REPUBLIKA E SHQIPËRISË
AUTORITETI I KOMUNIKIMEVE ELEKTRONIKE DHE POSTARE
-Këshilli Drejtues-

V E N D I M

Nr.2375, datë 30.10. 2013

Për
Miratimin për këshillim publik të Dokumentit *“Rregulla dhe Udhëzime për Ndarjen e Llogarive dhe Llogaritjen e Kostos për Sipërmarrësit me Fuqi të Ndjeshme në Treg (FNT) në Shqipëri”*.

Këshilli Drejtues (*KD*) i Autoritetit të Komunikimeve Elektronike dhe Postare (*AKEP*), i përbërë nga:

1.	Znj. Alketa	Mukavelati	Kryetare
2.	Z. Alban	Karapici	Anëtar
3.	Z. Benon	Paloka	Anëtar
4.	Znj. Elkeda	Domi	Anëtare
5.	Znj. Zamira	Nurçe	Anëtare

dhe sekretare Znj.Mirela Xhelaj, në mbledhjen e datës 30.10.2013, sipas procedurës së përcaktuar në ligjin nr. 9918 datë 19.05.2008 “Për Komunikimet Elektronike në Republikën e Shqipërisë”, i ndryshuar, ligjin nr. 8480, datë 27. 05.1999 “Për funksionimin e organeve kolegjiale të administratës shteterore dhe enteve publike”, shqyrtoi çështjen me objekt:

Miratimin për këshillim publik të dokumentit *“Rregulla dhe Udhëzime për Ndarjen e Llogarive dhe Llogaritjen e Kostos për Sipërmarrësit me Fuqi të Ndjeshme në Treg (FNT) në Shqipëri”*.

Dokumentacioni i Grupit të Punës përbëhet nga:

- Projekt Vendimi;
- Relacioni Shoqërues i projekt Vendimit;

- Dokumenti për Këshillim Publik i përgatitur nga konsulenti, ***"Rregulla dhe Udhëzime për Ndarjen e Llogarive dhe Llogaritjen e Kostos për Sipërmarrësit me Fuqi të Ndjeshme në Treg (FNT) në Shqipëri"***.

B A Z A L I GJ O R E:

1. Neni 41, 110, 114 dhe 115 i ligjit nr. 9918, datë 19. 05. 2008 "Për Komunikimet Elektronike në Republikën e Shqipërisë", i ndryshuar ***(ligji nr. 9918, i ndryshuar)***;
2. Nenet 1, 2, 106 e në vijim të ligjit nr. 8485, datë 12.05.1999 "Kodi i Procedurave Administrative" ***(ligji nr. 8485)***, i ndryshuar;
3. Kontrata nr. 2151/16, datë 20.06.2013, ***"Konsulence nderkombetarre për ndarjen e llogarive dhe sistemin e mbajtjes së llogarive per operatoret me FNT***", e lidhur midis AKEP dhe Inter Connect Communications Ltd (ICC),

K Ë SH I L L I D R E J T U E S:

Nga shqyrtimi i materialit shkresor, diskutimeve në mbledhje mbi çështjen, si dhe duke i'u referuar bazës ligjore të sipërcituar,

V Ë R E N:

1. AKEP me qellim nxitjen e konkurences efiçente në tregun e komunikimeve elktronike për të siguruar mosdiskriminimin dhe barazinë në trajtimin e ofertuesve të rrjeteve dhe shërbimeve të komunikimeve elektronike, në vijim të procedurave të prokurimit, ka lidhur kontratën me nr. 2151/16, datë 20.06.2013 me ICC ltd "Për konsulencë ndërkombëtare për ndarjen e llogarive dhe sistemin e mbajtjes së llogarive për Sipërmarrësit me FNT";
2. AKEP vlerëson se dokumentacioni i paraqitur për këshillim publik nga konsulenti ICC, është në përputhje me kushtet e kontratës dhe termave të referencës të përcaktuara në dokumentin e tenderit;
3. Për përgatitjen e dokumentit, konsulenti ka organizuar disa takime me specialistët e AKEP, ku është diskutuar mbi projektin që do realizohet. Gjithashtu konsulenti ka marrë takime me sipërmarrësit, duke u njohur me karakteristikat e tregut të komunikimeve elektronike në Shqipëri.

4. Dokumenti për Konsultim Publik përmban midis të tjerave:

- Një panoramë të politikave, kuadrit ligjor dhe rregullator përkatës të Bashkimit Europian dhe të Shqipërisë në lidhje me ndarjen e llogarive dhe sistemin e mbajtjes së llogarive rregullatore, dhe përcaktimet e Ligjit 9918, datë 19.05.2008, i ndryshuar;
- Përmbledhje të zhvillimeve kryesore të sektorit dhe situatën aktuale të sektorit në Shqipëri;
- Paraqitja e objektivave dhe qëllimit të këtij projekti në Shqipëri;
- Përshkrimi i parimeve dhe standarteve që do të udhëheqin këtë projekt në vijim;
- Përshkrimi i detajuar i metodave dhe metodologjisë mbi procesin e ndarjes së llogarive dhe sistemin e mbajtjes së llogarive nga ana e sipërmarrësve të shpallur me FNT në RSH;
- Paraqitja e pasqyrave standarte të detyrueshme për t'u mbajtur nga sipërmarrësit e shpallur me FNT në RSH;
- Një përshkrim mbi opinionin dhe raportin e auditit të pasqyrave të llogarive rregullatore.

5. AKEP çmon se dokumenti për këshillim publik i hartuar nga konsulenti ICC është me rëndësi dhe me interes për tregun e komunikimeve elektronike në Shqipëri,

P Ë R K Ë T O A R S Y E:

Duke marrë në konsideratë rëndësine e miratimit të dokumentit të cituar me lart, bazuar në pikën 1 të nenin 114, dhe pikën 1 të nenit 115 të ligjit nr. 9918, i ndryshuar,

V E N D O S:

1. Të miratojë nxjerrjen për këshillim publik të dokumentit ***"Rregulla dhe Udhëzime për Ndarjen e Llogarive dhe Llogaritjen e Kostos për Sipërmarrësit me Fuqi të Ndjeshme në Treg (FNT) në Shqipëri"***.

2. Periudha e Këshillimit Publik të jetë 30 ditë nga data e publikimit te dokumentit në faqen zyrtare te AKEP;

3. Ky vendim të publikohet në faqen e internetit www.akep.al

Ky vendim hyn në fuqi në datën e miratimit të tij.

K R Y E T A R E

Alketa MUKAVELATI

ANËTARET E KËSHILLIT DREJTUES:

1. **Alban KARAPICI**
2. **Benon PALOKA**
3. **Elkeda DOMI**
4. **Zamira NURCE**

Accounting Separation and Cost Accounting Guidelines and Instructions for SMP Operators in Albania

Version: Consultation
Date: 14 October 2013

Accounting Separation and Cost Accounting Guidelines and Instructions for SMP Operators in Albania

Contents

Introduction **1**
1. Background **2**
2. Legislation and Policy Background **3**
2.1 General background 3
2.2 SMP regulation 3
2.3 EU policy background 4
2.4 International accounting standards 4
3. Regulatory Accounting General Principles **5**
3.1 General introduction 5
3.2 Regulatory accounting principles 5
3.3 Cost allocation principles 6
3.4 Regulatory accounting documentation 6
3.5 Audit 8
3.6 Publication 9
3.7 Summary guidance 9
4. Accounting Separation Principles **11**
4.1 Allocation methodology 11
4.1.1 Cost allocation process 11
4.1.2 Cost ‘cascade’ or allocation hierarchy 11
4.1.3 SMP and non-SMP services 12
4.2 Cost accounting 13
4.2.1 Historic Cost Accounting and Current Cost Accounting 13
4.2.2 Capital maintenance 14
4.2.3 Cost of capital and capital employed 14
4.3 Long Run Incremental Cost 15
4.3.1 The increment 16
4.3.2 LRIC cost modelling 16
4.3.3 Cost measurement 16
4.3.4 ‘Pure’ LRIC 17
4.3.5 Practical LRIC implementation 17
4.4 Transfer charging 18
4.5 Reconciliation 19
4.6 Audit 19
5. Data Integrity and Maintenance **21**
6. Publication and Compliance **22**
6.1 Transparency 22
6.2 Confidentiality 22
6.3 Publication 22
6.4 Relevant markets 23
7. Timescales **25**
7.1 Consultation and implementation 25
7.2 Transition 25
7.3 Regular process 26
Annex 1 – Cost Accounting Instructions **27**
A1 Cost allocation and attribution 27
A1.1 Cost allocation process 27

A1.2 Cost causation ... 28
A1.3 Operating costs ... 29
A1.4 Cost of capital and capital employed ... 30
A1.5 Transfer charging ... 33
A1.6 Revenue ... 34
A2 Asset valuation ... 36
A2.1 Current cost accounting ... 36
A2.2 Capital maintenance ... 36
A2.3 Other asset valuation instructions ... 37
A3 LRIC modelling ... 37
A3.1 LRIC model characteristics ... 37
A3.2 Cost categories and analysis ... 38
A4 Other cost accounting instructions ... 39
A4.1 Cost accounting and time of day ... 39
A4.2 Cost models ... 39
A4.3 Cost model documentation ... 39
A4.4 Cost model audit ... 40
Annex 2 – Example Reports ... 41
A2 Main Financial Statements ... 42
A2.1.1 Profit and loss (market view) - Fixed ... 42
A2.1.2 Profit and loss (market view) - Mobile ... 44
A2.2.1 Profit and loss (internal/external view) - Fixed ... 45
A2.2.2 Profit and loss (internal/external view) - Mobile ... 46
A2.3 Mean Capital Employed ... 47
A2.4 Transfer Charges Statement ... 48
A2.5 Transfer Charges Inter Business Summary ... 49
A2.6 Reconciliation Statement – Profit & Loss ... 50
A2.7 Consolidated Mean Capital Employed ... 51
A2.8 Statement of costs of network services ... 52
A2.9 Network Costs Market Summary ... 54
A3 Additional Information ... 57
A3.1 Explanatory Statements ... 57
A3.2 Additional Financial Information ... 57
A4 Audit Opinion ... 59
Annex 3 Consultation Questions ... 61

Introduction

This Document presents the draft Regulatory Accounting Guidelines and associated accounting instructions. The purpose of this Document is to seek stakeholder views on these Accounting Separation and Cost Accounting Guidelines.

This Consultation Document is available on AKEP's website at http://www.akep.al.

Stakeholders who wish to express opinions on this Consultation Document are invited to submit their comments in writing to AKEP. Responses shall also be submitted in electronic form to facilitate further distribution and posting on AKEP's website.

The filing deadline for stakeholder comments is 30.11.2013.

Responses filed in relation to this Consultation Document may be submitted to one or more of the following addresses:

a) E-mail to: info@akep.al
b) Delivery (paper and electronic copy) by hand or by courier to:
   AKEP
   Rr. Abdi Toptani
   Godina Torre Drini K. IX
   Tirana
   Albania

AKEP welcomes all comments on the Consultation Document. AKEP invites stakeholders to provide responses to the specific numbered questions set out in Annex 3 to this Consultation Document and any other issues stakeholders consider relevant.

1. Background

The primary aims of the regulatory framework for the telecommunications market in Albania are to promote competition and consumer welfare and to prevent abuse of dominance by market participants, including activities such as predatory pricing and cross-subsidisation of regulated and non-regulated services within vertically-integrated organisations.

Communications and service providers designated as having Significant Market Power (SMP) in defined markets are required to prepare, submit to AKEP and publish regulatory accounts in accordance with legal regulatory remedies. This is part of a set of existing reporting obligations and a cost orientation obligation on fixed and mobile termination charges.

These regulatory accounting guidelines and associated accounting system instructions are now being published by AKEP to assist SMP Operators to develop regulatory accounting systems and to comply with their regulatory obligations.

These regulatory accounting principles and general guidelines are generic and apply to all SMP Operators, as is made clear in the text of this document. Specific instructions and reporting format details are set out within the document and its Annexes, giving requirements for specifically identified parts of the Albanian telecommunications market and affected operators.

This document includes a description of the relevant international policy background and full details of the Albanian legal and regulatory policy foundation for these regulatory remedies and requirements.

This document also includes details and guidance on audit requirements affecting SMP Operators, publication and compliance details and a description of timescales for transition and the establishment of a regular future process.

Although the primary purpose of accounting separation and cost accounting regulation is to support the economic regulation of SMP Operators to the benefit of the competitive market in Albania, the obligations are balanced with proportionality and practicality and they should prove useful to all stakeholders and participants in the affected markets.

These guidelines and instructions should be expected to change over time as they are reviewed and updated to reflect changes in the Albanian telecommunications market and as such may be subject to future revision and consultation.

2. Legislation and Policy Background

2.1 General background

AKEP is the electronic communications regulatory authority in the Republic of Albania, acting pursuant to law number 9918 (May 2008) *On electronic communications in the Republic of Albania*, as amended, which supervises the telecommunications industry in Albania. AKEP is a public, legal entity, which operates independently of government.

Law 9918 regulates the electronic communications market in Albania, aiming to promote efficient competition and infrastructure development, along with effective service provision in Albania. The law was drafted to transpose the principles of the EU regulatory package covered by the 2002 EU Directive into Albanian law. The Albanian Parliament has approved the proposed amendment of law 12/2012 amending law 9918 to transpose the revised EU Directives of 2009.

