

CABLE AND WIRELESS (JAMAICA) LTD.
COMMENTS ON RESPONSES TO

**UPDATE OF THE COST MODEL FOR FIXED TERMINATION
RATES – DRAFT MODEL (Document No:
2020/TEL/019/CON.003)**

REDACTED VERSION

10 February 2021

I. INTRODUCTION

1. Cable & Wireless (Jamaica) Ltd. (“**C&WJ**”) welcomes the opportunity to respond to comments to the Office of Utilities Regulation’s (“**OUR**”) Consultation Document, *Update of Cost Model for Fixed Termination Rates—Draft Model*, dated 9 December 2020.
2. We understand that, besides C&WJ, Digicel and the Consumer Advisory Committee on Utilities submitted comments to the Consultation Document. C&WJ is not responding to each statement by these two stakeholders; however, our choice not to address any particular statement does not represent our agreement with such statement.
3. Confidential statements are highlighted and marked with “#”. They are redacted in the version for public release.
4. Please direct any questions you may have to Charles Douglas at charles.douglas@cwc.com.

II. C&WJ'S RESPONSE TO GENERAL COMMENTS

5. Digicel begins its comments with some statements on the consultative process itself. It notes that the Mobile Termination Cost Model is also being updated and asserts that the Determinations of both fixed and mobile termination rates should be issued together as there is a risk of creating “competitive distortions” if the termination rates “became unsynchronized”.
6. C&WJ finds this assertion risible. The market impact of mobile termination rates dwarves that of fixed termination rates. The volume of mobile voice traffic is an order of magnitude greater than that of fixed. Moreover, MTRs are an order of magnitude greater than FTRs. Any misalignment of MTRs with their costs is a far more significant distortion in the market than that of FTRs.
7. Furthermore, the OURs last determination on mobile termination rates (MTRs) was in 2013. It set MTRs until 2018, so we have now entered our the third year with unrevised MTRs. The OURs last determination on Fixed Termination Rates (FTRs) was in 2017 and provided for rates up to 2020. The OUR is on track to revise FTRs on time.
8. Therefore, if the OUR is seeking to minimize market distortion in Jamaica, it should issue the MTR determination as soon as possible.
9. Finally, we note that the determination of mobile and fixed termination rates have never been issued together in Jamaica. The OUR would do the market a disservice by holding back its MTR determination, which seems to have been lost in limbo for months (if not years) now, simply in order to have the same issue date stamped on the FTR determination.

III. C&WJ'S RESPONSE TO COMMENTS TO OUR QUESTION 1: "DO YOU AGREE THAT THE DEMAND PRESENTED ABOVE REASONABLY REPRESENTS THE JAMAICA FIXED MARKET?"

10. Digicel begins its comments on this question by noting that transit traffic is expected rise significantly over the period. C&WJ agrees with Digicel that the OUR should clarify why it believes that transit traffic should be increasing in light of decrease values for other types of voice traffic.
11. However, Digicel then progresses to a statement that appears nonsensical or, at best, irrelevant to this proceeding. It states that "if Flow is not offering direct connections to its mobile network but is instead using its fixed network as a gateway switch... then the costs associated with this traffic should be assigned to mobile termination and not fixed termination." We are now ten years passed discussing and determining what costs are assigned to a cost-based MTR. This issue was been raised and resolved years ago, and the resolution was **not** burying fixed network costs in the mobile termination cost base. The OUR should therefore reject this comment. CW&J invites Digicel to read the OUR's Determination Notice "Cost Model for Mobile Termination Rates" Document Number 2012/TEL/001/DET.001.
12. Digicel then concludes with a statement that appears to ignore how the bottom-up model for fixed network service (designed and consulted upon years ago) actually works: "[i]n respect of non-voice traffic Digicel believes that unless it is carried on a totally separate transmission infrastructure, Flow's self-supply of transmission for its mobile business should be included as a separate network demand and this should be reflected in the routing factors related to transmission systems, site costs, tower costs etc." C&WJ invites Digicel to read the OUR's Determination Notice "Consultation Document on Cost Model for Fixed Termination Rates – Principles and Methodology" Document Number

2015/TEL/006/DET.002. The OUR should reject this comment as inconsistent with its methodology.

