictQATAR views the potential benefits as reasonable. ictQATAR points out that QTel's cost structure is likely to have similarities to other vertically integrated operators. Hence other operators can evaluate QTel's costs with a reasonable degree of certainty and, as the retail tariffs are also known, competitors do not need protection from making their own conclusions by ictQATAR withholding information.

Although some parties, including consumers may not fully appreciate the SFS details, this is not a sound reason for restricting access. The fact that some information might require specialist skills to understand is also not a reason to withhold. There will be parties in the service providers and elsewhere who can make reasonable deductions. It is not ictQATAR's role to judge the competence of any party: they can make their own assessment. Nevertheless, ictQATAR notes the issue and proposes that QTel provides some comments, which will be published with the SFS accounts (e.g. a general awareness statement). This may be more significant in the initial RAS publications to make particular accommodation in the covering remarks relating, for example, to potentially weaker areas in the RAS calculations. This weakness is something that QTel has also noted and such statements can also emphasize how the RAS and its solidity will develop over time.

There has *not* been any clear identification of significant business harm or of information in the SFS that will cause unreasonable advantage or unreasonable consequential harm to the other party.

ictQATAR does not expect any significant work by QTel to respond to many questions or work-requests on the RAS SFS. In the main, all such questions should be directed at ictQATAR as formal enquiries. There should be adequate documentation on the RAS and the SFS, when it is issued to avoid trivial questions.

The lack of regional publication is noted, but this is an issue of precedent. ictQATAR's duty is to the wider economy and consumers. Some publication would set a precedent and it will give a clear indication that Qatar welcomes investment and competition, and wishes this to be a transparent process, as has been requested also by QTel on various occasions. The benefits from this could go beyond the telecoms markets.

A poor RAS calculation is not a reason for redaction. Other industry experts can help to identify inconsistencies and enable changes and improvements over time.

Audit does not provide transparency. It provides assurance. It provides confidence that the RAS is robust. Even if the RAS is to the higher "fairly presents" standard, this does not identify, to other service providers, where costs or margins are high. It only gives assurance that the (unreleased) accounts give a fair view of the business. Other service providers cannot then see if this is a high or low margin view.

Complexity and timing including audit

QTel claims that granularity in the SFS adds to the development and auditing timelines, and disputes ictQATAR's claim that the reports are not excessive.

The revised timelines proposed by ictQATAR were welcomed. QTel asks for a time dispensation "…or a decision not to implement this requirement for FY 2009 as this was the base year for development."

QTel asks that product issues can be resolved in the RAS2010+ and asks for these issues to be discussed. The importance of this discussion and resolving of issues is emphasized as this will delay 2012 work and 2012 data will then become less current.

QTel requests that the executive statement demand is lifted.

<u>ictQATAR Response</u>

ictQATAR notes the additional granularity of the SFS reports. The reports are based on the structures and data that are *already* inherent in the RAS system. In most cases the data already exists in a generally similar format. It is therefore more of a reporting issue, not a new system development that is required. Work is certainly required to develop the reports, but this is achievable. In some cases simpler forms of these reports were either supplied by QTel in the RAS 2009 work or were derived from analysis of the RAS 2009 data that was supplied to ictQATAR.

ictQATAR supports discussions and involvement in the RAS development, in particular with product calculation methods.

The revised timelines are achievable: QTel has not clearly stated that the extended timelines cannot be achieved or given any reasons why this cannot be met. ictQATAR understands that QTel expects that the time lines can be met and QTel's statement "QTel is encouraged by this extension of the final RAS delivery" is taken to mean that the extension is adequate for QTel. The timelines must be met.

ictQATAR makes it clear that RAS 2009 reports are *no*t required: ictQATAR agrees with this QTel request (RAS 2009 work was essentially a learning process and it is now closed).

The executive statement remains a requirement that is relevant to Qatar, as it adds assurance. We note later in this FRD that Bahrain, for example, requires a CEO statement, so additional statements are not unprecedented.

3.2 Responses to the specific questions in the second round of consultation (CD2)

CD2 Question 1 Are there further refinements or adjustments needed to the draft RAS Instructions?

Q.NBN's submission

Q.NBN expanded on the general points (discussed above) about the transfer charging and RRU structure and questions the payment flows in the diagram of the consultation diagram. Q.NBN proposed a wholesale unit that equally supplies the external service providers.

Q.NBN asked for more clarity on what is sold between each RRU.

Vodafone's submission

No comments were made.

QTel's submission

QTel requested that clarity is added on the services sold between each RRU, in particular the Wholesale RRU.

The potential for double counting in the transfer charging and P&L reports was noted.

QTel "assumes" that the grouping of the retail RRU to the relevant markets of the dominance report is in the pro forma statements.

Clarity of the transfer charging was requested to ensure the RAS is developed correctly and so meets audit and ictQATAR requirements. An example table was provided to help illustrate a clarification of transfer charging

Business sustaining and supporting operational costs should be defined precisely.

Problems with delivery of the RAS system to ictQATAR with possible future moves to a proprietary platform, were noted.

The meaning of "date of collection" of data was asked to be clarified.

QTel is concerned that the detailed auditor requirements in the draft Instructions could violate audit impartiality. The auditor should draft the procedures to take in consideration both ictQATARs' specific requirements and best international practice.

ictQATAR defined specific deliverables and requirements for delivering RAS 2010/11/12. Clarification was requested prior to enhancing the system.

Detailed points were made on the items within the Annex V of the draft Instructions. These covered items such as Investments in subsidiaries, promotion costs, common cost pools and international carrier admin in the retail and wholesale pro forma.

ictQATAR's analysis

The Q.NBN points about the RRU structure were discussed above under the general issues. The ictQATAR view is that the Wholesale RRU relates to *external* wholesale services, not to internal-wholesale transfers from Network to Retail.

The new structure is considered to be sufficient and was intended to be only a small change from the RAS approach used in RAS 2009. The need for more radical changes would be part of a more fundamental alteration of the regulatory approach in Qatar and would need changes to the QTel business structure. This is not part of the RAS consultation.

The points raised about the transfer (what costs, what services and the avoidance of double counting) are understood. ictQATAR's intention was to use a similar approach to that used in RAS 2009, but with the addition of the new wholesale unit. Clearly without full insight to this, more clarifications are required for some service providers. Also transfer charging methods can be used and reported on in different ways, and this can open up possibilities of double counting or else transfer charge reports can be confusing as the same costs appear in more than one report. This type of double counting is not itself an error, but could confuse or else it has to be understood when reports are analyzed.

The transfer charging methods and products are elaborated on in the Instructions. This is intended to eliminate any possible mis-interpretations.

At this point, a general discussion of the transfer charging approach is useful. The current transfer charging is based on the principles that network components are clearly related to a business unit. A mobile base station is part of the mobile RRU. Access copper is part of the access network RRU. A voice switch or core cable are part of the fixed network business RRU. These components are consumed by services – retail or wholesale services. This allocation/calculation process is mainly done through the routing table[4]. This stage in the RAS enables the network component costs to be allocated to the services delivered by the unit. Some components may not be physical network systems such as a base station but are still assigned to a unit and then become part of the products – such as billing systems or product related activities.

The effect of this is to define the costs of the network RRUs. These costs are transferred to the wholesale and retail RRUs that sell these services on to other service providers or to consumers. There are additional costs needed – wholesale costs of sale and the much larger retail costs of sale and customer care. These costs are directly allocated to the Wholesale and Retail RRUs.

The cost of production (creating the products in the network units) are the cost inputs to the Retail and Wholesale RRUs. This cost transfer is a revenue for the network units. Services are transferred at cost (where the cost includes all costs, plus a return on capital employed). Only if the service sold to the Retail RRU, is essentially the same as that provided to other service providers (via the Wholesale RRU) is a pre-defined tariff-price used for the transfer.

Generally Access and Mobile etc. network RRU do not sell to each other – the network costs are assigned to each and they provide services to the retail unit. However some inter-network transferals are possible. For example access fiber is clearly an Access network component. Most will be used for retail services, but some may be used for access links to mobile base stations. In this case there is a transfer of costs to the Mobile RRU – the Mobile RRU should incur the costs of this fiber-access service which then forms a revenue for the Access unit. In turn this then forms a cost of the mobile services such as a mobile to mobile call (the cost is part of the mobile network transmission needed to get to a base station). There are now two options: this Access costs may be defined as an Access cost to Retail or else it can be defined as part of the overall Mobile costs of all mobile calls sold to Retail. The first method means the same cost is reported on as an Access input cost to Mobile and also again as an Access cost to Retail. The second method has the cost reported on as a transfer (Access-Mobile) and it is then subsequently part of the Mobile RRU's overall costs to Retail.

The current RAS transfer approach (as employed in RAS 2009) uses the second method. This is acceptable and no change to this principle is required.

[4] This defines how a product is routed through the network and so which network components the product uses, and therefore the costs that the product consumes

The delivery of the RAS system is important. Physical hand-over may become a problem with moves to proprietary costing systems. ictQATAR does not want to hold back on the use of better IT systems, but the need for access remains. Equivalent outcomes (to delivery of the system) may be considered such as: secure remote access to IT platforms; licensing of the IT to ictQATAR; export to ictQATAR of model structures & data that enable full analysis or reproduction of the RAS functionality; open access for ictQATAR staff/representatives to the QTel system.

ictQATAR points out that QTel is responsible for the supply of training, documentation and knowledge transfer to ictQATAR. These are, of course, requirements in any event. An equivalent outcome of ictQATAR having a copy of the RAS, is required.

ictQATAR's conclusion

The structure of the RRUs in the CD 2 and in the Orders is robust and provides good visibility of cost information. This is seen as adequate for Qatar, plus the changes from RAS 2009 are small and should not be a major burden on QTel.

ictQATAR is open to proposals from QTel on how the equivalent outcome to copying the system to ictQATAR can be achieved. ictQATAR will not lift this requirement – several years of confidence in the RAS would be required before this is even considered.

Date of collection (when data is collected) is required to ensure records are logged – this will help with audit assurances and with potential future investigations into costs.

Steps in the development and specifics of the delivery of the updated RAS are open to clarification and ictQATAR welcomes discussion and communications with QTel. ictQATAR requires close communications and coordination. Such communications will be expected and will allow for ad hoc clarifications and agreement on details, as the RAS is updated.