AKEP has issued a number of regulations for the electronic communications sector, including access and interconnection, market analysis, the general authorisation system and financial and data reporting. Amendments to Regulation No. 9 dated 17 July 2009 on market analysis, were approved on 31 July 2013 This amendment brings the list of relevant markets in Albania into alignment with the EU 2007 Recommendation on relevant markets.

2.2 SMP regulation

In July 2012, AKEP determined that four mobile operators had SMP in mobile call termination into their own networks (decisions 2119-2122) and applied regulatory remedies accordingly, which included non-discrimination, publication of Reference Interconnection Offers (RIOs), interconnection and tariff control remedies, along with accounting separation and cost accounting. Decision 1505 (February 2011) set LRIC-based cost controls for voice call termination in the mobile market. Decisions 1506-1508 set out the regulatory methodology for cost orientation rules, decisions 2119-2122 confirmed the glide path with some changes for Plus Communication.

Regulatory decisions 1710-1713 (October 2011) designated four mobile operators with SMP in SMS termination into their own networks and imposed obligations including non-discrimination, transparency and tariff control and cost orientation.

With decision 1348 (July 2010), AKEP designated Albtelecom as having SMP in a number of relevant telecommunications markets, including retail services and wholesale voice origination, termination and transit. Regulatory remedies applied included non-discrimination, access, publication of a RIO and access offer, interconnection and tariff control remedies, along with accounting separation and cost accounting. In 2012, AKEP consulted on a new fixed market analysis (decision 2138) and a new regulatory statement is due in the near future. Regulatory obligations on Albtelecom in respect of SMP are not proposed to change under the new analysis, while retail tariff regulation is proposed to be removed. On 30th July 2013 AKEP published decisions (No 2336 and No2337) designating Albtelecom as having SMP in a number of wholesale and retail markets and re-imposing accounting separation obligations on them.

With decision 1565 (April 2011), AKEP designated Albtelecom as having SMP in wholesale markets for physical infrastructure access (local loop unbundling (LLU)) and wholesale broadband access. Remedies are as described above and include accounting separation and cost accounting obligations. The same applies for retail and wholesale leased lines markets covered by decision 1564 (April 2011), along with tariff control and cost orientation obligations for leased lines and LLU derived from LRIC modelling mentioned above in connection with call termination.

Accounting separation and cost accounting regulatory obligations therefore apply to four mobile operators for call termination and Albtelecom for interconnection, LLU and leased lines markets.

The guidelines and instructions set out in these documents complete obligations contained within law 9918, and any relevant updates and amendments, in terms of tariff obligations, transparency, related methodologies and requirements for cost orientation. Affected SMP operators will have all information and guidance required to comply with accounting separation, transfer charging and cost accounting obligations placed upon them by regulatory decisions made by AKEP in accordance with Albanian law.

2.3 EU policy background

AKEP has implemented a regulatory framework based on the transposition of the EU Directive of 2002 (2002/21/EC), amended in 2009 (2009/140/EC). Albanian telecommunications regulation also reflects associated EU regulatory bases for access and interconnection (2002/19/EC) and authorisation (2002/20/EC). The EU recommendation 98/322/EC contained provision for accounting separation and cost accounting remedies for SMP Operators. This was updated and amended by recommendation 2005/698/EC to reflect a changed scope and conditions in relevant markets following the 2002 Directive. The remedies are included within Article 11 of the Access Directive (2002/19/EC) and Article 13 of the Framework Directive (2002/21/EC).

In 2005, the European Regulators Group (ERG) published guidelines for implementing recommendations on accounting separation and cost accounting systems (ERG (05) 29). The purpose of the document was to guide regulated undertakings in how to implement systems adequate to comply with obligations and set standards for process and procedure in regulatory authorities as they determine compliance. BEREC (the successor to the ERG) now carries out regular reviews of accounting separation implementation across the EU, which describe the extent and nature of remedies applied along with other relevant regulatory details.

In 2009 the European Commission published a recommendation on fixed and mobile termination rates across the EU (2009/396/EC), with specific aims to increase convergence and competition, while achieving lower rates and harmonising regulatory treatments. This document recommended that symmetric rates be set based on bottom-up pure LRIC cost modelling, using current costs and based on the model of an efficient operator. Since 2009, these recommendations have been implemented widely across the EU.

2.4 International accounting standards

Generally speaking, regulatory financial reporting should follow principles set out by national and international accounting standards, which should be consistent with practices already followed within regulated entities. The International Accounting Standards Board (IASB) produces standards known as International Financial Reporting Standards (IFRS), which are endorsed and applied within the EU. Such arrangements are also appropriate to the market in Albania.

3. Regulatory Accounting General Principles

3.1 General introduction

Telecommunications operators required to provide regulatory accounts must develop accounting systems to be able to produce them. Regulatory accounts will actually comprise a number of documents and schedules, including regulatory financial statements, methodology descriptions, general accounting policies and transfer charging policies. Comprehensive, clear explanations of methodologies and assumptions, along with full justifications, are an essential part of regulatory accounting submissions.

Supporting documentation greatly increases the transparency and general usefulness of regulatory accounts to all stakeholders, including the regulated entity itself. The financial statements and supporting schedules and documentation must, therefore, be viewed as a fully integrated whole.

The sections below set out the regulatory accounting principles that should be followed by any SMP Operator in Albania, covering financial methodologies, supporting documentation, data maintenance and audit.

3.2 Regulatory accounting principles

These principles are to be applied by SMP Operators while implementing accounting separation and cost accounting obligations. They apply to the process of preparation, audit and publication of regulatory accounting statements and schedules and the keeping of financial records.

Principles are as follows:

a) Priority and proportionality

   If there is any conflict between the requirements of any or all of these principles, they are to be applied in the same order of priority in which they appear in this document. At the same time, a proportionate and appropriate balance should be struck between the principles. AKEP may provide guidance on the application of principles on a case by case basis.

b) Cost causality

   Revenue (including transfer charges), costs (including transfer charges), assets and liabilities shall be attributed to network components, wholesale and retail products and services in accordance with the activities which cause the revenues to be earned or costs to be incurred or the assets to be acquired or liabilities to be incurred.

c) Transparency

   Allocation and attribution methods used should be transparent. Costs and revenues directly allocated to businesses or activities shall be separately distinguished from those that are apportioned.

d) Objectivity and non-discrimination

The allocation or attribution of revenues and costs should be objective and not intended to benefit the regulated entity or any product, service, network component or disaggregated business.

e) Consistency of application
There shall be consistency in the application of regulatory accounting principles from year to year. Where there are changes to the regulatory accounting principles, allocation and attribution methods, transfer charges or general accounting policies that have a material effect on the information reported in regulatory financial statements, parts of the previous year's financial statements affected by the changes shall be restated.

f) Application of International Financial Reporting Standards (IFRS)
Unless expressly stated otherwise, International Financial Reporting Standards shall be applied.

3.3 Cost allocation principles

The principle of cost causality is complex and important for the development of cost allocation methodologies and systems. Detail on costing methodologies is given in the following section on accounting separation and Annex 1 provides specific cost accounting instructions.

This document is intended to describe and define relevant methodologies for cost accounting and associated accounting policies and to provide clear guidance on requirements for regulatory accounting. In particular, this covers matters to do with Current Cost Accounting (CCA) and Long Run Incremental Cost (LRIC) accounting.

3.4 Regulatory accounting documentation

SMP Operators in Albania are required, as determined by AKEP and specified by law, to prepare regulatory financial statements and associated documentation. Statements and documents produced must be audited and published according to defined timescales, which are covered by Section 7 of this document.

Methodologies
It is important that methodologies employed by SMP Operators with regulatory accounting obligations are comprehensively and transparently documented, to ensure that the principle of transparency is adhered to and to optimise the usefulness of published statements.

Documentation must include a full description of methodologies used to allocate and attribute revenues, costs, assets, liabilities and capital employed. This description should be prepared in accordance with the principles, guidance and instructions set out in this document and associated Annexes. Included within the description should be full details on the basis used to set transfer charges between disaggregated units or divisions. This will include methodologies required to ensure that regulated businesses charge themselves on an equivalent basis to charges to other operators where they are required to do so. Further detail on transfer charging is given in Section 4 of this document and Annex 2 contains a template for the reporting of transfer charging transactions.

Documentation must also include a description of methodologies used to prepare costs, covering reference to cost bases and standards, network component costing, relevant allocation methodologies and the identification and treatment of shared and common costs.

Accounting policies

Accounting policies included within documentation should follow the form used for the preparation of standard statutory accounts and will include detail on the treatment of specific types of cost, depreciation policies and the bases for asset valuations, amongst other things. The transparency of accounting policy is essential to the understanding and interpretation of regulatory accounts and their audit.

Data quality

Data contained within documentation must be relevant, comparable with previous reporting periods and reliable. Data integrity over time must also be ensured by the maintenance of a suitable audit trail of all relevant information.

a) Relevance

Information that is relevant will have the ability to influence and inform the decision-making of users and will be provided within a timescale that allows that influence to be felt. Such information may be used to assess and evaluate current or future events, as well as confirm judgements made dealing with the past. To be relevant, regulatory accounts should comply with specified timescales and the principles set out in Section 3.2 above.

b) Comparability

The usefulness of regulatory financial information is greatly increased by the ability to compare what is reported with prior periods, such that interpretation of trends and variances may be carried out. This aspect is very important to AKEP as it enables them to assess the effectiveness of regulatory policy, the impact of competition and analyse financial data to inform future decisions.

Adherence to principles set out should enable a reporting entity to ensure comparability. Consistency and a full description of accounting policies are particularly important in this regard. As set out in Section 3.2, policy changes that result in material effects should lead to the restatement of previous period financial data to ensure continuing comparability.

c) Reliability

AKEP, SMP Operators and all other stakeholders must be able to rely on information included within regulatory accounts. Criteria are normally applied to financial data to assess reliability, including tests of dependability, freedom from systematic or deliberate bias, freedom from material error, completeness and prudence.

It is the responsibility of the SMP Operator to ensure the reliability of their regulatory accounts. This aspect of reporting and publication will involve auditors and governance around the approval of final reports and financial statements.

d) Data retention

AKEP may require financial information to be provided over a time series in carrying out its normal regulatory functions. All financial information should, therefore, be kept by SMP Operators for at least five full financial years, so it is possible to trace costs, revenues, activities and different effects of methodologies over time. This is obviously related to the audit of regulatory accounts and should be considered along with Section 5 of this document.

3.5 Audit

The regulatory accounts produced by the SMP Operators in Albania must be subject to independent audit in accordance with relevant law and international best practice. An auditor will be expected to document and justify any sampling techniques employed. The audit opinion should state that regulatory accounts have been fairly presented.

Integrity requirements for data used in regulatory accounts must be adhered to, demonstrating that data used is the same as that originally present in information systems as they were subject to statutory accounting audit. Electronic or paper audit trails should be available for all tests and verification.

The main elements that must be covered in the audit are as follows:

- The scope of costs included in the modelling and allocated to regulated products.
- The appropriateness of methodologies used for cost allocation, asset valuation, depreciation and transfer charging.
- The accuracy of data for volumes, activity levels and technical measurements.
- The reconciliation of cost modelling and regulatory accounting with statutory financial accounts.

The initial setting up of systems and design of audit activities and processes may require extra work and time, but it should be expected that the amount of work required each year will reduce as best practice is defined and processes standardised.

As it is the main beneficiary of regulatory accounting information and the source of the obligations, AKEP shall participate in the process of appointing suitably qualified auditors by regulated entities. This will involve following a process set out in the following points, this process being subject to revision and improvement by cooperation and mutual agreement between AKEP and the SMP Operators:

- At least three months prior to the commencement of any audit activity, AKEP should meet with the SMP Operator to discuss plans and requirements related to the appointment of an auditor for its regulatory accounts.
- The SMP Operator should notify AKEP of any decision on appointment of an auditor, along with details on scope and audit plan, allowing AKEP sufficient time to comment and, in case of serious objection, require the SMP Operator to produce an alternative proposal.
- Any proposed change of appointed auditor for regulatory accounts should be notified to AKEP at least three months prior to the commencement of any audit activity, allowing AKEP sufficient time to comment and, if appropriate, arrange a meeting to discuss plans and requirements.
- AKEP will reserve the right to engage directly with auditors to discuss relevant processes or audit findings.

Auditors of regulatory accounts must be able to demonstrate established credentials relating to corporate audit activities and affiliation with relevant professional institutions.

Auditors must also be able to demonstrate total objectivity and separation from any other commercial engagement, including consultancy work, between the audit firm, affiliated companies and the SMP Operator. This provision will be a key aspect of any assessment made by AKEP regarding the suitability and acceptability of proposed audit appointments.

The cost of the independent audit of regulatory accounts will be borne entirely by the SMP Operator.