IV. C&WJ'S RESPONSE TO COMMENTS TO OUR QUESTION 2: "DO YOU AGREE THAT THE NUMBER OF ACCESS NODES IS REASONABLE AND ACCURATELY REPRESENT THE REALITIES OF THE JAMAICAN MARKET?"

13. Digicel argues that without actual information on the location of access nodes that the OUR should use the same network number and distribution of nodes from the existing Fixed Cost Model.
14. This makes no sense. CW&J has presented arguments why, on the basis of comparison with similar models, the model results are underestimating an appropriate number of nodes.
15. Moreover, the current number of nodes and their types of the two networks that are serving as the basis of this model (the C&W and Columbus networks) are as follows:

Table 1: Node Counts by Technology, CWC and Flow, 2020

	HFC Node	CMTS Hub Node	MSAN	GPON Node	Legacy switch/ DSLAM Node
C&W	0	0	# #	# #	# #
Columbus	# #	# #	0	0	0

16. Thus, even if we were to shut down either of the two networks entirely there would still be significantly more nodes than are in the model presently, i.e., 461.
17. Finally, we note that this underestimation was predictable. The OUR did not take on our proposed migration factors into the model in 2016, but instead modified them to lower factors with little or no justification. It continues to use these flawed migration factors.
18. Thus, all evidence indicates that the OUR continues to underestimate these node counts and should revise its approach. In particular, the OUR has enough evidence to revise the migration factors upward—indeed practice shows that they should be higher than what CW&J originally proposed.
19. Digicel also supports the assumption of 100% migration to NGN from 2020. While C&WJ admits that in 2016, we thought the migration might be close to complete by 2020. It is not. In terms of CW&J node numbers, 14% of the nodes are yet unmigrated, but as these legacy nodes have significantly more customers per node, the percentage of unmigrated C&W subscribers is much higher, # #% of total voice subscriptions. See Table 2.

Table 2: Voice Subscriptions, CWC and Flow, 2020

	Legacy	NGN (MSAN + GPON)	Total	% Legacy
C&W	# # # # # #			38.6%
Columbus	# # # # # # # # %			

Total	#	#	#	295,100	# %
-------	---	---	---	---------	-----

20. Based on this current situation, but acknowledging that the model should reflect forward-looking conditions, we reiterate our proposal from our initial comments: the OUR should bring forward its schedule two years, so that its migrated percentages for 2018 are applied to 2020, for 2019 are applied to 2021, etc. This provides for a reasonable compromise reflecting the reality of the lack of completion but imposing a hypothetical achievement by 2023.

V. C&WJ'S RESPONSE TO COMMENTS TO OUR QUESTION 3: "DO YOU AGREE THAT THE UNITARY COSTS AND TRENDS USED FOR THE RESOURCES ARE ACCURATE FOR A TELECOMMUNICATIONS OPERATOR IN JAMAICA?"

21. We note here that all three stakeholders more or less agree that the unitary costs appear reasonable.
22. Digicel made a similar comment as CW&J with respect to ensuring that there is consistency between the cost assumptions for similar capex items across the fixed and mobile models. CW&J does not believe, however, that the lack of consistency resides in the cost of equipment themselves, but rather in the different cost trends assumed for similar types of equipment.
23. As noted above, the MTRs are an order of magnitude higher than FTRs. While we understand that, under the current methodology, MTRs will always be higher than FTRs, we believe that lack of consistency as well as the other problems with the assumptions we have identified here contribute to the a growing disparity in the difference between MTRs and FTRs, and the greater disparity calculated by the network models in

Jamaica in comparison with the results of pure LRIC BU models elsewhere.
See table 3.