Detailed definitions have been enhanced in the Orders covering both cost definitions, and transfer charges.

ictQATAR notes that none of the replies had detailed comments on the pro forma SFS. QTel *assumes* that the grouping of the products in the SFS were aligned to the Market definitions. This implies that the SFS were not reviewed in detail. The SFS does map products to the Markets, as defined in the Markets and Dominance report. The pro forma SFS have not listed every product and mapping: the purpose of the pro forma is to show the types of detail and structures, but naturally the exact detailed line and column items will have to be enhanced to meet the *general* demands in the pro forma.

Such details of product mappings and transfer charging, although defined in the Orders and pro forma accounts, are expected to be developed by QTel and the detailed solutions delivered to ictQATAR for comment/adjustment/approvals as part of the required project planning to implement the RAS 2010/11/12.

CD2 Question 2 Any parts of the SFS that should not be published?

Q.NBN's submission

Q.NBN supported publication of all of the SFS as defined by ictQATAR.

Vodafone's submission

The SFS should be published unless there are clearly identified harms.

QTel's submission

The reply continued points raised in the general remarks. This included the lack of regional publication precedents.

The SFS may only be stable after a few years and this could require prior years' re-statements and the lack of solidity may cause a lack of confidence. This could lead to revisions of ictQATAR determinations based on the RAS and retrospective adjustments to inter-operator payments.

Unfair competitor advantages may be gained by other service providers.

The following should be redacted: statements by cost category; total "cost of production" of the Access RRU; product costs of other RRUs; and transfer charging.

Items for regulatory decision making are by definition not suitable for publication.

Market distortion and cherry picking could result and such cherry picking contrasts to regulatory goals to be neutral.

ictQATAR's analysis

The main points were covered under the general points' analysis. ictQATAR reiterates that some benefits gained by other service providers are not inherently a cause of harm and this can equally be viewed as a balance to the harm caused by the unfair advantage gained by QTel which *does* have this level of insight. Opening up accounts in a transparent manner is a key benefit that helps to balances the advantages of the player with market power.

Inputs for regulatory decision making or tariff filings are *not* obviously unsuitable for publication. Inputs to both of these can be suitable to ensure the decision making is open and transparent and so service providers can comment and contribute to the processes. Some clear harm must be identified. This has not been shown for any of the reporting statements.

Harm and market distortion can clearly be argued from non-disclosure, because high margin services can only be known to QTel, if there is no publication. This gives an inherent bias in the market and ictQATAR would not be acting in a neutral way if it allowed such a bias towards QTel, especially as it has market power.

Lack of solidity of the RAS is within QTel's control, and so this is not a sound reason to withhold release the data. Possible weak areas can be identified in the SFS covering notes. There is also a benefit for other weaknesses to be identified by industry experts in their reviews of published the SFS. ictQATAR expects the RAS to be a solid system and the number of weak areas to become only a small fraction of all services, within a short time. The RAS has been under development for many years: this is a reasonable expectation.

ictQATAR's conclusion

As no clear harm has been identified, ictQATAR intends to publish the accounts (SFS). Additional notes will be included about the accounts and how they may be (or should not be) interpreted. If there are areas where the values may be not robust, then these may be identified and potentially redacted, but this is not planned for.

CD2 Question 3 Any parts other of the SFS that should be published?

Q.NBN's submission

Q.NBN welcomed the introduction transfer pricing at tariffs.

Q.NBN regretted that QTel was not planning to give access rights to the RAS.

Other service providers stated to be are best placed to identify anti-competitive pricing.

ictQATAR should have resources to vet the model.

SFS should be published using both cost based transfer and tariff-based transfers.

More details of the transfer charging are required.

Vodafone's submission

Transfer charging information was particularly welcomed.

QTel's submission

QTel proposed only the publication of:

- Balance sheet;
- P&L;
- Return on mean capital employed;
- Statement of mean capital and statement of turnover.

This would only be after several years and confidence in the outputs exists, and after consultation.

ictQATAR's analysis

The issue of transfer charging was discussed earlier and more details are supplied in the final Orders.

The Q.NBN approach for two types of report (cost based and tariff based) provides some transparency, but it creates more work, while the essential information exists in the SFS anyway. The SFS shows the transfer revenues (at a standard tariff if that service is also available externally) but the services' costs of production define the actual costs. With this additional information in specific accounting details, there is no need to produce two sets of SFS.

The QTel request to delay publication due to lack of robust/confident RAS is dismissed. The RAS should be robust: this is a QTel responsibility.

Further, the QTel suggested reports provide limited insights:

- Balance sheets are useful but need to be considered along with the P&L. The P&L of network units will show a return equal to the regulated the cost of capital, for all network units, if the transfer charging is only at cost (and not at tariff). These therefore have limited value: some transfer at tariffs are required to make P&L or the network units' return on capital to be of any real use;
- Return on capital reports for the Retail (or the Wholesale) unit are also of limited use as the capital employed is typically very low. The P&L report is of course of interest, but again this is more relevant if the transfers include some at equivalent tariffs paid by other service providers.

ictQATAR sees limited value in the reports proposed by QTel, and even less value from such limited reports that are purely based on 100% cost-transfers and no tariff-based transfers.

ictQATAR's conclusion

The proposed addition of some transfer charges at the external tariff for some services as well as the release of the fuller SFS, as specified, shall be implemented.

No respondent demonstrated that clear harm would be caused by publication and harmful sections were not defined. Benefits gained by one service provider from publication are not inherently harmful to another service provider and the overall consumer benefits have also to be considered by ictQATAR. ictQATAR therefore intends that the full SFS is published. The publication should include

- The SFS statements and associated notes that accompany Accounts;

- The Audit Statement;
- The Description of the RAS. This has the structural data about the RAS functionality.

ictQATAR *may* consider some redactions in the published version. This could address concerns with irrelevant information or errors in some areas that are not part of markets that are of major interest to other service providers. This will be considered on the basis of the quality of the RAS and SFS and any further clear identification of harmful results. The presumptive outcome is that the SFS will be published in full.

CD2 Question 4 Are there any specific suggestions to ensure that robust CCA is introduced quickly?

Q.NBN's submission

CCA should be introduced without additional efficiency adjustments which may be considered in other consultations.

Introduction of CCA for 2013 accounts is acceptable.

Vodafone's submission

Vodafone noted the separation by ictQATAR of efficiency and CCA issues. The possible inclusion of efficiency adjustments in some price control analysis (which is external to the RAS) was noted and seen as an acceptable approach that would not need CESP within the RAS.

QTel's submission

QTel notes its response to CD 1 question 2, and supported CCA after a consultation.

ictQATAR's analysis

There were no new inputs on CCA implementation from the earlier consultation stages.

ictQATAR's conclusion

CCA is seen as a sensible move and can be considered as a separate development to CESP-based calculations. There is no need in the near term for CESP RAS reporting. In line with Vodafone's note, some CESP aspects could instead be included in external analysis, such as that used in a price setting process, leaving few, if any, CESP adjustments within the RAS.

CCA is not planned for RAS 2012 accounts. In theory CCA is possible for RAS 2013 accounts, but this would necessitate a consultation before RAS 2013 production, which should start early in 2014 at the latest. Due to resource and timing issues such a consultation is unlikely to be possible and still provide QTel with adequate time to develop the CCA analysis system. This CCA system is seen as essentially a standalone tool that replaces the historic asset register's data with similar current-valued data that provides equivalent asset related inputs to the RAS system to those provided using the existing HCA asset system. The main RAS allocations and structures would not be significantly altered.

CCA is therefore not expected to be implemented for RAS 2013 accounts. ictQATAR reserves final judgment on this, and therefore could alter its view, but currently CCA is more likely for RAS 2014 accounts, following consultation. This is the earliest expected implementation.

CD2 Question 5 What other topics do you envisage to be covered in a forthcoming consultation?

Q.NBN’s submission

CCA should be consulted on.

CESP is a possible consultation subject but Q.NBN is not convinced by the use of CESP.

Consultations on retail and wholesale pricing are required.

Vodafone’s submission

Vodafone discussed the use of the RAS in the wider context of ictQATAR’s strategic priorities, which should be made clear. The need to relate RAS work to a reference interconnect offer was noted. Vodafone questioned the plans and timing for a move from proxy price setting methods to methods based on RAS data.

ictQATAR should provide clarity on the time and form of changes to retail price controls but any such changes should be after work on wholesale services,

QTel’s submission

No proposals were made.

ictQATAR’s analysis

ictQATAR acknowledges the need for a number of work steams and consultations, many of which relate to the RAS. CCA is one, and this was discussed earlier in this FRD.

ictQATAR is working on retail and wholesale issues and a reference interconnect offer (RIO). The details will be released later. The relevance of a RIO to the RAS is limited. Only a few services, if available to external parties, should be used as transfer prices in the RAS. It does not matter if the service is listed in a RIO or not: the tariff, as used externally, should be the value in the RAS to ensure equivalent internal transfers.

ictQATAR’s conclusion

No immediate actions result from the inputs, but ictQATAR is pleased with the inputs and notes how all parties see the inter-relation of different regulatory decisions and work streams. This will ensure all parties appreciate the RAS system in the wider context of regulation and the development of Qatari markets.

4 Responses to the first round of consultation, plus additional points raised in the second round

To make this FRD a comprehensive document, the questions of the first consultation stage, and as analyzed in the second stage CD, are included in this section.

QTel provided additional responses to the first round consultation with its final response to the second stage document, and this provides an additional reason to include the first round consultation points in this FRD. The new QTel points are differentiated from earlier replies by including them as "amendments."

4.1 General points raised in the first round consultation

Only primary points are noted in the following. In some cases points were raised by service providers both under the topic of "general points" and then again in the answers to the detailed questions. These are mostly not discussed here under the general points, unless they are particularly relevant to these more general discussions on the RAS. The point is covered later under the detailed answers.

4.1.1 General points raised by Q.NBN

Q.NBN noted that the RAS should not attempt to answer all costing questions that may arise. The key requirement is to produce information to protect against anti-competitive behavior. There are serious reservations whether the RAS can meet this key requirement.