3.6 Publication

Regulatory information to be prepared and published by SMP Operators in accordance with accounting separation and cost accounting obligations shall comprise the following:

a) Regulatory financial statements including a profit and loss statement, mean capital employed statement, reconciliation statements, analysis of unit costs and report on transfer charging. These statements shall also have associated with them a statement of responsibility and auditors' opinion in the required format. Statements included shall have the required level of disaggregation to take full account of markets, segments and divisional structures.
b) Accounting documents including statements on accounting principles, asset revaluation methodologies, a cost model description and cost of capital methodologies.
c) Allocation methodology documentation, providing summary level information for public disclosure and full detail on cost allocation as performed by the cost model for disclosure to AKEP only.
d) Any additional reporting that may be required by AKEP.

Example reports covering all aspects of publication are included at Annex 2.

SMP Operators should provide AKEP with electronic versions of regulatory accounting statements and analysis, such that AKEP is assisted in the aims of interpretation and regulatory analysis. This will include a detailed and granular version of all relevant cost models, sufficient to allow AKEP to test methods and assumptions for regulatory compliance purposes. The exact nature of these submissions, which will only be available to AKEP, should be derived from the specification of individual systems and an appropriate, timely agreement between AKEP and the regulated entity.

3.7 Summary guidance

A general view of guidance given on regulatory accounting principles is set out below:

a) Separated accounts must be based on a transparent cost allocation and apportionment methodology and should adhere to the current cost accounting convention.
b) Separated accounts must include transfer charges between business units and disaggregated activities for services an organisation provides to itself. Transfer charges should, therefore, be clearly shown as revenues and costs in the relevant business unit statements. The charges must be equivalent to transactions for the same services with other operators and this must be demonstrable in the regulatory accounts.

c) Separated accounts must be prepared in accordance with accepted accounting standards wherever relevant.
d) Separated accounts must be prepared in accordance with the principles set out in Section 3.2 of this document.
e) Clear detail on any significant changes that impact on financial statements and prior year statements must be given.
f) Separated accounts must be submitted to AKEP annually and contain comparative information. Material changes to accounting principles or policies, allocation methodologies or transfer charging methodologies that affect information reported in separated accounts must be reflected by a restatement of prior year accounts.
g) Separated accounts must explicitly detail any differences between cost analysis shown in regulatory financial statements and costs determined by AKEP for the purposes of cost orientation and price control regulation.

Separated accounts must be subject to an independent audit in accordance with provisions made in this document, best practice and law relevant in Albania and international standards of best practice. This audit must demonstrate that the regulatory accounts and associated information submitted to AKEP is accurate and fairly presented.

4. Accounting Separation Principles

To establish regulatory accounting revenues and costs for services, regulated SMP Operators must do the following:

- Establish revenues, costs, assets and liabilities associated with each relevant service.
- Establish the rules and conditions under which costs associated with shared activities are distributed between services provided.
- Document the financial and volume data and rules within regulatory financial statements and methodology documents.

4.1 Allocation methodology

Regulatory financial statements must show the assumptions upon which cost allocations are founded, as well as the relationships between costs and the factors driving them.

Statements will cover a review of network components and activities used to provide relevant services, operating and capital costs associated with them, the relevant return on capital employed and utilisation factors for network components. These elements will comprise total costs for all significant network components.

Revenues are likely to be directly allocated to products or services to which they refer, with financial records and billing system outputs as source information. If these methods do not allow direct allocation, revenues must be allocated on the basis of causation.

4.1.1 Cost allocation process

Cost categories to be allocated to services may be summarised as follows:

a) Direct costs: costs incurred solely in relation to a particular product or service and recorded as such in financial systems.
b) Directly allocated costs: costs incurred solely in relation to a particular product or service, but not recorded as such in financial systems.
c) Indirectly allocated costs: costs which are part of overall common or shared costs, but which can be allocated to a particular product or service on the basis of a clear relationship and justifiable reason. The process to perform the allocation may involve several steps and reasonable, subjective decision-making.
d) Unallocated costs: costs which are part of overall common or shared costs, but cannot be allocated to a particular product, service, asset or function on the basis of a clearly justifiable relationship.

4.1.2 Cost 'cascade' or allocation hierarchy

Costs may be allocated to services, to pools of cost relating to network components, to associated functions or to separate functions. Definitions for these are as follows:

a) Services: costs directly identifiable with a particular service, which could be an end-user (retail) or network (wholesale) service.

b) Network components: costs relating to the transmission, switching/routing and other plant and systems of the network. Costs will relate to network elements used to provide various services, which cannot be directly allocated to one service.
c) Associated functions: costs of retail and wholesale functions necessary for the provision of service to customers, such as billing, maintenance and customer service.
d) Separate functions: costs of important parts of the operation of a company that do not relate to the provision of particular services, such as finance and administration.

Costs are allocated to services by following a series of steps to complete the process with an iterative approach. The steps use relevant drivers of costs and can be summarised as follows:

1) Separate functions (as described above) are allocated across associated functions, network components and services.
2) Associated function costs are allocated to services and network components.
3) Network component costs are allocated to services.
4) Services are grouped into markets or segments to achieve the analysis required for accounting separation.

As detailed in Section 3, allocation and attribution methodologies used must be documented and published in a transparent manner sufficient to enable AKEP to understand and assess methods, outputs and compliance.

The allocation steps actually carried out could involve sub-steps and iterations designed to optimise disaggregation and accuracy in the process. Survey and sampling techniques are likely to be employed, consistent with established management and cost accounting methodologies, to analyse costs and activities and complete the allocation. The main objective is to ensure compliance with the principle of causation. All details relating to the process must be made available to AKEP and AKEP will reserve the right to review the process and require changes if it feels that these are required in order to improve the accuracy of the allocation process.

4.1.3 SMP and non-SMP services

Operators providing a combination of regulated and unregulated services will generate information from financial systems that reflects that combination. This is relevant to accounting separation requirements because regulatory financial statements will need to show data for non-SMP services along with granular reporting for SMP services that satisfies legal obligations.

Regulatory financial statements must be reconciled with statutory statements; therefore the minimum level of detail will show non-SMP services as a general category for analysis in financial statements, to the extent that the statements are comprehensive and accurate and that they meet the requirements for reporting on regulated services.

Regulated entities must adopt a policy on the split between SMP and non-SMP services for regulatory financial reporting that does not diminish the usefulness and accuracy of accounting separation in any way or negatively impact on the clarity of reporting for SMP services. This policy should not present any major issues as the reconciliation requirement is a fundamental aspect of accounting separation rules. Operators should be prepared to discuss this particular aspect of reporting with AKEP within the process established, to prevent avoidable review and amendment requirements which could otherwise arise.

Further detail on transparency and publication of non-SMP services information is included in Section 6 below.

4.2 Cost accounting

A cost accounting system comprises a set of systems, processes, policies and procedures that enables record-keeping and reporting sufficient to satisfy regulatory requirements. The system contains rules on allocation and attribution covering costs, revenues and capital employed.

Cost accounting is used to demonstrate compliance with cost orientation obligations for regulated services and constitutes a major part of an accounting separation system, also demonstrating non-discrimination and lack of anti-competitive cross-subsidy.

Cost accounting is dependent on effective data gathering and sound analysis, to ensure that fair and objective criteria are followed to produce relevant and reliable outputs.

4.2.1 Historic Cost Accounting and Current Cost Accounting

Historical Cost Accounting (HCA) is generally accepted as an adequate methodology for financial stewardship, used as such in the preparation of statutory financial statements. HCA is not adequate for the purposes of regulatory decision-making, however, and Current Cost Accounting (CCA) is therefore the required methodology. CCA recognises the effects of changing prices, technological developments and the value to a business of assets employed in delivering services. The adoption of CCA requires undertakings to revalue assets and produce financial statements accordingly, thereby reflecting what would be expected under fully competitive market conditions.

Many factors can contribute to the differences in asset values resulting from CCA revaluation. Network assets, hardware, estates and other capital items can increase or reduce in value because of price inflation, economic factors and technological change. Decisions made must be consistent, transparent and comparable and SMP Operators must disclose methodologies to AKEP.

CCA should enable the measurement of financial performance by SMP Operators in a way consistent with the costs faced by new market entrants, allowing the recovery of current costs. CCA implementation can produce significant holding gains or losses for the SMP Operator, which result from the revaluation of existing assets.

Network asset valuation is central to CCA methodologies and explanations must be transparent and capable of verification by AKEP.

Gross Replacement Cost
Gross Replacement Cost (GRC) is an approximation of the value of a new replacement network providing the same level of functionality and capacity as the existing one, using assumptions around equivalent asset values and related methodologies. GRC may not produce an appropriate value for the measurement of financial performance.

Net Replacement Cost
Net Replacement Cost (NRC) can be described as the cost of replacing an existing asset with another asset of similar features and age. This value may be compared with a theoretical recoverable amount, which is the higher of an asset's net realisable value (value to sell, less selling costs) and amount recoverable from its future use (economic value or the net present value of future cash flows expected over its remaining life). The lower of the recoverable

amount and NRC constitutes the deprival value of the asset, which represents the value of the asset to the organisation and can be used as the CCA valuation.

Modern Equivalent Asset
If existing assets cannot be replaced directly, the Modern Equivalent Asset (MEA) valuation is derived based on what it would cost to replace them with technically up to date ones with the same service capabilities. Because new technologies are usually more efficient and functionally superior, MEA values may have to be adjusted to reflect differences in operating costs and capacity levels to ensure the required equivalence.

4.2.2 Capital maintenance

Definitions of capital maintenance are concerned with how the capital of a company is viewed when determining profitability. Capital can be viewed as operational (the capacity to produce goods and services) or financial (the value of shareholder equity). These two versions are known as Operating Capital Maintenance (OCM) and Financial Capital Maintenance (FCM). The two methodologies can produce significant differences in cost and profitability assessment.

The key principle of OCM is that the operating capability of a company is maintained. With this approach, the company must have the same operating capability at the end of the relevant period as at the beginning. Profitability is achieved once physical capabilities have been maintained.

The principle of FCM is to maintain the financial capital of the company in current price terms. Shareholders' funds are maintained in real terms at the end as at the beginning of the period. Profitability is achieved once the financial value of an asset or business is maintained.

Under OCM, surpluses and deficits on the restatement of asset values to current cost are reflected as movements in the current cost reserve, because the changes to operating asset values are capital adjustments. Under FCM, holding gains and losses are taken to the profit and loss account. FCM information can, therefore, be restated as OCM. The reverse is not as straightforward because of the nature and disclosure of balance sheet transactions.

Under OCM, fixed assets will be revalued to current cost. This can involve price analyses or MEA valuation. As a result, depreciation amounts must also be restated, to ensure charges are consistent with current valuations. Supplementary depreciation is derived, using familiar accounting techniques, to reflect the difference between historical cost and current cost depreciation charging.

FCM requires similar adjustments to those described above, along with some others concerned with price changes specific to assets and the effects of inflation on shareholders' funds.

Choices on the capital maintenance concept used are important to CCA methodologies within regulatory accounting and requirements in respect of cost orientation and efficient operators. Revenue requirements differ depending on which concept is used, as FCM includes holding gains and losses and shareholders' funds adjustments along with cost, depreciation and return on assets.

4.2.3 Cost of capital and capital employed

SMP Operators are allowed a reasonable return on capital employed relating to regulated services, taking account of investment levels and risks involved. The return is based on the cost of capital and capital values.

Cost of capital
The cost of capital of an operator should reflect the opportunity cost of funds invested in a network and related assets and includes a level of profit for the underlying business.

The Weighted Average Cost of Capital (WACC) of an operator is usually derived from the weighted average cost of debt (across types of debt), the cost of equity (shareholder returns reflecting risk) and the values of debt and equity. The cost of equity is determined by use of the Capital Asset Pricing Model (CAPM), which takes account of market returns and the risk profile of a company. Details on the formula for these calculations and guidance specific to them are given at Annex 1 to this document.

Use of these established techniques to calculate a WACC is relatively straightforward in individual cases. AKEP must be able to evaluate the level of WACC proposed and will therefore rely on high levels of transparency and disclosure on the process followed. AKEP will be required to evaluate debt and equity levels, risks rates, returns, beta values and relevant taxation issues. Any factors not calculable by reference to Albanian markets will be addressed by comparison with international markets as appropriate.

If a WACC is deemed appropriate for use in assessing regulated activities and charging, it will be approved as such and used in preparing regulatory financial statements. Within this regime, it is possible for different WACC assessments to be necessary for different market segments or divisions within a company. This is only the case where there are significant variations in risks and conditions and these issues would be subject to detailed review by AKEP with the cooperation of an affected SMP Operator.

Capital employed
It is generally required that SMP Operators derive an average capital employed evaluation for use in price-setting and other regulatory assessments, to ensure representative levels are used that are free from temporary distortion. Average calculations should therefore be used in separated accounts, using data from the beginning and end of an accounting period.

4.3 Long Run Incremental Cost

Long Run Incremental Cost (known as LRIC, here also including Long Run Average Incremental Cost or LRAIC), is a methodology used to calculate the cost of producing a defined increment of output, on the basis of forward-looking costs incurred by an efficient operator. The long run perspective allows all costs, including capital investment, to be treated as variable or avoidable. This enables regulators to use the methodology to set cost-orientated prices in the electronic communications market, which is characterised by high levels of investment and sunk costs and long asset lives.

The LRIC modelling methodology allows a range of increment costs to be derived, from incremental floors to standalone cost ceilings, which can give a range for measurement and assessment within the regulated environment. Prices may be derived that allow for common cost recovery and efficient levels of operation.

