



FAIR TRADING COMMISSION

TERMS OF REFERENCE

**ENGAGEMENT OF CONSULTANTS TO REVIEW THE
CABLE & WIRELESS (BARBADOS) LTD'S
ENHANCED ALLOCATION MODEL**

Dated: May 20, 2010

1. INTRODUCTION

The Terms of Reference presented in this document relate to the engagement of a consultancy¹ to provide technical assistance to the Fair Trading Commission (the Commission) for the review of the Cable & Wireless (Barbados) Ltd. (C&W) Enhanced Allocation Model (EAM).

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.

In 2007, the Commission carried out a review of its 2005 Price Cap Mechanism, which was used to regulate the fixed domestic and international telecommunications services of C&W.

Under section 4 (3) (a) of the Fair Trading Commission Act and section 3 (1) of the Utilities Regulation Act CAP. 282 of the Laws of Barbados, the Commission has the responsibility to set rates for the regulated services. Further, in section 6 (1) (d) of the Telecommunications Act CAP. 282B of the Laws of Barbados it states that the Commission shall:

¹ The Consultancy may be an individual or team of persons.

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

The foregoing sections of the Fair Trading Commission Act, Utility Regulation Act and the Telecommunications Act respectively give the Commission the authority to review and test such financial information and/or models used by the service provider in arriving at the rates to be charged.

In performing these functions the Commission has collected financial and accounting information from C&W.

In reviewing the 2005 Price Cap Mechanism, the Commission examined C&W's methodology for assigning the revenues and expenditures of its regulated services. C&W uses an EAM to achieve this objective. This model is based on a Microsoft Excel workbook and was originally produced as part of an internal C&W exercise designed to analyse the profitability of its Caribbean business services. The EAM outputs are a profit and loss account and a balance sheet reported by retail service. Additionally it provides a set of network charges for use of the Public Switched Telecommunications Network (PSTN) applicable to C&W's retail services as well as network charges for third parties interconnecting to the PSTN for termination and transit services.

During the review several areas of potential improvement were identified relating to how the allocation of revenues and expenditures of the regulated and unregulated services of C&W are determined. The Commission is of the view that enhanced administrative oversight of the EAM should include instituting formal processes to oversee changes to critical areas in the model and providing guidelines under which parameters such as allocators may be changed. This would assure the integrity of the information provided to the Commission in respect of the regulated services of

C&W and facilitate improved analysis of the EAM for price cap and regulatory reporting purposes.

In view of the foregoing, the Commission is seeking to engage the services of a consultant with the necessary background experience in financial modelling. Such person would be able to assist the Commission in assessing and analysing the operational methodology of the EAM and provide guidance that would assist in achieving consistency, reliability and transparency of the information used to assess the profitability of the regulated services of C&W.

The Commission has also issued Terms of Reference for the engagement of a consultant to develop guidelines for a Long Run Incremental Cost model to be submitted by C&W. The primary focus will be to determine appropriate interconnection costs and tariffs. Proposals may be submitted for both of these projects.

3. OBJECTIVE

The Consultant shall be required to evaluate the C&W EAM and the associated Manual in terms of how it allocates the revenues and expenses for the services provided. The consultant will also provide the Commission with recommendations for the improvement of the model as well as prepare a report detailing the critical interrelationships within the EAM. The consultant shall be required to make recommendations concerning the management of the EAM and also to provide training for Commission staff.

4. SCOPE OF WORK

In accordance with the above objectives the Consultant shall:

- a) Review the EAM manual that is currently used;
- b) Review and report on the process used by C&W in assigning allocators and developing the model;
- c) Provide recommendations for evaluating, monitoring and approval of changes to the model including guidelines for updating allocators;
- d) Review the C&W accounting data used to update the EAM in order to ensure data integrity;
- e) Advise the Commission on the manner in which C&W should update the manual for the EAM;
- f) Identify, evaluate and give feedback on critical issues that could impact on the timeliness and quality of the project;
- g) Train Commission staff. During the engagement 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; and
- h) Examine the implications for the use of the EAM in the LRIC project being undertaken.

5. DURATION

The Commission is seeking to formally engage the services of the consultant(s) with effect from **October 18, 2010**.

The EAM evaluation is to be completed no later than **December 10, 2010**.

6. ADMINISTRATION

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

The Commission will provide physical office facilities.

7. REPORTS

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

- An Initial Report within two (2) weeks of the start of the project indicating any areas of difficulty that could impact on the progress of the project.
- A Final Report detailing all relevant information on the EAM Manual and the EAM pertaining to the scope of works.
- The Final Report shall be presented to the Telecommunications Panel at a meeting and should be submitted no later than **December 10, 2010**.

8. PROPOSALS

The Consultant will be required to submit a proposal which should 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 consultants 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, account separation and price cap development. Previous work in the Caribbean or other developing countries will be considered 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 payment is to be made.
- Any matters which are considered pertinent to the work to be performed but which have not been included under the Terms of Reference should be included in the proposal, as well as costs associated with any additional work.

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

9. 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**

An electronic copy should also be submitted to the Fair Trading Commission:
info@ftc.gov.bb.

Queries may be directed to the Director of Utility Regulation, Sandra Sealy, at ssealy@ftc.gov.bb. The Commission will evaluate the proposals and will advise parties of its decision by **August 6, 2010**.

10. SUMMARY OF KEY DATES

Activity	Date
Submission of Proposal	July 7, 2010
Selection of Consultant	August 6, 2010
Start Date	October 18, 2010
Initial Report	Within two (2) weeks of the start date
Submission of Final Report	December 10, 2010