Cost based wholesale pricing should be the subject of a separate consultation and should consider other techniques. This includes Bottom Up Long Run Incremental Costing (BU LRIC).

Specific analysis of optimal network usage was proposed.

The purpose of the RAS was raised as a central issue – how it is to be used. Q.NBN notes that the RAS, defined by ictQATAR is intended to be a generic system to address costing and anti-competitive conduct, but it believes that one system cannot fulfill all roles.

Regulatory provisions in the Telecommunications Law were used to highlight the need for retail and wholesale price controls as well as control of anti-competitive conduct. All objectives are not usually addressed using only a cost accounting system.

Limitations identified included: wholesale prices may need other approaches; cost accounting may be useful for retail price ceilings but not cost floors; the system may identify only potential anti-competitive conduct and other cost studies may be required. For example "off-model" imputation tests and tariff bundle analyses are identified as being additional, though these should be developed as part of the RAS.

Enhancements to the RAS were requested to address anti-competitive pricing and to include transfer pricing based on actual tariffs (see also question 11). Adjusting the FAC structure will not deliver efficient costs suitable for price controls – other methods are required.

The accounts as defined in the pro forma of the CD should be published, along with calculations and internal details. Access should be given to parts of the RAS.

Some efficiency factors were identified, which are assumed by ictQATAR to be related to other cost models, such as: optimal routes between nodes; network infrastructure sharing assumptions; and OPEX levels to be set by international benchmarks.

An additional consultation round was requested, in particular to discuss wider objectives and other issues that are not directly part of the RAS CD. Related to these points are additional requests for functional separation of a wholesale business unit from the rest of QTel.

4.1.2 General points raised by Vodafone

Vodafone noted the unsatisfactory delay in getting the accounts, after the 2010 consultation. With three accounts due in 2013, there is concern over further delays.

The separated accounts must be published.

Transfer charging should be based on prices charged to other service providers.

CESP costs are not critical but CCA based FAC costs are required. No real benefit of LRIC is seen.

Access to the RAS is desired, possibly using external experts to cover confidentiality issues.

Some other wider issues were raised such as supporting competition and ensuring non-discrimination between other service providers and the QTel retail business through equivalent access.

4.1.3 General points raised by QTel

The instructions in the CD are considered too onerous and are not warranted. The disclosure and complexity make it hard to achieve the timescales. The audit removes the need for detailed reporting.

HCA FAC data is not a suitable basis for anti-competitive testing as pricing below FAC HCA levels is not used in competition law. Incremental costing is proposed as the basis for retail price evaluations.

The inclusion of QTel group to the accounts creates considerable additional burden. A re-audit is required of the financial statements.

The more detailed disclosure demands, compared with previous instructions, create new developments and are superfluous and excessive for Qatar. QTel then states that “this information is easily accessible from the RAS models.”

Producing 2010, 2011 and 2012 costs concurrently is unreasonable. Reviews, as carried out on the RAS 2009, are not workable and apart from working capital, other changes were small. 2012 RAS should be produced first.

Providing the cost model to ictQATAR is not necessary and audit should be relied upon. A statement from QTel executives is not required.

PPIA audit is not possible for 2010 and 2011 accounts. The auditors may have to make opinion on the statutory financial statements.

The RAS cannot be delivered until 2 months after annual financial statements are published.

A number of detailed points on the pro forma accounts were included. These included questions on asset revaluations, efficiency adjustments, definitions of business sustaining and combining pre and post-paid mobile services.

4.1.4 QTel’s amendments to the general points

These were covered above in the analysis of general points made on the CD 2 above (see section 3.1.4 above).

4.1.5 ictQATAR’s analysis of the general points

Naturally some of the general points and discussions raised by the service providers are also partly covered in the detailed questions of CD 1. Such points are returned to below when the detailed CD 1 questions are discussed: therefore there is some repetition in this discussion.

Objectives and aims

All parties made comments about the overall objectives and the purpose of the RAS. ictQATAR appreciates that the RAS CD has to focus on the RAS structure and features, but the assessment of the these depends on the wider objectives and how it will be used. The assessment must also consider the fact that some of the ways that the RAS data could be used are not yet fully specified. The RAS may be used as part of other consultations or as inputs to other analysis. For example specific additional analysis will need to be developed, depending on the type of cost and revenue investigation that arises. These cannot be precisely defined in this RAS consultation. In addition it must be appreciated that every possible future requirement cannot be accommodated in the RAS reports. This would make the reports excessively complicated.

The objectives of the RAS are *inter alia*, but not limited to:

- The RAS is a supporting tool to assist ictQATAR to meet its general objectives to develop competitive telecommunications markets in QATAR and promote competitive services in the country;
- The RAS provides a platform for additional analysis, in support of the above. Therefore information from the RAS provides insights to costs and profit margins that can be combined with other investigations to assist with decisions on such issues as costing and pricing;
- The RAS provides an overview of the DSP's profit margins and therefore supports regulatory decisions that may be related to market distortions;
- The insights provide a basis for other decisions such as general price controls or tariff rebalancing;
- The RAS provides an initial basis for price controls – retail and wholesale;
- The RAS provides some information for evaluation for anti-competitive behavior investigations and evaluations of price squeezes;
- The RAS gives insights to the cost base of the operator that can inform evaluations on such issues as new wholesale products' costs, cross subsidizations and cost/profit trends;
- To give transparency to ictQATAR and the rest of the industry of the status of services, costs and margins being made, and so assist with competitive market developments.

ictQATAR appreciates that the RAS has certain limitations and it is not itself always a solution to a regulatory decision on its own and cannot be expected to give definitive answers in all situations. It is therefore important to appreciate what the RAS is not intended to do. Limitations include:

- The RAS does itself not set prices (retail or wholesale). Data from the RAS provides inputs to such price control processes, or to help evaluate prices. In some cases the cost-values from the RAS may be used to define a price, but this would be based on assumptions that the RAS produces a reasonable price and that other factors are not critical and need not be included. Please note that pricing is outside the scope of the RAS, as additional assumptions and analysis will be used along with RAS data;
- The RAS does not clearly identify or stop anti-competitive behavior. RAS based information could be used, with other evidence and analysis to evaluate such behavior;
- The RAS itself does not identify efficient costs or force operational efficiencies. The latter may be encouraged by price setting or from competition development – but this is not directly related to the RAS.

As the RAS provides inputs to a wide range of diverse evaluations and decisions, it must be flexible and it must provide enough detail to support a wide range of evaluations, some of which are not yet defined: it is inevitable that new questions on services will arise and these cannot be predicted in advance. The RAS must also balance the desire to answer as many potential questions as possible (which implies a very detailed system and many analytical breakdowns) with the practical reality of what can be achieved with cost accounting tools and the realistic expectations from an operator with the scale of QTel.

ictQATAR believes that the currently defined RAS provides as much reporting as is practical. A significant granularity of costs by product and network elements is provided. The breakdown of the product markets and reporting units is sufficient. No inputs were received that identified better alternatives. The RAS CD also reflects what is currently achieved in the RAS 2009 or else can be achieved in the QTel costing system without extensive further developments.

The RAS consultation and the system itself are emphasized to be not directly addressing the needs for pricing tools or price setting methodologies. The RAS outputs are *inputs* to such methodologies. A number of service providers' discussions related to price setting and the use of benchmarks or bottom up cost models. These have a role to play, but are not part of the RAS. In general, ictQATAR has put these discussions to the side in this FRD. They may be raised in other consultations or investigations that require additional or alterative cost analysis.

Publication and release of the SFS and accounts

Publication raises a number of issues and was addressed as both a general point and in response to specific questions.

ictQATAR is strongly of the view that some of the RAS accounts (as defined in the pro forma of the Orders) should be published and so made available to the service providers. Specifically, all of the following the RAS accounts should be released:

- Each of the RRU's profit and loss and balance sheet reports. This includes all retail and wholesale units;
- The cost of production – the wholesale products' costs;
- The transfer cost statement;
- Network report; and
- The reconciliation report.

This provides the transparency and assurances on the market status, to help with investment decisions or to identify issues with competition or pricing that can then be raised and investigated. No commercial harm is foreseen and the confidence and insights provided to the industry are clear benefits.

Related to this is the issue of access to the RAS, which is covered again later. ictQATAR does not intend to allow other operator's access to the RAS system or QTel internal data. If there are specific concerns, then these should be raised with ictQATAR who has access rights and can carry out investigations, subject to the normal rules of procedure following a complaint or request.

Complexity and timing, including audit

A general concern that was raised is with the complexity of the impact in the time needed to produce the RAS. This is also related to the statutory accounts and audit issues. The SFS are not seen as excessive and ictQATAR is of the view that the existing RAS system provides most of this information anyway: it simply needs some additional reporting analysis. The existence of most of the information and functionality was also agreed by QTel. Pre and post-paid mobile products (see above QTel point that is referred to above in section 4.1.3) are already analyzed so these should be maintained as this does not add any new complexity.

The need to do this RAS has been clear for a long time, and the audit requirements are not new. Each year's RAS has many similarities, so there are economies of scale in the work. ictQATAR requires the timelines to be met. Please refer to the draft Instructions for the updated timeline.

The reasons for the past delays are not relevant to moving forward. ictQATAR notes that a number of important issues were identified in the RAS 2009 and these had to be resolved before there was any point in considering moving to RAS 2010. Further refinements are expected over time in an iterative manner. All product-issues were not resolved: these can be checked and refined in the RAS 2010+. This is an additional reason that ictQATAR requires the model. Audit does not fully address such detailed issues such as, for example, the alternative treatment of costs relevant to some products – ictQATAR will need to understand the impacts and then it may define a final approach. Furthermore audit does not impact the need to release the SFS – the release of SFS is to help with transparency. The SFS are not required to check or audit the RAS but to give the required inputs to the industry and ictQATAR.

If there are audit issues, such as proper records were not taken in 2010, this does not negate the need for the audit, but it may result in (unfortunate) qualifications in the audit report. It is vital that audit is performed. Eventually this might result in less checks and investigations to be carried out by ictQATAR, but confidence on the RAS is not yet at such a level. In any event ad hoc analysis may need more than the SFS – some underlying data might need to be identified. ictQATAR still requires full RAS access, to cover such eventualities.