As LRIC requires a forward-looking view of costs, CCA methodologies are appropriate to the model. Prices may therefore be derived from the most efficient levels of technology available and new entrants to a market can purchase access to a network without subsidising any existing inefficiencies.

In conceptual terms, LRIC bears similarities to marginal cost. Marginal cost is the value of a final unit of output, whereas the increment is the value of the increase in total costs as a result of the introduction of the increment. The latter is considered most appropriate in setting prices for electronic communications services, ensuring the recovery of common costs, in view of economies of scale and overall conditions.

4.3.1 The increment

The LRIC increment can be a single unit of production, a group of products or market segment or a whole range of products within a division. In mathematical terms, the incremental cost can be calculated as total costs of production including the increment less total costs of production excluding it (see pure LRIC section below).

The LRIC increment may therefore be defined as additional cost of provision, all other factors remaining equal, or total avoidable cost on ceasing to provide the relevant unit of service.

4.3.2 LRIC cost modelling

LRIC is most commonly used for setting tariffs for access and interconnection services provided by network operators with SMP in electronic communications markets, as is currently the case in Albania. Modelling can be used to determine efficient cost levels, taking account of goals for competition and consumer benefit and the prevention of margin squeeze issues. Regulators can use top-down or bottom-up approaches to determine costs but usually adopt a bottom-up approach.

Top-down approaches begin with company accounting information and calculate the cost of increments using cost-volume relationships and levels of processing to complete the model. This approach requires CCA and appropriate assumptions on efficiency levels.

A bottom-up approach starts with demand assumptions and builds an efficient network and engineering model to meet demand. The model is extended to assess the use of components and enable the determination of incremental values. A hybrid approach can be used, building both types of model to ensure accurate decisions and check efficiency.

Within LRIC models, assumptions are made on some key input parameters. These include allowable levels of inefficiency, rates of return and levels of common cost recovery. A regulator can use these assumptions to achieve the aims of regulatory policy and deployment of the model.

4.3.3 Cost measurement

The use of LRIC modelling within regulatory regimes and by regulated businesses involves different approaches to cost measurement that, together, enable a more reliable and rigorous assessment and increase confidence in regulatory effectiveness. The alternative views of cost described below should produce price ‘floors’ and ‘ceilings’, which can be used to ensure compliance with regulatory obligations.

Stand-Alone Cost (SAC) is the cost incurred in providing an increment, on the basis that no other increments are provided. This means that all common costs are included in the SAC for a single increment, which is a theoretical concept that should produce the highest possible unit cost for a particular service.

Fully Allocated Cost (FAC) is the cost incurred in providing an increment, where all costs of an operator are fully allocated within the model. Some proportion of common costs will, therefore, be allocated to the increment concerned. Cost allocation within the model will be done in various ways, often on a proportional basis linked with direct cost levels initially assessed. FAC modelling will usually closely resemble the type of management accounting financial modelling used in businesses for decision making.

These cost concepts are used together with LRIC to help regulators and operators analyse costs within a regulatory environment and set prices accordingly. LRIC is often described as the price floor, being the lowest measure at which increment costs are recovered. SAC would be considered to be the price ceiling, higher than LRIC and including recovery of all relevant common costs. Between the two, FAC provides a third view, allocating an appropriate part of the common costs.

Assessments of cost floor and cost ceiling can be used within certain regulatory regimes, where LRIC modelling is used but no specific price is set. The fact that a price is between upper and lower boundaries can indicate that it is cost-orientated and compliant with regulatory obligations. This approach may be found in regimes where price controls are applied to groups of services and models are generated to prove compliance. Where prices are based on LRIC, including a mark-up for common costs, more is needed to prove cost-orientation. Combinatorial testing, comparing revenue and cost assessments from different bases, may be used to improve analysis.

4.3.4 'Pure' LRIC

The May 2009 an EU recommendation on fixed and mobile termination rates (2009/396/EC) set out an approach to cost orientation and regulation designed to harmonise regulatory approaches, improve competition and promote consumer welfare. The EU recommended cost evaluation based on bottom up LRIC modelling, incorporating principles of technological neutrality and efficiency. The pure LRIC model defines the increment as wholesale voice call termination, with allowable costs being those avoidable by not producing the increment. Common cost recovery is excluded from this model, which assumes all fixed costs are variable in the long term.

The European Commission set targets for implementation across the EU in the 2009 recommendation, with some allowances for exceptional circumstances and asymmetry in transitional markets. The recommendation has been widely implemented across the EU and in associated regions, including Albania (see Section 2 above).

Pure LRIC is an evolution of long-established methodologies, which is designed to address specific issues with competition and derive strictly cost-orientated rates to achieve regulatory aims. It is likely to be a part of obligations comprising a set within an accounting separation and cost accounting regime, relating to separately established regulatory remedies.

4.3.5 Practical LRIC implementation

The decision to use LRIC within a regulatory regime will involve many choices on the part of the regulator covering aspects of the methodology, process and outputs. Specific instructions are given at Annex 1 below and a general summary of relevant areas follows in this Section.

Long run, forward looking
The 'long run' is the time horizon over which an operator can increase or decrease productive capacity. The long time horizon used means that all costs, including network and capital equipment are potentially variable. In addition to this, 'forward looking' costs should be those incurred by an efficient operator, to best reflect the cost base found in a competitive environment. Current costs and the use of MEA principles are used to achieve this view and produce the desired cost oriented outputs.

Network topology
LRIC models require assumptions to be made on network topology that can vary according to exact methodology. The main decision point relates to the concepts of 'scorched earth' and 'scorched node' approaches to network design. Scorched node allows a model to reflect existing network topology, whereas scorched earth involves modelling for an ideal network topology. In top down modelling, an operator may model costs on the basis of the existing network (modified scorched node).

In most examples, the starting point for LRIC modelling will be an existing network, for reasons of practicality and feasibility. To ensure that goals in respect of efficiency and technological optimisation are met, modifications may be made on a progressive basis, to arrive at a modified view that satisfies regulatory objectives. Issues to address will include points of presence, switching technology, spare capacity and stranded asset costs. If this process is not possible or practical to implement, the scorched earth approach will be followed in LRIC modelling.

Increment decisions
As described previously, LRIC modelling derives costs caused by the provision of a defined increment of output; therefore the decision on what the increment is has to be made. Increments can be small or large, relating to service groups, divisions or whole operations. The key aspect of this decision is that the resulting analysis is fit for purpose, giving data that will demonstrate compliance with cost orientation obligations and is disaggregated appropriately. It is important to acknowledge that decisions on increments must combine requirements for cost orientation with consideration of what is practical to implement.

Cost Volume Relationships
Cost Volume Relationships (CVRs) are identified as part of the process of cost modelling. A cost driver is the defined factor that causes cost to be incurred and the CVR refers to the way in which costs change as the volume of a cost driver alters.

Common costs
Common costs are not specific to increments and can be grouped as fixed in respect to volume or associated with more than one output in fixed proportions. Common costs are not avoidable unless all the activities to which they relate are ceased. LRIC models traditionally allow for a mark-up to incremental cost to allow recovery of common costs. The usual methodology for this is the Equal Proportionate Mark-Up (EPMU) method, which uses a straightforward percentage mark-up approach in proportion to the direct incremental cost already derived. This method is relatively simple, but can introduce some inaccuracy in tracing the relationship between products and common cost consumption because of arbitrary allocation. Despite this, EPMU is generally accepted as a methodology, especially as alternatives such as Ramsey pricing (based on demand elasticity) are likely to be inappropriate for practical regulatory implementation.

4.4 Transfer charging

Transfer charges are the transactions that occur between the disaggregated units or divisions of a vertically integrated organisation. In the case of regulated electronic communications companies, the most significant charges are those made for wholesale services from upstream, network operations to internal retail customers. A transfer charging system must be transparent, clearly specified and verifiable to serve the goal of non-discrimination and enable effective cost orientation.

Transfer charges should closely resemble, or be identical to, equivalent external charges for the same service. They must be justifiable, with a clear rationale, and completely transparent within the separated accounts. Statements and reports should be able to demonstrate that the retail business in a regulated entity is paying the same rates for wholesale inputs as external, competitive customers.

Reporting on transfer charging should contain comprehensive descriptions of product and service units, activity levels, basis of charges, accounting policies and relevant cost information. They should specifically address the need to demonstrate equality of access between external and internal customers.

Annex 2 to this document sets out example formats for transfer charging reports that are acceptable to AKEP and meet requirements for transparency and comprehensive representation. These define markets and services that must be reflected in transfer charge reporting, thereby reporting adequately on cost and price aspects as well as non-discriminatory trading arrangements.

Transfer charging reports must reconcile with other relevant accounting separation statements and statutory accounts, with any necessary statements of reconciliation included in the appropriate statements.

4.5 Reconciliation

The accounting separation system must include a regulatory reconciliation statement that demonstrates consistency between statutory accounting and regulatory financial statements. The ability for a regulated entity to produce this is closely linked with ensuring adequate financial controls and procedures, as well as designing systems with the capability to generate the required information.

An example reconciliation report is included at Annex 2 to this document.

The regulatory reconciliation statement should contain financial reporting sufficient to show consistency between HCA statutory accounts and CCA regulatory accounts, dealing with the effects of capital revaluation and transfer charging.

The statement will form an important part of the information used by auditors to assess compliance and audit financial statements.

4.6 Audit

Provisions and rules for the appointment of regulatory auditors have been mentioned above in Section 3. Annex 2 contains an example auditor's opinion, which comprises the level of detail and form of words required.

The auditor's report must include a conclusion, full details of any identified irregularities, recommendations made by the auditor (if any) and a description of verification methodologies used.

Audit compliance statements and other outputs must be produced in an accessible format and published by the SMP Operator such that they may be used by accessed and used by AKEP and other stakeholders.

The cost of regulatory auditing must be borne in full by the SMP Operator and should also be taken into account as part of any proportionality assessment performed in relation to relevant regulatory remedies.

The main elements required to be covered by the audit are as follows:

- The scope of costs included in the model and allocation of costs to regulated products and services.
- The reconciliation between the cost model and statutory accounts and statutory and regulatory accounts.
- Accuracy of data and figures, covering volumes and technical issues.
- Methodologies for capital accounting and revaluation, depreciation and cost allocation.
- Transfer charging.

The audited SMP Operator must grant access to all relevant data, systems and documentation to enable the auditor's task to be completed. The SMP Operator must also make appropriate resources and personnel available during auditing to respond to any questions arising from the review.

5. Data Integrity and Maintenance

It is important that the data used for preparing regulatory statements satisfies integrity requirements. Regulated undertakings are responsible for ensuring that data is presented in information systems and supervision of this should fall to legal and compliance functions within SMP Operators.

Data integrity is also assured by the availability of supporting records and systems that allow an auditor to perform tests and verifications in the required manner.

Regulatory financial statements must be made available to AKEP to enable monitoring of compliance with regulatory obligations. These must be submitted annually in accordance with rules set out in this document and formats contained in Annex 2. Information must also be provided upon request in relation to investigations by AKEP and analysis of specific issues to do with compliance and potential anti-competitive behaviour. These may arise from AKEP's normal routine of compliance assessment, extraordinary decisions of market investigation or as a result of complaints and requests made by market participants.

Financial information should be kept by SMP Operators in accordance with national legislation on such matters, so that the ability of AKEP to use data and perform analysis after the end of a period of reporting is not reduced in any significant way.

Where data is removed from systems, it should be maintained in documentary form to enable auditors and AKEP to perform reasonable levels of interrogation and investigation after the end of the relevant period. Such data should be kept for a minimum of five complete accounting years.

6. Publication and Compliance

6.1 Transparency

Albania has developed electronic communications law and economic regulation to reflect the provisions of the EU regulatory framework. Article 5 of the EU Framework Directive requires member states to ensure that relevant undertakings provide the necessary information, including financial information, to regulators to enable them to ensure conformity and compliance with the provisions of Directives. The information required should be proportionate to the performance of this task and the Article includes provisions for confidentiality and public access. The Albanian Law 9918 (and relevant subsequent amendments) reflects the EU framework (in particular, see Article 41 concerning accounting separation).

AKEP and regulatory auditors must have access to the information necessary to enable them to perform their respective tasks regarding accounting separation, cost accounting, price controls and non-discrimination. They also have a duty to ensure confidentiality, especially in respect of commercial sensitivity and competitors, which should be consistent with EU and national rules.

Regulated undertakings with obligations to provide AKEP and auditors with regulatory financial statements, other financial data and associated descriptive methodology documents must ensure that all material is sufficiently transparent and prepared so that a reasonably informed user can understand and use what has been provided appropriately. This will cover the structure of financial systems and reporting, presentation of relevant statements, descriptions and explanations relating to costing methodologies and iterative allocation processes and detail on divisions, services and transfer charging.

Transparency is crucial to the ability of regulatory authorities to analyse data and submissions and make regulatory decisions based on them. Regulatory obligations related to financial systems and cost accounting require significant disclosure of company data, but it must always be proportionate to the regulatory task of monitoring and enforcing compliance with those obligations.

