



# **FAIR TRADING COMMISSION**

## **TERMS OF REFERENCE**

**ENGAGEMENT OF CONSULTANTS TO DEVELOP GUIDELINES FOR A  
LONG RUN INCREMENTAL COST (LRIC) MODEL AND TO REVIEW THE  
CABLE & WIRELESS (BARBADOS) LTD. LRIC MODEL**

**Date: May 20, 2010**

## 1. INTRODUCTION

The Terms of Reference presented in this document relate to the engagement of a consultancy<sup>1</sup> to provide technical assistance to the Fair Trading Commission (the Commission) for the development of guidelines for a Long Run Incremental Cost (LRIC) Model and the review of the LRIC Model to be submitted by Cable & Wireless (Barbados) Ltd. (C&W).

## 2. BACKGROUND

The Commission is a statutory body established by the Fair Trading Commission Act CAP. 326B of the Laws of Barbados. The Commission is responsible for, *inter alia*, regulating utility services, safeguarding the interests of consumers, and promoting and maintaining effective competition in the Barbados economy. The Commission currently regulates domestic and international telecommunications services of C&W and the Barbados Light & Power Company, the country's sole provider of electricity.

Section 4 (3) (a) of the Fair Trading Commission Act allows the Commission to:

*“Establish principles for arriving at the rates to be charged by service providers.”*

A similar provision exists under Section 3 (1) (a) of the Utilities Regulation Act, CAP. 282 of the Laws of Barbados while Section 6 (1) (d) of the Telecommunications Act CAP. 282B of the Laws of Barbados states that the Commission shall

*“Establish and administer mechanisms for the regulation of prices in accordance with this act, the Fair Trading Commission Act and the Utilities Regulation Act;”*

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<sup>1</sup> The consultancy may be an individual or team of persons.

The Commission therefore requires service providers such as C&W to submit financial and accounting data for review and testing.

As part of the Commission's decisions dated June 30, 2003 and July 1, 2003 - Interconnection Guidelines - Accounting, Costing and Pricing Principles (the Decisions), C&W was required to offer interconnection charges in the form of Reference Interconnection Offers (RIO) based on the following:

- (a) Fully Distributed Cost, Historical Cost Accounting (FDC HCA) available for the first three (3) months following the Decision, then
- (b) Fully Distributed Cost, Current Cost Accounting (FDC CCA) available for the next six (6) months, and finally
- (c) Total Service Long Run Incremental Cost Accounting (TS LRIC) nine (9) months after the decision.

C&W is still using the historic cost accounting methodology. The company has implemented an Enhanced Allocation Model (EAM) which is based on FDC HCA methodology for cost separation of their regulated and non-regulated businesses. The EAM provides outputs that include a profit and loss account and a balance sheet reported by retail service.

The Commission recently concluded consultation on the C&W Consolidated Reference Interconnection Offer (RIO), and respondents were of the view that interconnection charges are high because long run incremental costs have not been used as a basis for the tariffs.

In its decision on the C&W Consolidated RIO issued February 22, 2010 the Commission determined that C&W should implement the LRIC methodology. The

Commission is therefore seeking to retain a consultant to assist with the development of guidelines on which the LRIC Model would be based and with the review of the LRIC model and its operation when it is submitted by C&W.

The Commission has also issued a Terms of Reference for the engagement of a consultant to review the Enhanced Allocation Model (EAM). Proposals may be submitted for both of these projects.

### **3. OBJECTIVE**

The objective of this consultancy is to assist the Commission with overseeing the development of guidelines and the ultimate implementation of a forward-looking LRIC Model based on adoption of a common set of principles and best practices. As such, the proposed guidelines should settle issues on the methodology to be used in preparing the accounts on a LRIC basis. The LRIC Model would be used in establishing cost-based interconnection rates.

Based on the foregoing, during the first phase of this project, C&W shall be required to submit to the Commission a framework of its proposed methodology for developing a LRIC model. Once this process is completed, the Commission will, in accordance with section 4 (4) of the Fair Trading Commission Act, issue a consultation paper inviting comments from service providers, consumer groups and interested parties. After review of the responses the Commission will issue a decision on the Guidelines for LRIC implementation which will set out the overall model principles and assumptions and identify any further processes.

In the second phase of the project, C&W shall be required to use the principles and assumptions identified in the guidelines agreed above and build the model, providing the Commission with a draft costing manual, key cost assumptions and

preliminary cost study results as well as preliminary interconnection rates. The Commission's consultant shall assist the Commission in reviewing this submission.