Statutory audit should not delay the process as almost everything in the SFS preparation can be completed and the amount of change caused by the latter-stages of a statutory audit to the accounts, are small: no major changes to the RAS are likely and so the SFS need not be delayed long after statutory accounts are approved.

Audit of the SFS is very clearly not an audit of the statutory accounts. These statutory accounts are taken as correct and approved. There is no intention that regulatory audit should check or adjust any such figures of the statutory accounts. The connection to statutory accounts is mainly in the reconciliation and confirmation that all inputs are from the audited source. There is no major new complexity introduced in the consultation compared to the last RAS consultation (or compared to the RAS 2009) from including Qtel Group accounts. They are required simply for the reconciliation but no breakdown is required other than to enable the RRUs to be identified and all RRUs to be reconciled to the audited group accounts. This is a pre-existing requirement. Overseas business need not be analyzed or broken down.

For the absence of doubt ictQATAR clarifies, that only a minimum of Qtel group-level accounts for the non-Qatari businesses, are required to be included. This should be sufficient to ensure that the RAS accounts can be reconciled with a set of the audited statutory accounts.

The requirement for an executive statement is reasonable and remains in place.

Other points raised

These include:

- Definition of business sustaining costs:
  They are defined more fully in the updated Instructions. These are the common business costs that are allocated in the RAS using proxy cost drivers rather than a mark-up. These costs have weak cost drivers and their costs would not change significantly with a change of any product's or network element's output volume;
- Bottom up models and imputation tests:
  These are not part of the RAS scope;
- Efficient costs:
  This is addressed in questions related to CESP. This can be examined in BU models or by benchmarks, but these are not part of the RAS scope;
- Analysis of price bundles:
  This is something that is beyond the scope of the RAS. The RAS provides some insights and information. ictQATAR believes the approach recognizes the limitations of any costing system and the limited solidity of retail cost allocations, in particular. The RAS provides a basis that is as detailed as is practical. Price bundles are recognized to be increasingly more important over time, but the solution to their evaluation is not within the RAS. This may be taken up in other proceedings.

4.2 Responses to the specific questions in the first round of consultation (CD1)

In the following ictQATAR summarizes the responses. These are discussed and then the ictQATAR view is defined.

CD 1 Question 1 Do you agree that currently Fully Allocated Cost (FAC) based on HCA is currently the required cost base and cost standard?

Q.NBN's submission

Q.NBN supports the use of FAC HCA but notes that its use depends on how the RAS outputs are to be used. FAC is not considered sufficient for wholesale pricing and it requires additional attributes to be used for monitoring of anti-competitive pricing.

Related points are raised under question 2.

Vodafone's submission

Vodafone agrees with FAC HCA and notes merits with CCA.

QTel's submission

QTel did not answer this question directly, but discussed the general use of the RAS and how RAS outputs may not be relevant to emerging services. Several years' worth of RAS data may be more useful.

QTel's amendments

QTel supports future consultations on how the RAS may be used.

The use of past years' data was agreed to be useful but it was pointed out that projecting past year's cost data to help with future cost estimates for pricing is notoriously different. Future cost estimation problems are reduced by having up to date initial data – specifically RAS 2012. This supports delivery of RAS 2012 before RAS 2010/11.

ictQATAR's analysis

The general support for FAC HCA is noted. The consultation did not address the details of how RAS information would be used. That could be the subject of other consultations, for example on retail or wholesale price controls.

ictQATAR is aware of the limitations of HCA FAC for certain decisions. It is fully understood that many decisions might require additional information and data. In some cases this may require another cost basis or even other cost models. In general these are not directly part of the scope of the RAS consultation but ictQATAR has addressed these above in the discussion of general points.

The use of other cost bases to give enhanced information is returned to below when other costs are discussed in response to other questions.

The need for several years' worth of RAS data (QTel) is in line with ictQATAR's requirement for 2010, 2011 and 2012 costs to be produced.

ictQATAR's conclusion

A RAS based on FAC HCA is an essential requirement that provides key inputs to other decisions and analysis. This is specified to be an urgent priority for delivery in 2013. The FAC HCA is a starting basis, with information from 2010 providing a first input, as RAS 2009 was not intended to be used for regulatory decisions. Subsequent years (2011 and 2012 and so on) will naturally provide the more robust data. The earlier years then provide insights such as trends – these can be used in other decision processes that are likely, of course, to place the greater emphasis on the latest data. ictQATAR sees the RAS to be something that can evolve over time: the level of robustness will increase in the 2012 accounts (over 2010) and refinements such as CCA may be added (see for example CD1 Questions 2 and 7 below) in future years.

ictQATAR is aware of the limitations of any RAS outputs but that is addressed in other consultations and processes that make use of the RAS. FAC HCA is necessary, but may not be sufficient. CCA FAC provides an additional economic basis that may be better. This is discussed below under question 2. Other cost models and analysis may also be required, but these are not part of the scope of this FRD.

The options for 2012 delivery before 2010/11, were discussed earlier in section 3.1.4. ictQATAR retains the requirement for RAS 2010/11 delivery before 2012. ictQATAR concurs that 2012 provides the best platform for most decisions but the experiences from 2010/11 will be useful to ensure 2012 is robust. This avoids re-statements or changes to 2012, something that is more likely if it were done first, especially as QTel flagged up the rusk of the system not being robust initially.

CD 1 Question 2 Do you currently see additional bases required for regulatory controls? If yes, which bases do you foresee and why?

Q.NBN's submission

CCA based assets are supported as a supplement to HCA to assist with anti-competitive price analysis. Incremental costing is specified as the preferred basis for wholesale prices. This should include efficient cost adjustments. Average variable costs were noted but these were not proposed to be calculated in order to avoid delays to the RAS implementation.

Vodafone's submission

Vodafone requests that CCA is considered as this provides the right economic signals. The fact that QTel's network is relatively new means that the CCA changes might be small and therefore CCA introduction should not delay a FAC HCA RAS.

QTel's submission

An evolution to CCA and incremental costing is stated be consisted with international practice. QTel states that the RAS should take into account the level of de-regulation, but QTel does not specify how this should be taken into account.

QTel's amendments

QTel agrees with the migration to CCA after HCA is done, as this is seen as an industry-accepted evolution. QTel views the statement that FAC CCA does not require major changes to a FAC HCA system as an over simplification.

QTel provides a description of the work involved in developing CCA based asset inputs, such as the development of Qatari price indexes and the construction of a virtual asset register.

CCA requires additional development time.

QTel counsels against leaving any assets without re-valuation. A specific example is given to supporting assets which may need re-valued because the main core assets are re-valued to a Modern Equivalent Asset (MEA), and this means the supporting assets would also have to alter to reflect a new technical basis.

QTel discussed efficiency changes and how these should reflect the situation in Qatar.

QTel expresses the view that historical accounts should not be manipulated to form unrealistic outcomes.

ictQATAR's analysis

The general support from all parties for CCA is noted. ictQATAR agrees that CCA based costs might provide a better economic input to other decisions and analysis work. The widespread use for FAC/CCA for price controls and accounting systems in Europe is also noted.

The separation of price control and RAS, is re-iterated. The RAS only provides inputs, and the pricing analysis or anti-competitive analysis etc. are not in the scope of the RAS consultation. The issue of whether the RAS provides a useful starting point is of course relevant. FAC CCA is used as a basis for wholesale price controls in some countries, for example, and this typically provides a better economic basis than HCA.

The introduction of efficiency adjustments and CESP analysis is noted by ictQATAR to be desired by some parties and this may give better economic inputs to the other-analysis work (outside of the RAS). Given the evolutionary basis of RAS, ictQATAR believes that sound FAC HCA must be completed first and then FAC/CCA. A move to CESP or even LRIC may follow, but clear proposals have not been received on the types of CESP adjustments or the types of LRIC models. There are many types of LRIC (LRAIC, LRIC+ pure-LRIC etc.) and many different increments than can be calculated. Proposals for these have not been given. A need for CESP reporting has not been identified and efficiency issues may be addressed in the off-model analysis that could be carried out in price evaluations.

ictQATAR appreciates the Q.NBN point that additional models have validity and this leads to their support of bottom up (BU) LRIC models. ictQATAR appreciates that BU models have a role to play in regulation and costing analysis. BU model are particularly useful for efficient cost analysis, which is currently not a RAS requirement.

ictQATAR notes the amendments from QTel. There may be a mis-understanding of points given in the CD. ictQATAR appreciates that CCA may well require significant work, however the original point was that the RAS system itself is not significantly altered. This statement of course is based on premise that the CCA processing (as described by QTel) is in effect a standalone module, *separate* to the main RAS processing. CCA may need significant effort.

Many of the CCA discussions from QTel are best left to a more detailed CCA consultation. This can tackle the issues of where MEAs might be used (using alternative technology) or whether re-valuations should be made using essentially the same equipment. ictQATAR notes the QTel issue of altering one asset technology and how this may result in the need to alter another asset: this reasonable point will be considered in the future CCA discussions.

ictQATAR's conclusion

ictQATAR notes the support for CCA from all parties, including QTel. It is a fact that FAC CCA does not require major changes to any FAC HCA cost allocation system (even if the CCA re-valuation work is extensive). This means that CCA can be introduced by developments of a separate CCA system that produces similar asset inputs to those that are used with the current HCA based RAS.

ictQATAR concludes that CCA is a sensible step and believes that this should be introduced. This date will be defined after further consideration. CCA is *not* expected for the FY 2012 accounts, to be produced in 2013.

ictQATAR will discuss the CCA methodology separately. CCA often considers the selection of the best/efficient assets, or else altering the equipment volumes when the valuations are used. Therefore CCA might not "simply" re-value the existing assets to today's prices. Therefore CESP and CCA discussions are often linked. It is also possible to introduce some CESP related concepts while still using a HCA based system. Some excess costs may be removed or else special treatment of some costs such as land that was acquired at very low values, can be introduced in HCA FAC systems. At present ictQATAR sees no immediate requirement for CESP, and no clear directions for how this can be included in the RAS, have been received in this RAS consultation. ictQATAR does foresee some potential efficient-cost changes even with HCA, and certainly *some* special/efficient cost adjustments may be needed if CCA is considered without a full CESP reporting requirement. This is returned to later under the responses to question 8 of CD1

CD 1 Question 3 Are there comments or additional requirements on the overall guiding principles?