6.2 Confidentiality

As described, the EU Directive places a responsibility on regulators to ensure business confidentiality in the context of transparency and the operation of regulatory regimes. It is important to adequately address this issue and assure SMP Operators that confidential, sensitive information they are required to provide to AKEP will remain confidential and not be put into the public domain in such a way as to cause competitive disadvantage.

AKEP will allow SMP Operators to demonstrate that information is commercially sensitive, by submission of contributing evidence and discussion prior to any decisions on publication. A potentially material level of commercial damage should be demonstrable to influence change on such decisions.

6.3 Publication

As mentioned above, EU and national requirements have been set down to ensure the protection of confidential information in respect of the publication of data and descriptive supporting documents. Other provisions are also in place regarding public access to this information. Article 5 of the EU Framework Directive allows regulators the power to publish such information as would contribute to an open and competitive market. This is reflected in Article 41 of law 9918 in Albania. Related provisions are included in the EU Access Directive. Article 9 deals with access and interconnection reference offers, Article 11 accounting separation and the ability of regulators to publish where to do so would contribute to competition and Article 13 in respect of publication in connection with cost accounting obligations.

The objective of publication requirements in respect of accounting separation and cost accounting obligations is to demonstrate compliance with regulation and give confidence to competitors and stakeholders that SMP undertakings do not benefit from anti-competitive cross-subsidies or discriminatory behaviour. Publicly available information should be sufficient to achieve this objective and include data and documentation relating to SMP obligations that is largely subject to full disclosure by definition. With this in mind, Annex 2 to this document (in association with Section 7 below) gives further detail on the level of publication expected by AKEP in relation to each element of the submission in respect of regulatory financial statements and information. The aim of this is to meet requirements of compliance and the promotion of competition, as well as protecting any commercial confidentiality necessary on the part of regulated operators.

Regulated undertakings will maintain the ability to raise concerns and enter into discussions with AKEP concerning commercial sensitivity and confidentiality as part of the regular process of information preparation and submission.

6.4 Relevant markets

The EU framework and Albanian law allow for the definition of relevant markets in accordance with recommendations and provision for market investigations. AKEP has published regulation on market analysis, which may be subject to amendment, and market reviews that have resulted in the imposition of regulatory obligations.

Where accounting separation and cost accounting obligations are imposed on SMP Operators, some level of evaluation of costs in non-SMP markets is necessary, as well as the assessment of common costs as they relate to all activities and are allocated between them. Article 16 of the EU Framework Directive allows for regulatory authorities to impose specific regulatory obligations on SMP Operators where a market is not effectively competitive and this could include accounting separation provisions in respect of markets where SMP is not found. The reason for this type of provision would be to support the regulator in carrying out regulatory tasks, ensuring non-discrimination and transparency and achieving a level of disaggregation and reporting sufficient to the task. This imposition would have to be demonstrably proportionate and justifiable, in accordance with the provisions of Directives.

AKEP will exercise information-gathering powers in a proportionate manner in relation to non-SMP markets, to support regulatory objectives relating to non-competitive markets and associated SMP remedies. Where regulated entities are required to report on non-SMP markets and services under these accounting separation and cost accounting obligations, AKEP sets out details in Annex 1 to this document and the example reporting formats at Annex 2 include relevant presentational requirements. Access to information on non-SMP markets may also be vital to the ability of AKEP to investigate disputes regarding non-discrimination and equality of access to wholesale services.

SMP Operators in Albania are likely to operate in competitive markets as well as the non-competitive ones to which their SMP obligations relate. They are also likely to display characteristics of vertical integration, to a greater or lesser degree, represented by varied service and product portfolios, divisional structures, economies of scale and scope and significant levels of indirect and common costs. These conditions mean that the analysis of revenues, costs and capital employed must take account of allocations across SMP and non-SMP products and services that can be shown in a way that maintains assurance as to accuracy, integrity and completeness of information. AKEP needs to be able to understand cost relationships across the operations of a regulated undertaking and assess the impact of non-SMP services on regulated services. This requires visibility of cost allocations and the treatment of common costs that is sufficient to demonstrate non-discrimination and equality of access with regard to transfer charging between upstream wholesale divisions and downstream internal customers.

The result of provisions covered above and the principles and concerns set out relating to reporting on non-SMP services should be that the objectives of these accounting separation and cost accounting rules and guidelines are achieved in respect of clarity on cost allocation across the entire portfolio of a regulated entity, verifiable completeness of financial data reported and assurance on integrity and traceability for AKEP and auditors alike.

7. Timescales

7.1 Consultation and implementation

These guidelines and instructions will be subject to a formal public consultation before finalisation and publication, which will involve direct engagement with affected parties and presentation of the proposals by AKEP and its representatives.

Final implementation will follow analysis of responses to the consultation and will include the AKEP comments and actions arising from them. Details of elements of the implementation will be contained within the final version of this document, covering report formats (Annex 2) and timing issues dealt with in this Section.

Current aims are to complete the accounting separation and cost accounting guidelines and instructions covered by this document by the end of 2013 and then ensure implementation by SMP Operators and AKEP over the course of the following twelve months.

7.2 Transition

Every affected SMP Operator in the Albanian market will face different issues relating to the implementation of these regulatory obligations, although existing obligations in respect of cost accounting and tariff control should allow for some effective preparation. Issues arising could include resourcing in finance functions, systems requirements and implementation, governance matters and discussions with AKEP concerning compliance and presentation. Transition provision is important for AKEP to take into account, so that plans can accommodate all parties and practicalities and no unnecessary delay or disruption occurs.

The following table shows the migration which AKEP expects to be adopted regarding the development of new cost accounting methods and costing methodologies within the Accounting Separation process for all SMP operators in Albania. This transition takes account of the needs of the operators to develop their skills in the development of Regulatory Accounts.

Time period	Cost Accounting Method	Costing Methodology
First year submission	HCA	FAC
Second year submission	CCA	LRIC
Subsequent years submissions	CCA	LRIC

It is the responsibility of affected undertakings to design systems and functional capability to enable full compliance with these regulatory obligations, having had the opportunity to contribute to their development during the consultation phase mentioned above. However, it is important that AKEP maintains open communication and cooperation with operators during the transition phase to ensure that desired outcomes are achieved and unnecessary resource consumption is avoided.

A summary view of transition plans is as follows:

- From the publication of the final regulatory instrument containing these guidelines and instructions, SMP Operators subject to obligations in respect of accounting separation and cost accounting will be required to submit all specified reports, statements and supporting information for each relevant accounting period ending after the date of such publication.

- If the first accounting period end date following the final publication and regulatory instrument is within six months of the date of that publication, the affected undertaking will have nine months following that end date to submit all relevant statements and information to AKEP (for example, an end date of 31st March 2014, falling within six months of publication, would mean a submission deadline of 31st December 2014).
- If the first accounting period end date following the final publication and regulatory instrument falls more than six months after the date of that publication, the affected undertaking will have six months following that end date to submit all relevant statements and information to AKEP (for example, an end date of 31st July 2014, falling more than six months after publication, would mean a submission deadline of 31st January 2015).
- Auditor appointment provisions mentioned in Section 3 of this document will apply during the transition phase, which allows enough time to ensure engagement with AKEP and an effective appointment process.
- AKEP will report on compliance matters in respect of affected undertakings within three months of their submissions, unless issues arising include any form of requirement for resubmission or substantial amendment of reporting and documentation.

7.3 Regular process

Once the operator transition period described above has ended, which will be no longer than fifteen months after the final regulatory instrument is in force, all operators will have six months following the end of a statutory accounting period to submit all required accounting separation and cost accounting reports and documentation.

AKEP will issue its report on compliance relating to an operator within six months of submission, subject to alteration in case of any requirement for resubmission or substantial amendment of reporting and documentation.

AKEP reserves the right to review and amend guidelines and instructions, which may involve public consultation, and therefore introduce any appropriate transition arrangements resulting from changes implemented.

AKEP also reserves the right to review and consult on changes to reporting requirements themselves, should it prove feasible and desirable to reduce reporting timescales to the benefit of AKEP's regulatory monitoring and analysis work, the competitive environment in general and Albanian consumer welfare.

An important part of the regular process of preparation, submission and review of accounting separation and cost accounting information will be open and constructive communications between AKEP and industry to ensure cooperation and improvement into the future.

Annex 1 – Cost Accounting Instructions

The main body of this document contains descriptions of cost accounting methodologies and principles, especially in Section 4. This annex provides detailed and specific instructions to SMP operators on the steps to follow and techniques to employ in developing cost accounting systems which can ensure compliance with SMP obligations relating to accounting separation and cost accounting.

A1 Cost allocation and attribution

A1.1 Cost allocation process

This Section sets out the process which SMP operators should follow in order to allocate costs, capital employed and revenue in the provision of separated accounts and compliance with regulatory obligations. Any description of process will be generic and based on a view of best practice, however it should be understood that any compliant system developed by operators in Albania will match the process and methodology contained here.

Figure 1 describes a typical cost allocation process, consistent with descriptions given in the main part of this document. Actual allocation processes may vary depending on the exact structure of an organisation, as well as how data is captured and presented within financial systems. For this reason, processes employed by SMP operators may be more complex than this generic example, although they must be consistent with it in principle, to ensure that AKEP has confidence that regulatory accounts are fit for purpose, cost allocation is transparent and consistent with regulatory accounting principles and that documentation and assumptions are comprehensive and auditable.

The process starts from data gathered and stored in the general ledger or other costing and financial systems used by a company. The level of detail at which costs are initially captured is of key importance to the ultimate usefulness and accuracy of costing information. A high level of disaggregated detail should be applied, referring to all relevant services provided by the operator. Costing information should be divided between operating costs, capital costs and accounting entries such as depreciation.

Costs may be attributed directly to services or allocated to cost pools for further analysis, which will be defined by function or purpose.

Services
Costs which can be directly identified with a particular service should be directly allocated to that service. The service may be a retail output, such as an outgoing call minute, or a wholesale output, such as a unit of call termination.

Network components
This is a cost pool containing costs related to transmission, switching and other network technology and systems. These costs cannot be directly allocated to services because they are incurred in the provision of a number of services.

Related functions
This is a cost pool containing costs of functions necessary to the provision of services to retail and wholesale customers, such as billing, maintenance and customer service.

Other functions

This is a cost pool containing the costs of functions not related to the provision of particular services, but which are part of the operations of a company. These will include support functions such as planning, human resources, finance and general administration.

SMP operators should employ an activity-based costing (ABC) methodology to allocate costs through this process, deriving cost drivers and cost pools which ensure adherence to the principle of cost causality and a process consistent with the one here described.

A series of steps in an iterative approach will allocate all costs to services. The steps involve the use of appropriate cost drivers and the definition of cost pools for sub-allocation. A summary view of the steps to follow is as below:

1 The allocation of costs related to other functions (see above) across related functions, network components and services.
2 The allocation of related function costs to network components and services.
3 the allocation of network components to services.
4 The grouping of services into other categories of analysis (market segments, product lines, businesses etc) for the purposes of accounting separation reporting.

This is a simplified view of steps that should be taken. Each of the steps is likely to involve a number of detailed sub-steps, particularly if cost information is collected in aggregated form. It is preferable to use a method of allocation using a number of direct and indirect attributions in a tiered approach, rather than a single arbitrary step. The exact operation carried out to perform the allocation and methodology employed will be unique to each SMP operator and it is important to emphasise that comprehensive documentation is an integral part of the regulatory obligation, such that processes and data are transparent to AKEP and details are available for other parties as appropriate.

SMP operators will need to use sampling techniques and associated activity reviews to allocate costs and ensure that cost drivers and cost pools definitions are current and accurate. This aspect may entail the periodic study of staff tasks and time consumption, network utilisation and systems usage, amongst other things. The outputs from this type of review will feed into allocation methodologies and models. Details of definitions and calculations underlying the cost allocation process must be included within regulatory submissions, along with survey and sampling techniques and the method of review. This ensures that AKEP is able to raise any issues concerning methodology with operators, as well as increasing AKEP's understanding of statements and compliance.

A1.2 Cost causation

Analysing costs and attributing them to services is a complex task, which will differ in detail between networks and operators. Allocations must be based on principles of cost causality, transparency, objectivity and consistency.

Costs and revenues must be allocated, directly or indirectly, to the services that 'cause' those costs and revenues to arise. This produces the need for cost allocation methodologies as set out in this document and requires a process whereby an SMP operator must review and justify costs and revenues, establish a driver causing each item to arise, use the driver to allocate each cost to services or cost pools and document all processes and techniques used. The documentation delivered as part of the regulatory submission must contain sufficient detail to allow AKEP to understand and review cost drivers and pools.

A coherent system of activity-based costing will enable the SMP operator to establish a strong set of causal relations between costs and services, which can be adequately described to

AKEP for the purposes of regulatory compliance review. The intermediate stages introduced by a functioning and adequately complex ABC system allow costs which may have been allocated in a more arbitrary way to be attributed to services that cause them to occur. Thus, a higher proportion of indirect costs will be allocated in an objective fashion to the outputs driving them. Even with ABC, some costs will remain to be allocated in a more arbitrary manner and the treatment of these should be documented clearly along with detail on methodology and justification. This should be Equal Proportionate Mark Up (EPMU), whereby costs are apportioned on the basis of revenues or other costs already allocated. A properly developed costing system that complies with the guidelines and rules set out in this document should minimise the level of cost required to be apportioned in this manner. A maximum target level of 10% of total costs should be set by SMP operators for this element, such that any level above that should trigger review and revision to increase the detail and effectiveness of the model.