Table 3: Ratio of MTR to FTR resulting from Pure LRIC BU models, Jamaica vs. European Average

Jurisdiction applying Pure LRIC BU models	Ratio of per minute results for 2018, MTR, FTR	Ratio of per minute results for 2020, MTR, FTR
Jamaica	11.66	11.83
Average Europe	9.99	9.59

Note: Calculations based on data from OUR; BEREC, Termination rates at European level July 1917, BoR(17)227; and BEREC, Termination rates at European level July 2020, BoR(20)209

VI. C&WJ'S RESPONSE TO COMMENTS TO OUR QUESTION 4: "DO YOU AGREE THAT THE RESOURCES OBTAINED ARE REASONABLE TO SATISFY DEMAND?"

24. As in its comment to Question 2, Digicel raises an issue that has been long ago decided in OUR methodology consultations. The bottom-up model designs a network for fixed services, nothing more. So Digicel's comment about whether microwave towers used for backhaul might be also used for mobile networks is not relevant, just as a comment of whether the infrastructure built for mobile networks might be used for fixed services would not be relevant for the mobile network LRIC model. The OUR should therefore reject Digicel's comment.
25. Similarly, the OUR should reject Digicel's comments in respect of fiber capacity. Although it is not very clear in this version of the model, we understand that all the facilities that carry voice and data are

appropriately dimensioned by voice and data volumes carried to and from the fixed access network. It would not be conceptually or methodologically acceptable to do otherwise, nor would it be consistent with what has been decided long ago in public consultation with the OUR. Thus, Digicel's concern about fiber costs appears misplaced.

VII. C&WJ'S RESPONSE TO COMMENTS TO OUR QUESTION 5: "DO YOU AGREE THAT THE COST STRUCTURE SHOWN [IN TABLE 5] IS REASONABLE FOR AN OPERATOR WITH THE DEMAND AND CHARACTERISTICS OF THE MODELLED OPERATOR?"

26. Digicel and CW&J both have issues with the structure of costs. These issues are different—Digicel suspects that Network Opex should be lower; CW&J suspects the share of Cost of Capital, depreciation and OpEx should be higher. We note CW&J has put specific reasons forward why its position should be so; whereas Digicel is simply comparing two sets of cost structures. In any case, we trust the OUR will provide further explanation for the trends and distribution in due course.

VIII. C&WJ'S RESPONSE TO COMMENTS TO OUR QUESTION 7: "DO YOU WITH THE ROUTING FACTORS USED?"

27. Digicel believes that the routing factors have errors. We believe that the factors that appear anomalous to Digicel are not so, but are rather the result of the unit conversion factor.

28. However, that said, nothing can be lost by a review by the OUR.

29. Digicel's other comment, which relates to including non-voice mobile demand is moot given, as we have stated above, the standard

methodology determined many years ago in consultation and applied to the previous and this current model.

IX. C&WJ'S RESPONSE TO COMMENTS TO OUR QUESTION 8: "DO YOU AGREE THAT THE SERVICES' UNIT COSTS OBTAINED ARE REASONABLE?"

30. In its final comment, Digicel appears to be saying that since there was a threefold increase in non-voice demand over the 2020-2025 period, there ought to be roughly a threefold decrease in the unitary costs over the same period.
31. Given that the termination unit costs are calculated with the pure LRIC standard their stability in light of increasing non-voice demand should not be surprising. The impact would be much greater under a LRIC+ or standalone cost standard. However, where the LRIC+ and standalone cost standard are applied, it is for services which are little impacted by non-voice traffic (transit and emergency calling). Thus, we do not believe Digicel's observation is relevant.
32. To the contrary, we continue to believe that the flaw is elsewhere and that the unit costs obtained are underestimated. We therefore urge the OUR to make the reasonable modifications that we have proposed for the model.

End of document