Q.NBN's submission

The principles were seen as adequate but that "reliability should be unpacked more to emphasize the principles of cost-orientation and non-discrimination." Cost and revenue allocation should be at the most granular level possible. The cost base for wholesale pricing was discussed and the needs for efficient costs and cost minimization are introduced.

Vodafone's submission

Vodafone requested that the transfer charging be enhanced as this introduces some equivalence between retail and wholesale to the prices given to other service providers.

QTel's submission

QTel thought the guiding principles were clear and in line with international best practice. Ah hoc variations from the principles should not be used as they may skew the outputs.

QTel's amendments

QTel raises a concern with inconsistent cost treatments in respect of RAS compliance and the RAS Instructions. Costs should be treated in a consistent way in the RAS.

ictQATAR's analysis

ictQATAR returns to transfer charging in the reply to question 11. Pricing related points are covered in the general remarks above.

ictQATAR agrees that the allocations need to be at a granular level, but this must be appropriate. The service breakdown and the network component list in the RAS is considered sufficient. Detailed changes were not proposed in any response.

Issues of non-discrimination and cost minimization are outside the RAS consultation, however the RAS will give some insights on the non-discrimination effects with the transfer charging and the cost of service reporting (as seen in the pro forma statements).

ictQATAR notes the QTel amendment point about consistent cost treatment. This may be related to the paragraph in its second response: "QTel is concerned by the statement in the Second Consultation that "*the alternative treatment*….thus potentially invalidating the RAS outputs." This relates to cost treatments that may conflict with general principles and so cause problems with the RAS and how it may be audited. ictQATAR agrees that cost treatments should be consistent in a RAS and the general principles should be defined in the Instruction.

A number of aspects of regulatory accounting require clear directions from the Regulatory Authority. These cannot all be based on general Instruction's principles such as "the use of cost causation when allocating a cost." There can be a cost causation basis in each of two different cost allocation methods. Such issues may require specific clarifications on a case by case basis from ictQATAR during the development of the RAS and as new regulatory needs arise. These later adjustments / clarifications should be taken as supplementing the Instructions. Compliance would be verified in the audit.
An example might be in the allocation of copper costs to ADSL services and to PSTN line rental services. Arguments for allocation of the costs to both services can be made on a variety of different bases that include 100% to one or other. Regulatory authorities can made determinations on this specific treatment. This is normal. Cost allocations of a shared fiber in the core (or in access) might have a different cost-sharing principle. Such details are not defined in the Instructions: specific clarifications therefore support aspects of the Instructions. Where there may be a conflicting specification in the Instructions or a later clarification, then the ictQATAR adjustment or clarification shall be followed.

ictQATAR will issue such clarifications from time to time and these must be included in the RAS.

ictQATAR's conclusions

The main principles are supported. ictQATAR is not sure what QTel refers to with regard to ad hoc variations. ictQATAR did not fully understand the "unpack" comment from Q.NBN.

The main RAS principles are not likely to change and the essential structures of the RAS are supported by all parties. From time to time detailed changes will inevitably be required – especially as products and technologies change. ictQATAR certainly sees ad hoc analysis and investigations of the RAS, along with external analysis when it comes to investigations and price setting work – but these do not alter the principles, nor do they change the RAS itself. The ad hoc work is needed to support other regulatory aims, that are outside the RAS consultation.

ictQATAR will from time to time provide clarifications on the treatment of cost elements or for changes to reporting. These must be accepted as requirements that supplement the Orders. The treatment remains consistent with *regulatory requirements* even if this may cause some anomalies with respect to other similar costs in the RAS. In general, of course, the Orders and the principles therein will be the default guide and most regulatory-defined amendments will aim to comply with the Orders.

For the absence of doubt, these adjustments will require neither a new set of Orders nor a new consultation. Only major changes to the Orders and to RAS structures would require new consultations and Orders. Some ictQATAR adjustments on cost treatments may be a result of industry discussion or a full consultation on the particular cost element or service, but this again is *not* expected to require a new RAS consultation and new Orders.

CD 1 Question 4 Do you agree that ictQATAR should have full access to the RAS and how can this be ensured?

Q.NBN's submission

ictQATAR should definitely have complete access to the RAS system. Q.NBN suggests access is required by other interested parties. As other service providers pay cost-based prices based on the RAS, they should have access to the RAS.

Access should be given to: the RAS description; financial statements; the audit statement, driver information; and the methodology relating to CESP.

If full access is not given then access should be given to an independent examiner under a non-disclosure agreement.

In addition, ex ante imputation tests should be carried out.

Vodafone's submission

Full access by ictQATAR is supported. Independent experts should also have access under a non-disclosure agreement.

QTel's submission

QTel suggest that full access is not required and reliance may be placed on the auditor's report (to PPIA standards) and this is international best practice. This avoids ictQATAR duplicating effort and ad hoc reviews may be called into question as ictQATAR's representatives may not be qualified.

QTel's amendments

QTel agrees with ictQATAR that access should be to ictQATAR only and not to industry. QTel brings in its second consultation response point about legacy and new services which may produce anomalous costs (QTel agrees with the ictQATAR observation). New services may appear loss making in HAC FAC results due to initial investments but low volumes.

The amendment did not address the question of ictQATAR having full access rights. Access rights were addressed in the QTel response to CD 2 question 2 (see above section 3.2).

QTel states that it may suggest improvements to the RAS.

ictQATAR's analysis

ictQATAR cannot see how access to the model would create significant additional work, as the system must be documented and be accessible to the auditor. Even if the RAS moves to a proprietary platform there are a number of approaches that can enable secure remote access, if the system cannot be ported.

The work of the auditor will not be checked or investigated by ictQATAR. ictQATAR desires access to increase confidence in the system, which is needed as it evolves, and to understand the underlying causes for the outputs seen. As QTel noted in other replies, the costs of services, especially new services, can seem anomalous due to initial investments and low volumes. This is correct and not something that would need audit comments, but such insights are needed by ictQATAR. These insights mean ictQATAR access rights are necessary for analysis and investigations (pricing and other tasks) that make use of the RAS results and data.

A clear statement was not given by Q.NBN or Vodafone on what additional details are required beyond the RAS SFS reports given in the pro forma statements. If there are specific issues that are of concern then these could be raised with ictQATAR using existing processes. Independent investigations without a defined purpose do not seem to give value, and it has not been specified what additional reports are to be supplied that go beyond the audit report and the SFS. Such reports should also not reveal business-confidential information.

The development of RAS 2009 has shown that investigations by ictQATAR have resulted in improvements in the RAS. Given that the system is still evolving, these investigations and improvements may continue unit the SFS and the RAS is considered fully evolved. It is not yet at this fully evolved stage where ictQATAR investigations are not required.

Q.NBN identifies a range of possible disclosures. A description of the RAS, the SFS and the audit statement. are all sensible and do not raise confidentiality issues. Details of all the drivers reveals internal information about the company staffing and activities. Alternatively, defining the drivers and costing calculations, but without releasing the confidential numbers may give some more insights but requires documentation in two forms: one for ictQATAR and QTel's use and another with disguised information. The value of this "detailed attribution methodology" document in Qatar is not clear. ictQATAR knows that some such information (allocation principles without values) is revealed in the UK for BT's costing system.

CESP methods have not been defined, nor has a time plan been set for the introduction of CESP.

The QTel amendments do not add significant new insights. ictQATAR is aware of the limitations of services that are new or very old where the volumes and the costs in the RAS year produce anomalous values. This will be considered when the RAS data is applied in other analysis work.

Proposals to improve the RAS from QTel are welcomed. This also reflects the QTel statements that the RAS is somewhat fluid and will evolve. ictQATAR understands this and sees QTel's proposals to adjust the RAS as similar to ictQATAR amending adjustments to alter the system. Both changes will be needed and clearly the Orders and pro forma reports should not need revisions and re-approvals.

ictQATAR's conclusions

The RAS should be made fully available to ictQATAR, along with documentation.

Other service suppliers will not be given access, nor will independent service provider's experts be given access under a confidentiality agreement. The benefits of this have not been defined and are not obvious. If there are areas to investigate then this may be put as a request to ictQATAR.

A description of the RAS, the SFS and the audit statements should be released.

Attribution data (numerical values) or detailed attribution methods are not required to be released to service providers.

Attention is drawn to the points in section 3.2 discussing CD 2 question 1, where a change in the RAS IT platform should not impede or restrict ictQATAR's access to the RAS. The obligation is on QTel to ensure equivalence is given as if ictQATAR had a copy of the RAS system, even if physically this is not possible.

CD 1 Question 5 Do you agree that a wholesale unit is required? If not how should inter-operator costs be reported on?

Q.NBN's submission

Q.NBN believes this is definitely required. Q.NBN proposes separation of procedures between retail and wholesale units to reduce anti-competitive activity and the enable a balanced assessment of costs and prices.

Vodafone's submission

A wholesale unit is required.

QTel's submission

The wholesale unit is not required and will delay the RAS due to the need for substantial re-working and manual intervention.

QTel's amendments

The CD 1 submission (above) is reinforced with a reference to Omani RAS instructions and those of Bahrain, UAE and Kingdom of Saudi Arabia. These show "relatively simple financial formats" and this approach is requested to be followed.

ictQATAR's analysis

The reporting of costs and revenues is not seen as a major change to the RAS and this structure is in line with other countries. Some wholesale-specific costs do exist and can be identified, as has been pointed out by QTel "… as this information can be obtained from the existing RAS ..". It makes the inter-operator costs more transparent.

Functional separation as proposed by Q.NBN is a different regulatory step to accounting separation, as proposed by the consultation. This would require a separate consultation. Such regulatory changes are not common, but it has been proposed by the European Commission as a possible remedy and it is used for example in the UK.