A1.3 Operating costs

These instructions, along with the guidelines and principles in the main document, must be followed by SMP operators, but cannot provide every detail specific to individual operators and how they record and analyse costs. Each operator is expected to develop systems compliant with this document, which optimise the usefulness and accuracy of outputs for the specific case. The following provides a view of categories of operating costs and allocation and attribution methods which may be used for them.

Network planning and development
Costs (pay and other charges) should be allocated directly to network components as far as possible.

Network management
Costs should be allocated to network components on the basis of time spent by staff (for payroll) and on the basis of which aspect of the network is being managed (for other costs).

Provision/installation of equipment
Costs should be allocated directly to network components or on the basis of time spent by staff (for payroll) and on the basis of which aspect of the network is being installed (for other costs).

Maintenance and repair
Costs should be allocated directly to network components where possible for payroll and other costs, otherwise on the basis of time spent on maintenance and repair (for payroll).

Customer services, marketing and sales
Payroll costs should be allocated directly to services where possible otherwise split across them based on labour time. Other costs, which could include call centre operations, publicity, promotion, market research etc, should also be allocated directly as far as possible. Attribution to services should otherwise be based on activity bases appropriate to the costs and related to those services.

Billing and debt collection
Payroll and other costs should be allocated directly to services where possible otherwise split across them based on labour time and usage measures, including bill volumes.

Operator and directory services
Payroll and other costs should be allocated directly to services where possible otherwise split across them based on labour time and usage measures, including incoming call volumes.

Payments to other operators

Out-payments relating to outgoing traffic and payments for interconnection should be allocated directly to services.

Support costs
Human resources function costs should be allocated to staffing groups within other cost areas for further allocation along with those staff costs.

Head office support costs (including finance, legal etc) should be allocated directly to services if possible, otherwise to a cost pool for proportionate allocation.

Building costs should be allocated directly to services if possible, otherwise to appropriate cost pools relating to network usage or other usage (such as head office functions) for further allocation.

Computing and IT costs should be allocated to specific applications where possible, so those costs can be attributed to services. Remaining IT costs may be allocated to support cost pools for proportionate allocation (networks in head office buildings, for example).

Depreciation
Depreciation should be allocated on the same basis as the deployment of fixed assets to which it relates.

A1.4 Cost of capital and capital employed

Section 4.2.3 above contains some description of what is required in terms of cost of capital and capital employed calculations to be performed by SMP operators in preparing regulatory financial statements and making submissions to AKEP. Where cost orientation obligations are in place in Albania, they include a provision for such calculations and any methodology used in connection with accounting separation and cost accounting obligations must be consistent with them. SMP regulations allow for operators to earn a reasonable return on investments and this must therefore be reflected in cost accounting systems and reporting.

Cost of capital
An SMP operator’s cost of capital should reflect the opportunity cost of funds invested in network components and related assets. It should include:

- the weighted average cost of debt for different forms of debt held by the operator;
- a cost of equity derived from an assessment of risk and returns required by investors; and
- the values of debt and equity relevant to the company.

The information collected from these aspects allows a calculation of Weighted Average Cost of Capital (WACC) to be made.

The formula to be used by operators is as follows:

WACC = (E/E+D) x (re/1-te) + (D/D+E) x rd

In this formula:

E is the total value of equity	rd is the cost of debt
D is the total value of debt	te is the taxation rate
re is the cost of equity	

This version of the formula gives the pre-taxation value for WACC required for use in cost accounting models.

Where and as far as appropriate, the Capital Asset Pricing Model (CAPM) should be used to derive the cost of equity for an SMP operator. This formula is as follows:

Re = Rf + (Be x Pm)

In this formula:

Rf is the risk free rate	Pm is the market premium
Be is the risk of the regulated asset relative to market risk (measured beta factor)	

If CAPM cannot be used, for reasons approved by AKEP, the replacement formula will be:

Rf + Pm.

AKEP must be able to consider all aspects of calculations made and the transparency of the process is paramount. An indication of the different issues for AKEP to evaluate relating to elements of the WACC calculation is as follows:

- Equity should be measured as the average quantity of outstanding shares in the year concerned.
- Gross debt should be measured at book value and cost of debt calculated as a weighted average of the various costs of debt outstanding.
- Market equity risk premium, which is the premium expected for investing in equity rather than risk free investments, can be measured from historical actual differences between stocks and bonds. This may be derived from the Albanian market or from comparative analysis of international markets. AKEP will give final guidance on the issue during the implementation phase of these obligations.
- The risk free rate should be derived from Albanian government bonds with a ten year maturity.
- Beta factors should be derived from an analysis of national and international indices and business operations of multinational groups connected with Albanian SMP operators, such that they reasonably reflect the real situation of the operators. Factors proposed must be approved by AKEP.
- The taxation rate used in a calculation should be the real level of taxation incurred by an entity over the year of application.

AKEP may need to consider whether the WACC derived for an SMP operator as a whole is appropriate for the regulated activities of that operator. It is possible that different risks apply to different activities, which would imply alternative measures of WACC parameters for different markets or disaggregated activities. The need for this kind of alternative calculation, where it exists, should be identified by the SMP operator and proposed to AKEP in advance of deadlines for regulatory submissions. AKEP will review all factors and calculations to give guidance to the operator and final approval to the WACC to use in producing regulatory financial statements.

SMP operators must be prepared to discuss WACC calculations with AKEP as part of the implementation and transition process for this regulation, as well as include full details on methodology and calculations in supporting information provided with final submissions.

WACC and capital value

The WACC must be applied to a capital value for network and other assets to determine the return that needs to be recovered through regulated charges. It may prove difficult to identify the values of debt and equity for relevant constituent activities of an operator, because corporate financing decisions are affected by various factors including the economic environment and tax planning. The debt position of an entity may not relate specifically to the funding requirements of individual activities, therefore another approach to determining capital value is required, as shown below:

Shareholder's funds (equity) + Debt = Net Assets excluding debt

The result of this calculation is the same as fixed assets + current assets – creditors (excluding debt) – provisions.

Capital values for regulated activities can be arrived at by apportioning net assets or capital employed, the apportionment made on a causal basis and using current valuation methodologies.

Capital employed

As mentioned in Section 4.2.3 of the main document, an average capital employed calculation is required for the purposes of calculating regulatory returns. Because working capital balances at single points in time may not be representative of average working capital requirements over a longer period, an average should be calculated between the beginning and end of the year concerned.

The following provides a view of categories of capital employed and possible allocation methods for them. It also provides an indication of business areas to which an item may be allocated. This is not an exhaustive or definitive list and each SMP operator must develop its own analysis and supporting justification.

Switching equipment

As a rule, switching equipment (local, tandem, international etc) should be allocated directly to local access or core network components cost pools where possible, otherwise apportioned on the basis of usage or to an intermediate cost pool for further analysis. These capital costs are likely to belong to local access or core network (mobile or fixed) business units.

Transmission equipment

This type of equipment should be allocated directly to network components cost pools where possible, otherwise allocated on the basis of usage. The analysis could likely require intermediate stages to achieve allocation. Business units concerned will be core network (local access, fixed or mobile).

Other primary network assets

If plant and equipment is dedicated to service provision, allocation should be directly to the service concerned. This may cover intelligent network, multimedia and customer premises equipment, amongst other possibilities. Where assets serve more than one service, the split should be on the basis of usage measures appropriately derived. Network and other activity business units will be affected by this allocation.

Support plant

Ducting, power and air conditioning equipment and network management equipment should generally be allocated on the basis of the use they are put to in serving primary plant and network assets. This plant will belong to core network business units (local access, fixed or mobile).

Non-network fixed assets
Land and buildings should be allocated on the basis of space occupied by services, network components or other intermediate cost groupings. Other assets, including computing, vehicles and office equipment, should be allocated in a similar fashion using usage measures and as many steps as are required to achieve allocation. All business units will be affected by this allocation.

Intangible fixed assets
If these exist, they should be allocated on a direct basis to services where possible. Otherwise, a method is required, which should be agreed with AKEP to ensure consistency and fairness.

Working capital
This will include items such as cash and investments, stock, debtors and creditors and provisions for liabilities. As a rule, items should be allocated to products and services directly where possible. Otherwise, methods for allocation could include relevant activity measures or allocation to other cost pools as appropriate. Any arbitrary attributions or issues with allocations should be discussed with and approved by AKEP in advance.

A1.5 Transfer charging

SMP operators must establish a system for transfer charging between units or divisions within their own business, for example service charging from core network to retail business. This will involve accounting for the costs and revenues of internal service provision.

For the purposes of accounting separation and as described in Section 4.4 of the main document, it should be assumed that an SMP operator’s internal customer pays the same charge for the same service as is paid by external wholesale customers.

Transfer charge accounting should follow the approach set out below:

- Transfer charges (revenues and costs) must be attributed to cost components, services and disaggregated business units in accordance with activities causing revenues to be earned or costs incurred.
- Attribution must be objective and follow the principles set out in Section 3.2 of the main document without benefiting any disaggregated business or division.
- There must be consistency of treatment of transfer charges from year to year.
- Methods used for transfer charging must be transparent and supported by a clear rationale.
- Transfer charges for internal transactions must be based on usage and unit charges.
- Charges for internal transactions must be equivalent to charges for the same service sold externally. Internal units or divisions must pay the same interconnection and access charges as external wholesale customers pay under the terms of any relevant reference offer and interconnection agreement.
- Separated accounts must disclose transfer charges between disaggregated businesses or divisions.

A1.6 Revenue

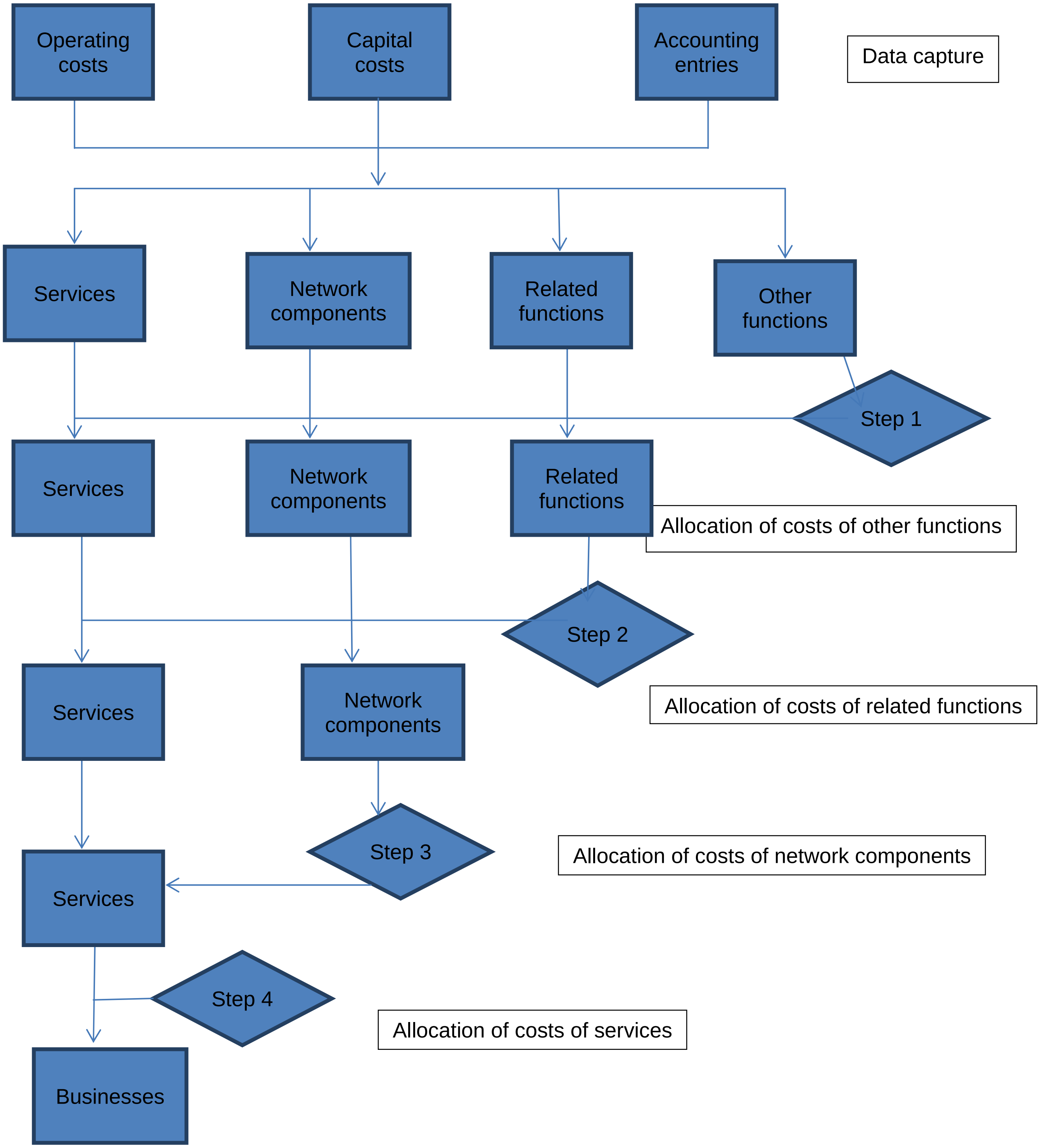
Revenues from fixed and mobile telecommunications services should be directly allocated to the products and services to which they relate on the basis of accounting records and billing information. In cases where this direct allocation is not possible, revenues should be attributed on the basis of causation.