Based on the review in the final phase of this project, C&W shall implement the model and shall file, among other things, the final costing manual, key cost assumptions, model results and LRIC based interconnection rates.

#### **4. SCOPE OF WORK**

The Commission anticipates that the work will be carried out in three (3) distinct phases. Whilst the retained consultant would be required to support the Commission through all phases of the process and the contract will be for the full project, payment will be made on satisfactory performance of each phase.

##### **Phase 1**

In the first instance, the Consultant shall be required to assist the Commission with establishing a set of guidelines which would form the basis on which C&W would build a LRIC Model by:

- Reviewing the framework for the LRIC model submitted by C&W taking into consideration any conditions set out by the Commission;
- Engaging in discussions with the Commission and C&W to reach agreement on key parameters, terms, definitions and data sources to be used during the exercise;
- Assisting the Commission with the preparation of a consultation paper and review of the responses; and
- Assisting the Commission in determining the Guidelines for the LRIC model.

## **Phase 2**

- The consultant shall be required to review the model results as provided by C&W;
- The consultant shall be required to review the draft costing manual, key cost assumptions, preliminary cost study results; and
- The consultant shall also conduct an analysis of proposed interconnection rates and make any recommendations for revision.

## **Phase 3**

- The consultant shall be required to review and report on the output of the revised model, including the final costing manual, key assumptions and interconnection rates.

## **Miscellaneous**

- The consultant shall be expected to identify, evaluate and give feedback on critical issues that could impact on the timeliness or quality of the project.
- The consultant shall ensure that there is a high level of involvement of the Commission's staff during this engagement to facilitate effective transfer of knowledge and expertise.

## **5. DURATION**

The Commission is seeking to formally engage the services of the consultants with effect from September 06, 2010.

The first phase of the project is required to be completed no later than six (6) months after commencement.

## 6. REPORTS

The consultant shall submit to the Commission, five (5) copies of the following:

- An Initial Report within four (4) weeks from the start of the project indicating any areas of difficulty that could impact on progress of the project.
- Interim Reports as agreed between the Commission and consultant throughout the project indicating the degree of progress and tasks completed, together with a statement of any issues likely to impact on the completion of the project.
- A Final Report on Phase 1 by the end of March 2011.
- Final Reports on Phase 2 and Phase 3 to be determined at a later date.

## 7. PROPOSALS

The Consultant shall be required to submit one proposal which is to include:

- A project plan detailing the approach, methodology and dates for completion of tasks to meet the specified deadlines; revision of the specified deadlines may be discussed with the Commission; a list of the individual persons that will be involved in the project along with details of their expertise and the amount of time each would be expected to contribute to the project. The consultants should demonstrate expertise and experience in the areas of regulatory matters and cost study development. Previous work in the Caribbean or other developing countries would be an asset.

- A schedule of fees, the time each consultant is expected to spend on the project, the stages of payment, travel and accommodation and other expenses related directly to the project. The schedule of fees included in the proposal should be related to the deliverables at each stage of payment.

Any matters which are considered pertinent to the work to be performed but which have not been included under the “Scope of Work” should be included in the proposal as well as the costs associated with additional work.

The deadline for the receipt of proposals is **July 7, 2010**.

## **8. EVALUATION OF PROPOSALS**

Proposals will be evaluated based on the consultant’s experience, qualifications, and the quality of the proposals. The Commission is not bound to accept the lowest or any offer. Proposals should be submitted by 4:00 p.m. on **July 7, 2010** to:

**Chief Executive Officer  
Fair Trading Commission  
Good Hope  
Green Hill  
St. Michael  
Barbados**

Queries may be directed to the Director of Utility Regulation, Sandra Sealy, at [ssealy@ftc.gov.bb](mailto:ssealy@ftc.gov.bb).

An electronic copy should also be submitted to the Fair Trading Commission at: [info@ftc.gov.bb](mailto:info@ftc.gov.bb).



The Commission will evaluate the proposals and will advise parties of its decision by **August 6, 2010**.

## **9. ADMINISTRATION**

Meetings with the Commission and other interested parties will be agreed at the commencement of the project or as required.

The Commission will provide physical office accommodation.

## **10. SUMMARY OF KEY DATES**

<b>Activity</b>	<b>Date</b>
Submission of Proposal	July 07, 2010
Selection of Consultant	August 06, 2010
Start Date	September 06, 2010
Initial Report	Within four (4) weeks of the start date
Submission of Final Report of Phase 1	March 31, 2011
Submission of Final Report of Phase 2	To be determined
Submission of Final Report of Phase 3	To be determined