Without prejudice other possible actions, ictQATAR would need to see clear proposals for the implementation of functional separation, including how it would be supervised/enforced, plus analysis of the costs and benefits, before it moves in this direction. However this is not within the scope of the RAS, and in any case most RAS reports would still remain even if there was additional functional separation.

ictQATAR is aware of other countries' Instructions (referred to in the QTel amendment). The detailed *current* practices in each country are not defined in the Instructions. Also the Instructions typically allow for more detailed information to be requested. The pro forma reports also reflect many of structures required by ictQATAR. We understand for example that actual Bahraini information supplied is more detailed than specified in the Instructions. The instructions specify the information that is to be provided *as a minimum,* and this allows for additional requests to be issued. A CEO statement is specified (in line with ictQATAR's requirement).

The Kingdom of Saudi Arabia's guidelines include details of cost types and network element costs. Products are defined at a market level. Network element costs and route tables are required. We note detailed cost breakdowns are required – see template E for example in the reference provided by

QTel. Excel and database files are required. We note that: "CITC can at any time, with 10 days advance notice, request a Designated Service Provider to prepare and report ad-hoc specific information of costs and revenues for any retail or wholesale services or products (regulated and unregulated)." We have no doubt that this need will arise – the systems and reporting have to be already in place to do this, meaning that a similar complexity to the Qatari demands is inherent in the Saudi requirements.

The UAE instructions define *more* regulatory reporting units than ictQATAR has specified. We also note section 9.3 that specifies the need for "…On a HCA and CCA basis, and for **annualized unit costs** on a LRIC-plus basis, a Reporting Licensee is required to **provide disaggregated RFS** for fixed retail services, mobile retail service and other fixed services businesses into the following services. For the avoidance of doubt, and in line with Paragraph 8.19, a Reporting Licensee is only required to provide LRIC-plus unit cost information for the **network part** of the following services…" Emphasis added. This shows a need for the cost of production ("network part") and product unit-costs. This section is then followed by extensive lists of products – in line with the Qatari RAS. Required UAE reports include a Statement of Network Component Route Factors (for both retail and interconnection services); and a Statement of Retail Services Route Factors.

We note also other aspects of the UAE that are in line with ictQATAR's approach defined in this FRD. For example the need to ensure "… audit is conducted in accordance with these Instructions, any Directions issued by the TRA and the approved Regulatory Accounting Documentation." This is in line with the need to have other clarifications and adjustments from time to time. See also the concluding comments to CD 1 question 3 where ictQATAR also notes the need for additional adjustments that supplement the Instructions.

In general all of the countries noted by QTel require a cost system that has similar functionality and complexity to the Qatari system. The Instructions may not provide very detailed output reporting but clearly these are to show the general format of the accounts and the actual accounts, as developed over time and delivered to the regulator, will have additional details and have more information than shown in the Instructions.

There is no evidence in the sources supplied by QTel that the costing systems in the regional countries are less sophisticated or that the reporting demands are significantly less than ictQATAR has specified. In facts some countries' reporting requirements are clearly more onerous. The main difference is the publication of accounts: the other regional regulators have not published the accounts. This point was also discussed earlier in section 3.1.4 under the general points raised by QTel.

ictQATAR's conclusion

The wholesale unit is required. Accounting separation of the wholesale unit from the other units is needed, especially as the wholesale business will inevitable expand to involve more than small teams, as other service providers expand in Qatar.

This is not an excessive demand – it is well in line with other regional regulations. Furthermore, is it not a significant change from the current costing system. The details in the SFS are not excessive, given the fact that much of the cost breakdown exists anyway in the RAS 2009 system. The lack of regional publication is not a sound argument for not releasing the SFS.

CD 1 Question 6 Are there changes required to the RRUs? What are the changes and why are they required?

Q.NBN's submission

Q.NBN supports the proposed structure.

The international businesses were noted to have a possible impact if they use domestic (Qatari) systems or buy or sell to the domestic units.

Reconciliation should enable the differences of RAS and statutory accounts to be transparent. It should include adjustments to the cost base.

Vodafone's submission

Vodafone supports the proposed structure.

QTel's submission

No additional RRUs are required. The wholesale unit may be of limited value in the short term. Reasons were not fully explained, other than increasing the RAS complexity and a reference to the existence of Q.NBN – this latter point was not elaborated on.

QTel's amendments

None supplied.

ictQATAR's analysis

The wholesale unit is understood to give value even in the short term while there are very few costs in this unit today. But, more benefits are seen as the Qatari wholesale business expands.

The purpose of the RAS reconciliation covers the Q.NBN desires. International unit transfers would be made transparent either through transfers to network units or from buying services via the wholesale unit.

ictQATAR's conclusion

The RRU structure, as proposed, is required.

CD 1 Question 7 Please indicate if there are reasons for not using FCM as part of the CCA/CESP cost base.

Q.NBN's submission

Q.NBN supports FCM.

Vodafone's submission

Vodafone supports FCM.

QTel's submission

QTel does not address the question, but proposed a wider study of FCM versus OCM. CCA is supported. QTel makes reference to CESP issues in an earlier QTel submission (presumably responses 11 and 31 for example).

QTel's amendments

None supplied.

ictQATAR's analysis

CESP is not related to OCM or FCM. The RAS structure is not altered by CCA, and the impacts of CCA on reporting are small – mainly in reconciliation to HCA.

The need for CESP in accounting reporting has not been convincingly argued for – see also CD 1 question 8.

ictQATAR's conclusion

ictQATAR believes that the move to CCA should use FMC wherever possible. Further discussions are required on CCA.

CD 1 Question 8 What are the features and timeframes for CESP reporting, if this is required?

Q.NBN's submission

Q.NBN sees CESP as something to be addressed as part of wholesale pricing. Some problems are seen in the alternative use of CESP HCA or CESP CCA. CESP is seen to be of dubious value. CESP has four main components: asset revaluation; adjustments to asset numbers to efficient levels; adjustment for spare capacity and adjustment of operational costs.

CESP is desired by the end of 2013.

Vodafone's submission

Vodafone supports CCA as the only essential part of CESP.

QTel's submission

QTel referred to its reply made to an earlier RAS consultation. See the relevant QTel document and the replies to requests 11, 12 13 and 31. These supported CCA but noted issues with efficiency adjustments.

QTel's amendments

Reference was made to other remarks supporting CCA.

ictQATAR's analysis

The support for CCA is noted by all parties as a central step. ictQATAR currently sees a limited relevance of HCA CESP *if* CCA already exists. But some CESP changes are certainly possible using HCA based costs. CCA is not an absolute prerequisite to CESP. CCA is agreed to be the next step in the evolution of the RAS.

Some CESP changes might be required with the move to CCA, even if full CESP changes are not implemented. An example of this is: land. If land (or other assets) were acquired at low or even zero costs (i.e. effectively it was a gift), CCA based values could allow an unreasonable return on the re-valued assets if defined to be at today's replacement cost. The current value of the assets could be considerable. The economically efficient value or treatment of the asset might require a value for the asset that is altered from that defined by conventional CCA techniques that look at the current-replacement of the asset. Therefore a move to CCA might necessitate some CESP adjustments even without a full CESP costing system.

The detailed method and benefits of CESP need to be evaluated. This must be balanced against the costs of CESP's introduction and against issues that arise from: uncertainly in both the values and the types of adjustments that may be required. ictQATAR believes this is something that is best addressed in further discussions. Its introduction by the end of 2013 is not feasible. At present there is no clear benefit from having CESP in the RAS and so ictQATAR does not specify a time plan to implement it.

Some adjustment to costs and other factors may be needed in a price setting process and some efficiency factors could be introduced then. This is not part of the RAS reports or systems, and so may be addressed in the shorter term in pricing or other investigations that define *how* RAS data may be used and adapted.

ictQATAR's conclusion

CCA is a primary next step in the evolution of the RAS. Full CESP *may* be considered after CCA. It is noted that CESP changes are possible, in theory, with HCA costs. Some use of CESP-type changes could be introduced with the change to CCA (see the above discussion of land) without implementing a full CESP system.

Further discussions on the details and timing of CCA are required, and *only then might* full CESP might follow. The date of CCA introductions will be defined after the discussions. Some CESP adjustments can of course be considered in price setting or other external-to-RAS investigations. Some limited CESP-type features might be introduced in the FAC HCA of FAC CCA systems, if directed by ictQATAR. A simple example is the cap on working capital (see the below discussion relating to CD 1 question 15).

ictQATAR emphasizes that efficiency adjustments may be relevant to other investigations and price setting. These adjustments may be carried out in analysis that is external to the RAS, and so it is not part of this FRD.

CD 1 Question 9 Is there a need for incremental costing and where would this be applied?

Q.NBN's submission

Incremental costing is not relevant to anti-competitive analysis but is relevant to wholesale pricing. LRIC is therefore required.

CCA issues were raised and concerns that CCA may increase the cost of some infrastructure. LRIC approach with non-replicable assets is seen as beneficial to market entry.

CCA re-valuation issues with land were also raised especially if the land was obtained at no cost. Similarly there were concerns with other assets such as ducts paid for by Ashghal.

Vodafone's submission

Incremental costing is not required in the near term.

QTel's submission

CCA is the first required move. QTel discussed the use of RAS in particular with respect to retail price controls where HCA FAC was deemed unsuitable, and incremental costing is required.

QTel's amendments

QTel notes that LRIC might not give lower costs, given that CCA is the normal pre-requisite. CCA, which is used in LRIC might increase costs due to re-valuation effects.

ictQATAR's analysis

Discussions on CCA are not directly relevant to the incremental question. CCA is assumed to be a pre-requisite, but it does not alter the general incremental-calculation principles.

The re-valuation of assets that had little or no purchase cost can be addressed in the details of the method to be used for CCA in 2013 accounts. See CD question 8 above. ictQATAR notes that an asset that is fully depreciated normally still has no value under CCA. Assets that had no purchase value may also still have no value under CCA.

Some replicable assets, with little or no purchase value may need further consideration under CCA. Different treatment of assets that were acquired when a government owned operator, compared to later commercially-acquired assets, has been seen elsewhere. This will be addressed in the CCA approach, but it does not directly affect the RAS principles or structure.

Retail and wholesale price methods are separate to the RAS. The support for incremental costing for retail pricing (QTel) may be contrasted to the support for incremental costing for wholesale pricing (Q.NBN).