Revenues will be allocated between the relevant divisional units of the SMP operator, such as local access network, core network and retail. Retail revenues will include services such as call charges, messaging, line connection and rental, broadband data services and leased lines. Wholesale revenues will include services relating to access and core networks, such as call origination and termination, transit and interconnection, wholesale broadband services and local loop unbundling.

Revenue from other activities, which may include equipment rental and sales, advertising and engineering services must be allocated and reported within disaggregated accounts in accordance with separation and causation principles.

SMP operators may generate income from non-telephony or electronic communications services. These revenues must be allocated to the activities to which they relate and the treatment of non-core revenues must be transparent and consistent to ensure that profits of separate divisions are correctly stated.

A1 Figure 1 Typical Cost Allocation Process



A2 Asset valuation

Section 4.2 of the main document contains descriptions of current cost accounting and capital maintenance methodologies. This section of the Annex refers to the same details and gives more explicit instructions which must be followed by SMP operators.

A2.1 Current cost accounting

SMP operators are required to follow a current cost accounting (CCA) methodology in preparing separated accounts and cost accounting regulatory financial statements. The primary method of calculating the current cost of an asset should be to calculate a deprival value as set out in the steps shown below:

1 Calculate the net realisable value of the asset, which is the sale value of it less selling costs at current prices.
2 Calculate the economic value of the asset, which is the net present value of future cash flows expected over the remaining life of the asset.
3 Derive a theoretical recoverable amount for the asset, which is the higher of the two values described above.
4 Derive the deprival value of the asset, which is the lower of the recoverable amount and the net replacement cost of the asset (the current cost of another asset of similar features and age).

Under this methodology, the deprival value is the current cost of the asset.

Gross replacement cost
Gross replacement cost is calculated to approximate to the value of a brand new network providing the same level of functionality and capacity as the existing one. This value can be derived by using current market values, indexation of historical costs or modern equivalent asset assessments. Because this methodology may not produce an appropriate asset value for the measurement of financial performance, it is not to be used as the primary means of calculating current costs.

There may be cases where the calculation of deprival value is inappropriate, disproportionately complex or impossible. In such cases, SMP operators should determine current cost asset values by identifying gross replacement cost, using the most appropriate techniques and information available. All assumptions and data should be transparent in information supporting regulatory financial statements and capable of detailed review by AKEP.

Where existing equipment cannot be replaced in the same form because of technological change, the modern equivalent asset approach to current cost valuation should be followed. Where it is the case that functionality and efficiency are significantly improved under new technologies, adjustments should be made to equipment values to reflect the cost of an asset with similar characteristics and capabilities. These adjustments may include operating costs, technical functionality and operating capacity. Information and assumptions used to select modern equivalent assets should be thoroughly documented, along with full disclosure of the calculation steps which have been followed.

A2.2 Capital maintenance

The Financial Capital Maintenance (FCM) principle (see Section 4.2.2 in the main document) should be followed by SMP operators for the purposes of accounting separation and cost accounting. This determines the way a company's capital is viewed when assessing profitability. FCM considers that the financial capital of the company is maintained in current price terms. Revenues become profits after a sufficient amount has been provided to maintain the financial value of the business.

Asset revaluation should be carried out consistent with instructions given above and this will produce the basis for supplementary depreciation charges to adjust charges against the profit and loss account. Holding gains arising as a result of CCA revaluation are taken to the profit and loss account.

A2.3 Other asset valuation instructions

Assets under construction should not be depreciated, but their value should be reflected in regulatory accounting.

Assets under finance lease should be capitalised and depreciated and interest charges included in financing operating costs, along with any associated fees.

Fully depreciated assets should not be revalued under CCA, because their zero book value is already fully reflected in the accounting statements.

A3 LRIC modelling

Section 4.3 of the main document contains a description of LRIC methodologies and practical aspects of the implementation of LRIC modelling. Bottom-up LRIC modelling has been used by AKEP in Albania to set call termination rates, which are the subject of existing tariff control regulations (decision 1505 February 2011 and associated regulatory decisions). This method of deriving unit costs is commonly used by regulators to set what it calculates to be optimal prices, but other considerations are necessary in determining the obligations of SMP operators in devising their own cost models and using them to comply with accounting separation and cost accounting regulations. Cost accounting supports accounting separation and cost orientation obligations and the detailed instructions given in the preceding parts of this Annex refer to the core fully-allocated cost (FAC) modelling methodology which SMP operators will have to develop to ensure compliant regulatory financial reporting. An effective LRIC model must also be developed to run alongside the accounting separation system. This section of the Annex clarifies the precise obligations of affected SMP operators in respect of LRIC modelling.

A3.1 LRIC model characteristics

SMP operators are required to develop a LRIC cost model based on the top-down approach, which uses company financial data as a starting point and should allow for easy reconciliation between costing systems. This model can be run within a financial system or separately to it as a discrete application. The model must be capable of producing unit costs based on a pure LRIC methodology (excluding any recovery of common costs) as well as costs based on a traditional LRIC methodology including common costs recovered on an equal proportionate mark up (EPMU) basis.

To cost services using a top-down model, certain principles and characteristics should be followed:

- Relevant costs relating to operations, working capital and fixed assets should be grouped together into homogenous cost categories. These categories, which share similarities with cost pools in a traditional ABC system, will contain costs with the same characteristics and therefore be capable of further analysis as a group using one technique.

- Cost-volume relationship factors (CVRs) must be derived for use in allocating costs between network components, as well as for the attribution of some operating costs between homogenous cost categories.
- Network components must be defined in a way that is consistent with the technological structure of the network and optimal for costing purposes, therefore allowing straightforward tracing to service level.
- The costs of network components should be allocated to services (the relevant regulatory product or increment defined by SMP obligations) by the use of routing factors, which are activity or consumption bases for the individual components.

This costing methodology will produce LRIC values for network components, which are then used to produce LRIC values for individual services. The final outputs from the model will be capable of comparison with FAC unit costs and the target unit or increment costs from regulatory decisions. The model must also be fully reconcilable with the FAC cost model as well as both regulatory and statutory financial statements.

As has been stated, the LRIC model must be based on current financial data from company systems. There must also be consistency in data for parameters relating to CVRs and routing factors, so the model is based on relevant and current input variables. All LRIC models depend on a high degree of forecast and projection and SMP operators must be able to produce full documentation and justification in relation to any assumption on activity, network design and capacity as well as efficiency.

A3.2 Cost categories and analysis

The first step in creating the LRIC model is to define cost types, which can then be grouped into homogenous cost categories. The cost types include capital costs (capital employed and depreciation etc) and operating costs. The treatment of these within the system and in deriving the model must be consistent with Section A1 above.

The homogenous cost category groupings must be identifiable as such, based on an analysis of unique cost drivers, CVRs, pricing trends or other distinct characteristics. Expenditure types with different cost drivers, CVRs or price trend characteristics cannot be grouped into the same homogenous cost category.

Assumptions relating to network topology have been discussed in Section 4.3 of the main document. SMP operators must use the ‘scorched node’ approach to network design for LRIC modelling. This allows for the model to reflect existing networks and a more direct relationship to data upon which the model is based. Assumptions on capacity, efficiency and technological developments must be transparent, justifiable and fully documented.

The SMP operator must derive CVRs for all homogenous cost categories, based on a combination of engineering models, statistical analyses, work studies, interviews and research of other types as appropriate. CVRs should normally reflect the effects of purchasing power economies of scale. Details of assumptions and calculations in respect of CVRs must be documented and available for inspection by AKEP in support of regulatory financial submissions.

Network traffic and activity data must be demonstrably consistent with current year statistics along with at least two future years of forecast data. This is so that CVR calculations, which include assumptions on activity levels and efficiency, are appropriate and justifiable. Defined network components must be consistent with current EU best practice and general network features, such that they reflect the forecast view required. In a similar way, routing factors should be based on the analysis of current activity and at least two years of forecast data, as well as reflecting the technology and function of the network as it exists.

Where the EPMU method is used to allocate common and joint costs, it should be applied to the homogenous cost categories and documented thoroughly to enable audit and regulatory compliance checking. This view should be reconcilable with the pure LRIC version of the model in a way that proves the exclusion of common costs from the latter.

A4 Other cost accounting instructions

A4.1 Cost accounting and time of day

The retail prices of some electronic communications services tend to vary depending on the time of day or the day of the week. Variations are usually related to capacity and usage factors or designed to stimulate use of the network during less active times of day. Where wholesale charges for regulated services are required to reflect time of day structures for retail charges, the average weighted values of cost orientated charges should be the same as the related unit costs.

A4.2 Cost models

SMP operators in Albania required by law to comply with these accounting separation and cost accounting regulations must allow AKEP full access to cost models at the operators' premises, in such a way and with specific detail included that AKEP is able to assess the suitability and compliance of the models. SMP operators must also give AKEP and any third party appointed by AKEP access to the data sources of the model, within reasonable limits and to the satisfaction of AKEP in the pursuit of any review or investigation.

SMP operators should design models that are capable of sensitivity and scenario analysis, such that the influence of various factors on final outputs can be investigated by using the functionality of the model. Examples of these factors (not an exhaustive list) are included below:

- Equipment prices
- Network capacity
- Equipment utilisation
- Traffic volumes
- Cost of capital
- Deprecation methodology
- Asset life and accounting policy
- Price trends

A4.3 Cost model documentation

The cost model description is a part of the documentation required under these rules and guidelines referred to in Sections 3.4 and 6 of the main document. Documentation should include a list of homogenous cost categories, cost drivers for each category and a list of network elements and other activities such as billing, marketing, human resources etc.

Documentation of allocation methodologies must contain a description of services provided by the SMP operator within relevant markets and full details of cost allocation methods relating to other functions and activities and network components, for the FAC and the LRIC models.

For each homogenous cost category, the documentation must comprise:

- its name
- the type of costs contained within it
- whether it is dependent or independent and
- CVR details related to it.

For every Cost Volume Relationship there must be detail documentation relating to:

- the cost driver
- the nature of the CVR (the 'curve' as plotted in graph form)
- the amount of fixed and common cost and
- whether it is dependent or independent

A4.4 Cost model audit

The cost models produced by SMP operators must be audited under provisions contained within Sections 3 and 4 of the main body of this document, as a part of the audit of regulatory financial statements.

Cost model audits must contain the following elements:

- The scope of costs included within the model
- The scope of costs allocated to particular regulated services
- Adjustments between data in the model and statutory financial statements
- The accuracy of amounts recorded for operating data, traffic volumes, service volumes and relevant technical statistics
- Methodologies concerning depreciation, capitalisation, asset valuation and cost allocation
- Adjustments between cost models and other separated reporting
- CVR calculations and cost curve descriptions
- Any other information relevant to the understanding of the cost model

Annex 2 – Example Reports

This Annex contains various templates and suggested reporting formats, along with forms of words, all of which may be used as the basis for an SMP Operator to prepare a set of regulatory financial reports and associated statements. These examples are not intended to be definitive or specific to any operator or market sector. Instead, they should be used as a guide, along with written guidelines and instructions throughout this document, to assist in the preparation of regulatory submissions.

A2 Main Financial Statements

A2.1.1 Profit and loss (market view) - Fixed

		Current	Prior
		Year	Year
Revenues			
1	Retail - Line rental/maintenance		
	Retail - Installation		
	Retail – On-net calls		
	Retail – National calls		
	Retail - International calls		
	Retail - Leased Lines		
	Other (expand as appropriate)		
2	Wholesale Call Origination (fixed)		
3	Wholesale Call Termination (fixed)		
4	Wholesale Local Access		
5	Wholesale Broadband Access		
6	Wholesale Leased Lines		
6	Wholesale Transit		
7	Other (expand as appropriate)		
Total Revenues			
Operating Costs			
	Labour		
	IT and systems		
	Maintenance and repair		
	Sales and marketing		
	Finance and billing		
	Bad debt		
	General administration		
	Financing		
	Other costs		
	Depreciation		
Total operating costs			
Profit (HCA)			
CCA Adjustments			
	Profit and loss		
	Additional depreciation		

	Other		
Profit (CCA)			
Return on capital employed			

Note: Refer to A2.3 for mean capital employed values

A2.1.2 Profit and loss (market view) - Mobile

		Current	Prior
		Year	Year
Revenues			
1	Retail – Closed group calls		
	Retail – On-net calls		
	Retail – National calls		
	Retail - Roaming calls		
	Other (expand as appropriate)		
2	Mobile Voice Call Termination National		
	Mobile Voice Call Termination International		
3	Mobile SMS termination		
4	Data		
5	Other (expand as appropriate)		
Total Revenues			
Operating Costs			
	Labour		
	IT and systems		
	Maintenance and repair		
	Sales and marketing		
	Finance and billing		
	Bad debt		
	General administration		
	Financing		
	Other costs		
	Depreciation		
Total operating costs			
Profit (HCA)			
CCA Adjustments			
	Profit and loss		
	Additional depreciation		
	Other		
Profit (CCA)			
Return on capital employed			

Note: Refer to A2.3 for mean capital employed values

A2.2.1 Profit and loss (internal/external view) - Fixed

			Current Year	Prior Year
Revenues				
Internal Revenues				
	2	Wholesale Call Origination (fixed)		
	3	Wholesale Call Termination (fixed)		
	4	Wholesale Local Access		
	5	Wholesale Broadband Access		
	6	Wholesale Leased Lines		
	7	Wholesale Transit		
	8	Other (expand as appropriate)		
External Revenues				
	1	Retail - Line rental/maintenance		
		Retail - Installation		
		Retail – On-net calls		
		Retail – National calls		
		Retail - International calls		
		Retail - Leased Lines		
		Other (expand as appropriate)		
	2	Wholesale Call Origination (fixed)		
	3	Wholesale Call Termination (fixed)		
	4	Wholesale Local Access		
	5	Wholesale Broadband Access		
	6	Wholesale Leased Lines		
	7	Wholesale Transit		
	8	Other (expand as appropriate)		
Total Revenues				
Operating Costs (as A2.2)				
Profit (HCA)				
CCA Adjustments (as A2.2)				
Profit (CCA)				
Return on capital employed				

Note: Refer to A2.3 for mean capital employed values

A2.2.2 Profit and loss (internal/external view) - Mobile

			Current Year	Prior Year
Revenues				
Internal Revenues				
	2	Mobile Voice Call Termination National		
		Mobile Voice Call Termination International		
	3	Mobile SMS Termination		
	4	Data		
	5	Other (expand as appropriate)		
External Revenues				
	1	Retail – Closed group calls		
		Retail – On-net calls		
		Retail – National calls		
		Retail - Roaming calls		
		Other (expand as appropriate)		
	2	Mobile Voice Call Termination		
	3	Mobile SMS Termination		
	4			
	5			
Total Revenues				
Operating Costs (as A2.2)				
Profit (HCA)				
CCA Adjustments (as A2.2)				
Profit (CCA)				
Return on capital employed				

Note: Refer to A2.3 for mean capital employed values

A2.3 Mean Capital Employed

	Current Year	Prior Year
Fixed Assets		
Tangible fixed assets		
Intangible fixed assets		
Investments		
Total Fixed Assets		
Current Assets		
Stocks		
Debtors		
Investments		
Cash		
Total Current Assets		
Total Assets		
Creditors		
Provisions for liabilities and charges		
Mean Capital Employed		

Note: The return on mean capital employed calculation must be consistent with the basis upon which the cost of capital is calculated. If a pre-tax and pre-interest WACC is used, then the return shown should be profit before interest and tax.

Balance sheet details shown should be prepared on a current cost basis and should be average values for the year to which they relate.

A2.4 Transfer Charges Statement

	Fixed Call Origination	Fixed Call Termination	Local Access	Broadband Access	Leased Lines	Mobile Call Termination	Mobile SMS Termination	Total Transfer Charges
Retail Service								
Line rental and connection								
Fixed line calls								
Broadband								
Leased lines								
International								
Mobile calls								
Mobile messaging								
Other services								

A2.5 Transfer Charges Inter Business Summary

From / **To**	Retail access	Retail lines and calls	Retail leased lines	Retail other	Wholesale access	Wholesale calls	Wholesale broadband	Wholesale leased lines	Wholesale interconnect	Mobile	Other
Retail access											
Retail lines and calls											
Retail leased lines											
Retail other											
Wholesale access											
Wholesale calls											
Wholesale broadband											
Wholesale leased lines											
Wholesale interconnection											
Mobile											
Other											

A2.6 Reconciliation Statement – Profit & Loss

	Revenue	Operating Costs	Return
Activities			
Wholesale SMP Markets			
Retail SMP Markets			
Wholesale non-SMP Markets			
Retail non-SMP Markets			
Other Services/Markets			
Total			
Adjustments			
CCA adjustments			
Corporation tax			
Dividends			
Interest			
Other			
Total			
As stated in annual report			

A2.7 Consolidated Mean Capital Employed

	Current Year	Previous Year
Shareholders' funds per annual report		
CCA adjustments		
Interest adjustments		
Taxation adjustments		
Dividends adjustments		
Other adjustments		
Total CCA mean capital employed		
Wholesale SMP Markets		
Retail SMP Markets		
Wholesale non-SMP Markets		
Retail non-SMP Markets		
Other Services/Markets		
Total CCA mean capital employed		

Note: This statement should reconcile with A2.3

A2.8 Statement of costs of network services

Statement of Costs	**Operating costs**	**Exceptional operating costs**	**Mean capital employed**	**Rate of return on capital employed**	**Capital costs**	**Operating + capital costs**	**Volume**	**Average cost per unit**
FAC								
Access network								
Fibre network								
Access equipment								
DSL equipment								
Provisioning and repair								
Line sensitive								
Subscriber unit								
Call sensitive								
Subscriber unit								
Parent switch								
Gateway switch								
Traffic sensitive								
Subscriber unit								
Parent switch								
Gateway switch								
Interconnect equipment								
Intelligent network								
Other switching								
Transmission network								
Non-length dependent								
RSU to parent link								
Parent to parent link								
Parent to gateway link								

Interconnect link								
Data link								
DSL link								
NGN link								
Other link								
Length dependent								
RSU to parent length								
Parent to parent length								
Parent to gateway length								
Interconnect length								
Data length								
DSL length								
NGN length								
Other length								
Data platforms								
Outpayments								
Carrier admin and billing								
Other SMP elements								
Non-SMP elements								
Total								

A2.9 Network Costs Market Summary

FAC	Total operating and capital costs	Wholesale fixed call origination	Wholesale fixed call termination	Wholesale local access	Wholesale broadband access	Wholesale leased lines	Wholesale interconnection	Mobile call termination	Wholesale residual regulated	Wholesale residual unregulated	Retail
Access network											
Fibre network											
Access equipment											
DSL equipment											
Provisioning and repair											
Line sensitive											
Subscriber unit											
Call sensitive											
Subscriber unit											
Parent switch											
Gateway switch											
Traffic sensitive											
Subscriber unit											
Parent switch											

Gateway switch

Interconnect equipment

Intelligent network

Other switching

Transmission network
Non-length dependent
RSU to parent link
Parent to parent link
Parent to gateway link
Interconnect link
Data link
DSL link
NGN link
Other link
Length dependent
RSU to parent length
Parent to parent length
Parent to gateway length
Interconnect length
Data length
DSL length
NGN length
Other length

Data platforms

Outpayments											
Carrier admin and billing											
Other SMP elements											
Non-SMP elements											
Total network costs											
Miscellaneous allocated costs											
Total wholesale costs											

Note: These statements are examples that SMP operators may use to create their own statements to fulfil the obligations set out in these guidelines and instructions. They are intended to be illustrative and not definitive. SMP Operators should produce statements that reflect their own networks and activities. These examples are based on appropriate international best practice, which may prove useful as a source for operators as they design their own statements.

A3 Additional Information

A3.1 Explanatory Statements

Each relevant SMP market reported on in P&L statements by the SMP Operator should be covered by a brief explanatory statement, serving the purpose of a general business review and quick guide to any significant changes. The statement should include the following sections:

- Market definition
- Key market products
- Regulatory pricing framework
- Regulatory decisions in the period
- Revenue and volume trends
- Exceptional events and methodology changes

A3.2 Additional Financial Information

Supporting documentation is a vital element in regulatory financial reporting as it allows an SMP Operator to explain and justify outputs and a regulator to understand them and measure compliance accurately. The table below sets out a variety of areas to cover with additional information, which is not definitive but should provide a strong guide to what is required in completing regulatory submissions. As an SMP Operator prepares its full submission, it should consider this guide and discuss information provision with AKEP as part of the constructive engagement both sides are entitled to expect.

Additional information	Purpose
Number of employees per market segment/division/service	Analysis of costs and efficiency
Labour cost per market segment/division/service	Analysis of costs and efficiency
Details of outputs from various research (sample size, population size, statistical observations, methodology etc.)	Understanding of statements
Exceptional costs analysis	Understanding of statements and modelling
LRIC model cost categories for network components, increments and common costs	Understanding of modelling
Activity analysis for network components, increments and common costs	Understanding of modelling
Analysis of routing and usage factors for networks and equipment	Understanding of modelling

Graphs representing cost curves and CVRs	Understanding of modelling
Analysis of depreciation and CCA evaluation by asset categories and network activities	Understanding of statements and asset-related transactions
Analysis of network capital employed and network components	Understanding of statements
Income analysis detailing call charges, discounts, charge types, packages and tariffs, user options etc	Understanding of revenue statements and margin squeeze analysis
Analysis of marketing spend relating to campaigns and promotions	Understanding of marketing costs

Note: This type of additional reporting will be confidential between AKEP and the SMP Operator and will not form a part of publicly available reporting.

A4 Audit Opinion

The following is a suggested audit opinion format showing the type of statements expected from an auditor on completion of the audit of separated accounts and cost accounting outputs.

‘We have audited the enclosed regulatory financial submissions of the firm xxx, consisting of regulatory financial statements (profit and loss, mean capital employed, reconciliations, unit cost reports, statement of responsibility by the Board, transfer charging report), accounting documents (principles, definitions, policies, evaluation methods, cost model descriptions etc) and the documented description of cost allocations.

Management responsibility for the regulatory financial statements
The company management is responsible for the preparation and objective presentation of financial statements in the appropriate format for and in compliance with accounting separation and cost accounting obligations imposed by AKEP. The responsibilities of company management include the definition, implementation and maintenance of internal controls required to enable the preparation and presentation of regulatory financial statements that do not include significant error or fraud. Management must select and implement appropriate accounting policies and define methodologies for modelling and evaluation appropriate to circumstances.

Auditor responsibility
Our responsibility is to express an opinion on the regulatory financial statements based on our audit. The audit has been performed in accordance with accounting separation and cost accounting obligations imposed by AKEP, requiring that the audit establish that regulatory financial statements give a true and fair view of xxx’s business and do not contain significant mistakes.

The audit involves procedures to collect audit evidence relating to amounts and statements in regulatory financial submissions. We have examined the reconciliation of cost model data with regulatory financial statements and of those statements with statutory financial statements. We have examined cost modelling for correctness and compliance with the provisions of AKEP’s guidelines and instructions. We have examined the compliance of accounting separation and cost accounting performed by xxx with the legal provisions of AKEP decisions.

We have concluded that the evidence of the audit is sufficient to render a sound audit opinion.

Opinion
In our opinion, the regulatory financial statements produced and submitted by xxx give a true and fair representation of the business and activities of xxx in relation to relevant accounting separation and cost accounting obligations imposed by AKEP.

During this audit no indications have been found of xxx not complying with the accounting separation and cost accounting obligations imposed by AKEP.’

Note: The text offered above is not prescriptive and is not intended to limit the independent ability of appointed auditors to carry out their work and deliver an opinion on the regulatory compliance of individual SMP operators in Albania.

Annex 3 Consultation Questions

Q1 Regulatory accounting principles (Section 3.2)
Do you have any comments on the regulatory accounting principles presented?

Q2 Cost allocation principles (Section 3.3)
Do you have any comments on the cost allocation principles described?

Q3 Regulatory accounting documentation (Section 3.4)
Do you have any comments on the regulatory accounting documentation which is described?

Q4 Audit (Section 3.5)
Do you have any comments on the processes for the appointment of auditors and the undertaking of the audits?

Q5 Publication (Section 3.6)
Do you have any comments on the publication requirements set out?

Q6 Summary guidance (Section 3.7)
Do you have any comments on the general guidance provided?

Q7 Allocation methodology (Section 4.1)
Do you have any comments on the allocation methodologies described?

Q8 Cost accounting (Section 4.2)
Do you have any comments on the cost accounting methodologies described?

Q9 Long Run Incremental Cost (Section 4.3)
Do you have any comments on the description of LRIC methodologies?

Q10 Transfer charging (Section 4.4)
Do you have any comments on the approach proposed to transfer charging?

Q11 Reconciliation (Section 4.5)
Do you have any comments on the reconciliation principles proposed?

Q12 Audit (Section 4.6)
Do you have any comments of the audit requirements required?

Q13 Data Integrity and Maintenance (Section 5)
Do you have any comment on the data integrity and maintenance requirements?

Q14 Transparency (Section 6.1)
Do you have any comments of the transparency requirements?

Q15 Confidentiality (Section 6.2)
Do you have any comments on the confidentiality arrangements described?

Q16 Publication (Section 6.3)
Do you have any comments on the Publication requirements described?

Q17 Relevant markets (Section 6.4)
Do you have any comments on the approach proposed to deal with SMPO and non-SM markets?

Q18 Timescales (Section 7)
Do you have any comments on the proposed timescales and transition arrangements proposed?

Q19 Cost Accounting Instructions (Annex 1)
Do you have any comments on the cost accounting instructions presented?

Q20 Example Reports (Annex 2)
Do you have any comments on the proposed report formats based on the examples provided?

Q21 Additional Information (Annex 2, Section A3)
Do you have any comments on the additional information requirements set out?

Q22 Audit Opinion (Annex 2, Section A4)
Do you have any comments on the audit opinion requirements set out?