The benefits of adding in incremental costing in addition to CCA, or applying some efficiency or other adjustments in a price-setting process, have not been defined in the responses (but ictQATAR appreciates there are potential benefits). The assumption that LRIC might give lower costs may be behind the support for each of the QTel and Q.NBN propositions. ictQATAR is not biased to low costs – rather it desires appropriate and reasonable prices that may be cost based. ictQATAR would expect any incremental analysis to be most likely based on LRIC plus some common costs, although this and other alternatives were not discussed by the service providers. This is likely to be close to a FAC CCA result in any case.

ictQATAR notes the QTel amendment that CCA *could* increase costs of some services. This is acknowledged. Incremental costing generally has lower costs unless the LRIC includes mark-ups for common and not just the directly-variable costs. These issues will be addressed when CCA is consulted on and if/when LRIC requirements arise.

ictQATAR's conclusion

A solid argument for incremental costs has not been proposed, nor were clear definitions of the required increments given. If there are investigations that require the incremental (variable) or even the marginal cost of one service, then this may be estimated by additional investigations: it does not warrant the general introduction of incremental approaches for all services in a RAS.

CD 1 Question 10 If an IC approach is required a) how should it be implemented? b) which increments should be defined? c) what would be advantage?

Q.NBN's submission

This was linked to the reply to question 9. Q.NBN suggests that this should be subject to a separate proceeding. The list of points relate mainly to the creation of a bottom up cost model for wholesale service costing (pricing). Core and access network models were identified.

Vodafone's submission

Incremental costing is not required in the near term.

QTel's submission

Best international practice should be followed. What constitutes "best international practice" was not defined. Incremental is required for retail tariff evaluation (see also question 9). The approach should use the retail mark ups on the wholesale costs based on HCA FAC.

QTel's amendments

None supplied.

ictQATAR's analysis

Bottom up LRIC is a modeling technique that is well known and has merits for some cost analysis. This is not directly relevant to the RAS, which is top down and accounts based.

QTel did not define the increments to be used in retail and ictQATAR does not follow the discussion of mark-ups and HCA FAC where elsewhere CCA and incremental costing for retail costs were proposed by QTel.

Q.NBN introduced a wide range of points about costing and pricing that also identified LRIC plus and pure LRIC. The discourse did not lead to specific detailed recommendations on the RAS. ictQATAR notes that exact increments were not defined, and any further developments would require a specific consultation. The Q.NBN discussions on (for example) scorched node and greenfield assumptions or technology assumptions are related to bottom up incremental analysis and so could be part of other consultations: this type of incremental costing is not usual in top down RAS systems.

As noted in the RAS consultation, retail cost allocations are difficult to define precisely and so the effect of using LRIC for retail costs would typically define a low marginal retail cost and a high stand alone cost. With such widely separated floors and ceilings, the retail insights from incremental costing could be limited, at least for most products. Any LRIC plus mark-up costs, could be no more solid than the FAC approach defined in the consultation.

ictQATAR's conclusion

The use of bottom up modeling is not relevant to the RAS, and so this is not discussed further. This may be considered in specific projects that need to identify costs in this way – this is something that may arise in wholesale or retail price discussions, but it is not part of this consultation.

No service providers defined clearly the specific incremental approaches that are applicable to RAS systems. The volume increments, the approaches to defining the variable costs, how fixed/common costs or incremental specific fixed costs would be identified, how the cost floors or cost ceilings may be defined, the approach to distributed LRIC costs etc., were not identified. Furthermore, the RAS provides identification of the wholesale costs of production, separation of the business sustaining costs and a breakdown of the retail costs to general cost pools as well as defining final costs by products (which provides some insights to the cost floors and ceilings): the added insights and benefits of incremental costs to these RAS outputs was not clarified.

There is insufficient evidence provided to support the immediate introduction of LRIC in the RAS.

CD 1 Question 11 Do you agree with the cost transferal approach? Alternatively, if cost transferals are to be based on for example the wholesale rates paid by other service providers then how should internal transfers such on an on-net call be defined, as **these services** are not available externally?

Q.NBN's submission

The ictQATAR-proposed approach (transfer at cost) was not agreed with.

Transfer charges should be equivalent to those sold externally. The concern is not with services sold internally but with those also sold externally.

Vodafone's submission

Transfers should be based on the charges to third parties, if this service is used internally or on the basis of cost where the service is only used internally.

QTel's submission

No change to the transfers was proposed as the current method is more than adequate. Changes may increase complexity and take development time.

QTel's amendments

Clarification was requested. The current approach (all transfers are at cost of production) will allow the "unit costs of services and RRU profitability (from RAS) to be compared and contrasted with that using wholesale tariffs at the time." Using transfers at wholesale prices would require additional resources and time to redesign the existing RAS to accommodate the changes.

ictQATAR's analysis

The merits of transfer prices at externally available prices, is noted. This shows the net impact of RRUs treating each other in the same way that other service providers are treated. The RAS accounts do show cost based transferrals and these can be compared to the standard prices or to other prices (these may be listed in a RIO, but this is not necessary). This can also be used "manually" to adjust the RRU accounts to see the effect of applying the alternative price. Without this adjustment, the network RRUs will always recover the regulated cost of capital: making this profit report of limited value, other than as a basic check of the correct functioning of the system.

The Wholesale RRU enables the margins of externally-supplied services to be seen. The input cost is the cost of production, and the revenues are from the other service providers. So this RRU provides a useful additional transparency to the service providers. This is not affected by the internal transfers between retail and network RRUs and between network RRUs.

The current RAS system transfers services at cost between RRUs. Some detailed changes will be required to the RAS to show some transfers at a specified price (the same is provided to other service providers) while all other remain "at cost." The change is logical and provides more realistic effective P&L results for all RRUs. Against this are the additional complications caused by updating the RAS system and reporting.

The changes affect the Retail RRU and the transfers with it and the fixed and mobile wholesale RRU. This demonstrates the equivalent treatment or Retail compared to other service providers. ictQATAR believes that the complexity of these changes is not excessive – the main services affected are retail fixed to mobile and mobile to fixed products, which should incur the same termination prices paid by the service providers. The transferred costs are then, not the costs of production, but the termination price times volume (which becomes the revenue for the network RRU).

The detailed technical changes required in the RAS to implement this change are not a major concern of ictQATAR. Some adjustments of the transferred-in costs to Retail and to revenues of the network units should be possible without major changes. Further, if the RAS is updated to accommodate NGN techniques that include the concept of "partial products" then the termination product costs can be identified and substituted by the regulated/externally-available/RIO-based prices more easily.

The QTel amendments did not identify if the additional effort to implement the changes would result in not meeting the timelines specified – at no point in the response has a clear statement been given that the extended timelines cannot be met. There was no suggestion that the revised transfer method was not an improvement, rather it was suggested only that the current method was adequate. The above benefits of the revised transfer charging are not disputed. The amount of work to alter a few values in the final transfer reporting is not seen by ictQATAR to require "extensive re-design." We also note the support for this revised approach from the industry and it provides a more useful view of network units' profitability.

ictQATAR's conclusions

The transfer payments for the services that are both sold internally and externally in substantively the same form, should be at the same price as sold externally. This shows equivalence of charging and this is a sensible enhancement. This has the most obvious impact to the use of fixed to mobile and mobile to fixed termination prices. These should be at the external interconnection price levels.

Retail products generally do not use the same products as supplied to other services providers. Therefore an on-net mobile call does not incur any termination charges (it incurs only the cost of production). A mobile to fixed call in contrast has the mobile network costs plus the fixed termination charge. This termination should be the same charge as incurred by other service providers. This demonstrates the equivalent charging. As prices tend towards cost, then the wholesale RRUs will tend to recover exactly the cost of capital and any over (or under) recovery of costs is clear in the SFS.

All services sold *only internally* should be transferred at cost (as proposed in the initial consultation). There is no current equivalent service to (for example) an on-net mobile call, that is sold to other service providers. So any transfer price, other than the cost, is not defined. There is no significant benefit from defining any on-net call transfer prices that are "close to twice the wholesale termination charge." Inter-RRU transfers are therefore "at cost of production" unless the same service is supplied to other service providers, in which case the price charges to the service providers must be used.

QTel sought clarification of the revised transfer method. This was described above in the response to CD 2 question 2 in section 3.2, but additional descriptions have been added to the Orders.

CD 1 Question 12 Do you agree with the absorbed cost approach for business sustaining type costs or should these be allocated using a mark-up regime?

Q.NBN's submission

Q.NBN noted that the details of absorbed costs were not easy to evaluate without further information, but absorbed costs would be preferred with the use of the higher "fairly presents" standard of audit.

Reports on the amount of costs are allocated by each driver was requested.

Vodafone's submission

The approach is accepted if it complies with cost-causality requirements and if approved by the auditor.

QTel's submission

QTel opposed additional complexity. Mark-up methods were not supported.

QTel's amendments

QTel notes that mark-ups are accepted practice on LRIC, but are not cost-causal. Overhead and common costs may be attributed on a rational and cost-related basis if such allocations exist. More clarity on the absorbed cost approach was requested.

ictQATAR's analysis

Mark-ups were not proposed in the CD and so the absorbed cost approach, as used already, gives no complexity increase.

ictQATAR notes that common cost mark-ups are a central issue in LRIC costing. Mark-ups are also used in other models. So the mark-up technique is a key requirement in LRIC costing which is supported by both QTel and Q.NBN. The mark-up would not be relevant however if the incremental cost is analyzed without any consideration of the common (non-incremental) cost. Incremental costs are usually considered in business analysis along with a contribution of the common costs. So mark-ups would certainly need to be discussed if LRIC were to be followed.

QTel supports some use of LRIC and so this contradicts its opposition, elsewhere, to the consideration of mark-ups. However as ictQATAR has *not* proposed mark-ups, and incremental costing is *not* required by ictQATAR, this mark-up discussion is not an issue that affects moving the RAS forward.

ictQATAR agrees with QTel's amendment comments that the use of mark-ups is normal practice in LRIC models. We re-iterate that the prosed method is not to use mark-ups in the HCA (or CCA) FAC method but to *continue with the same allocation methods* currently used in the RAS 2009. No additional work is specified. ictQATAR notes that some allocations may be on a rational basis, but some of these costs may have weak cost drivers. These therefore use proxy-cost allocation methods, which are acceptable (at least for relatively small amounts of cost) but ictQATAR terms this an absorbed costing approach to emphasize that the costs are then onward allocated though the model and "absorbed" by elements in the initial stages of the cost model. This is in contrast with a true mark-up approach that does not pass the common costs through the model. ictQATAR has **not** specified the use of mark-ups for such costs, although this can be valid, even in a FAC costing system because the cost-drivers are not totally robust. As a result, a mark-up may be as valid as using the absorbed costing method using proxy-cost drivers.

ictQATAR's conclusion

As LRIC is not being followed and no opposition to the absorbed costs was given, the absorbed costs will be used. ictQATAR will have access to the model and so the amount of absorbed costs can be verified to be at a reasonable (low) level and the approach should be reviewed by the auditors to ensure costs, where possible, are allocated on a cost causal basis. This provides adequate assurances. Note also that the SFS requires the absorbed cost to be separately identified – transparency is assured. This is in the pro forma accounts.

Fairly presents audit standards requires a lot of additional work, and is not very commonly used on regulatory systems (though it is certainly used). In any event PPIA audit is required as a first stage.

CD 1 Question 13 Do you agree with the principles for moving the RAS to cope with NGN and NGA costs? If there are other suggestions, please elaborate.

Q.NBN's submission

Bottom up incremental modeling was proposed. More information of the RAS cost drivers was requested.

Vodafone's submission

The approach proposed by ictQATAR was supported though it was noted to be not defined in great detail.

QTel's submission

QTel noted that any adjustments to the RAS could have unforeseen outcomes and modifications should be performed with an informed view.

QTel's amendments

QTel welcomes further discussion on the NGN and NGA cost analysis. A specific cost of capital for such investments was mentioned as related to the potential investment decisions.

ictQATAR's analysis

The request for driver data was addressed under other CD 1 question 4. BU modeling is not part of the RAS.

QTel amendments relating to cost of capital are not related to the RAS. NGN/NGA costing may become an issue in the near future. The general principles defined in the Order and CD are expected to be adequate and the RAS can be adapted and will evolve to the new technologies. Discussions and agreement on the analysis details are expected, but a new Order not foreseen.

ictQATAR's conclusion

The "informed view" provided in the original CD shall be the basis for moving forward. Details of the developments will form part of the evolving RAS specification and approach that will emerge annually as NGN and NGA develops.

Alternative cost of capital values, as suggested by QTel, can be addressed under the analysis of the appropriate cost of capital. This is a separate consultation matter.

CD 1 Question 14 Fiber in the loop is expected to become a major cost and major service providing platform. Are there other approaches to ensure adequate cost information is available?

Q.NBN's submission

LRIC is proposed (ictQATAR presumes BU LRIC) for pricing purposes.

Vodafone's submission

The approach proposed by ictQATAR in the RAS consultation was seen as sufficient.

QTel's submission

QTel stated that ictQATAR should encourage QTel to make investments.

QTel's amendments

QTel believes the existing RAS structure is sufficient to ensure granular costing and so the current RAS Instructions should capture the information needed for this evolution.

The discussion was widened to advise ictQATAR on the need to consider wider investment implications in regulatory pricing.

ictQATAR's analysis

BU LRIC is related to price controls.

QTel's initial discussion was not related to the RAS consultation. The amendment makes observations that are related to the RAS.

No parties made significant suggestions that impact the RAS Instructions. At this stage the detailed network element and product costing solutions need not be defined: it is expected that the general RAS principles are adequate and detailed methods can be specified as the technology evolves.

A number of possible issues arise with fiber (hence the question). These relate to multiple services that share the same common cost element (the fiber). Also the same issue affects the shared costs with legacy copper – such as the duct and digging investments. However as no specific comments were received then the approach in the RAS should be based in Instructions principles or as refined by additional adjustments to be issued by ictQATAR.

ictQATAR's conclusion

The RAS approach as defined in the consultation will be used. Detailed refinements may be introduced over time, but this would not require further consultations or changes to the RAS Orders.

CD 1 Question 15 Do you agree with the capping of WC and cash and is this a reasonable level?

Q.NBN's submission

WC caps should be part of CESP analysis and left out of FAC analysis. Some limits to WC are agreed to be required and the ictQATAR approach is sensible.

Vodafone's submission

The working capital should be included and excess levels be assigned to Retail or "other" RRUs. The WC level should depend on the business cycle times of receipts and payments.

QTel's submission

QTel says that international best practice should be used (but this was not specified). Benchmarks were opposed. The Qatari situation should be considered.

QTel's amendments

The WC levels can vary and may require larger amount to help with investments. New technology causes more rapid replacement of assets. WC to meet these changes is required.

Three months WC should be allowed to maintain the business. Benchmarks from more competitive markets may not be relevant to Qatar.

ictQATAR's analysis

Although capping WC is effectively part of some efficiency adjustment, ictQATAR has noted how WC levels can fluctuate and distort the results. Some limit is therefore required. Excess levels must be reported on, once separated from the main regulated units: the working capital is included on the overall SFS to ensure reconciliation.

QTel did not identify any best practice. ictQATAR did not propose benchmarks. In the RAS 2009 ictQATAR accepted the QTel WC values, excluding a specific cash item that was agreed to be not relevant. ictQATAR expects levels to be reasonable in future years,

QTel used the proposed WC cap in the RAS 2009 and this cap level was not exceeded. It is therefore not an excessively low limit: it can be met.

The QTel amendment discussions related mainly to fixed asset investment. Altered lifetimes and more frequent replacement of assets primarily alter the fixed asset register costs.

QTel did not give sufficient rationale for its claims for additional levels of WC. ictQATAR agrees that a reasonable level of cash is required to run a business. The required cash stated by QTel implies that it needs to cover a period when there is no revenue and then QTel will still have to continue to pay all bills for a quarter. This is currently an unlikely outcome. Furthermore QTel could presumably easily obtain overdraft facilities. Large cash assets are not necessary for a sound business that could be lent money at short notice.
Capital investment was stated by QTel to be a reason to require additional cash as more cash is needed to pay equipment vendors. This would be broadly balanced by the liability of the vendors' payments that are already due – so little or no additional *net* WC would be needed compared to a business that was not buying many new assets.

Discussions responses to CD 2 have not altered the ictQATAR view.

ictQATAR's conclusion

The cap should be used as defined in the consultation and draft Instructions.

CD 1 Question 16 Do you agree with the retail cost allocation method? ictQATAR is well aware of the limitations and the above approach is only an indication of a product's cost value and it cannot be taken as a definitive basis for evaluations and price controls. Price control procedures are not part of this Consultation.

Q.NBN's submission

The approach is supported. Additional reporting complexity may result from allocations to bundles. Tariff bundles may need an imputation test that is outside the cost model. Imputation tests are proposed to be part of the accounting separation.

Vodafone's submission

The general approach is supported. Revenue for bundles need not be split out to component products. Bundle costs should: be transparent; cost allocations should be on the same basis as other products; and only genuine bundling synergies should be considered. Bundles must not be anticompetitive, but Vodafone identified that this was not part of the RAS but is part of retail price analysis.

QTel's submission

QTel does not answer the question directly, but notes that there are alternatives and ictQATAR should evaluate these.

Retail price controls indicate a market failing and market evaluation is required.

QTel's amendments

QTel questioned the use of proxy drivers in the Instructions and more robust analysis should be used. Care is required in the use of retail cost in particular for price setting.

ictQATAR's analysis

Imputation tests, as suggested by Q.NBN are not part of the RAS. These relate to price approvals and evaluations of anti-competitive pricing and so are not directly relevant to this consultation.

The cost allocation in the RAS should be transparent and the approach acknowledges the inherent limitations of retail cost allocations.

QTel's response provides no inputs on a better approach and market analysis is not part of the consultation: markets have been defined and analyzed in other work.

ictQATAR sees the QTel amendment to be based on a misunderstanding. ictQATAR of course fully supports robust cost drivers for retail costs. So cost center activity information is a solid cost driver, and these drivers are encouraged. The ictQATAR description was intended to mirror what is already done in the RAS – not to introduce new methods. The current method has cost-based allocations, but ictQATAR appreciates that even sound cost drivers rarely enable all retail costs to be allocated to individual products on a very solid cost causality basis (i.e. on a basis that cannot be open to alternative opinion), without the use of some proxy drivers such as volumes or revenues. ictQATAR does not advocate more use of such drivers, but accepts they are required, and ictQATAR agrees with QTel that they should be used with caution. For this reason ictQATAR also agrees with QTel that the retail product data therefore must be considered carefully when used in assessing prices.

ictQATAR's conclusion

The approach defined in the consultation shall be used.

CD 1 Question 17 Have you any comments on the product reports (retail and wholesale), network element reports and SFS?

Q.NBN's submission

The cost driver data should be reported on.

The detail in the SFS should show cost of production, volumes and unit costs, as defined by ictQATAR. All relevant wholesale products should be confirmed by ictQATAR to be included

Vodafone's submission

The pro forma SFS are reasonable and consistent with international best practice. ictQATAR should ensure the right level of granularity is produced and material items are transparent.

QTel's submission

The requirements are excessive and exceed other jurisdictions, but QTel did not provide details. The only significant comments were that any additional requirements to those used in the 2009 RAS may increase the time to deliver and require more manual interventions to the system.

QTel's amendments

QTel re-iterated concerns over complexity of the SFS and the resources required to produce the reports.

ictQATAR's analysis

ictQATAR does not see the need to divulge cost driver values. Even the UK, which probably has more information on its costing system made public than anywhere else, does not include driver values in its reports. Confidentiality issues arise and also there would be considerable work required to make information that is existing within "working costing system documentation" into a form that is suitable for general publication.

The details in the SFS pro forma have been shown, in ictQATAR's investigations of the 2009 RAS, to be mostly features that exist already. Most of the SFS can be delivered by additional add-on reporting-analysis is required: no major structural changes are required. The costing system already has detailed cost categories that enable the cost-types to be reported on.

The regional regulatory references supplied by QTel reinforces the ictQATAR confidence in the solidity and reasonableness of the approach adopted by ictQATAR.

ictQATAR's conclusion

The structure defined in the consultation pro forma shall be used. Detailed adjustments will inevitably be required – the pro forma is a *template* of the key features and processing that is required and illustrates the minimal requirements. They do not show every product and line item needed.