Digicel

Digicel's comments

on

The Office of Utilities Regulation Consultation Document

on

Cost Model for the Assessment of Fixed Infrastructure Sharing Rates

22nd March 2021

OFFICIAL STATEMENT

We thank you for providing this opportunity for Digicel to make a submission on the Cost Model for the Assessment of Fixed Infrastructure Sharing Rates Draft Model. Digicel is, of course, available and would be happy to discuss our submission further.

The comments as provided herein are not exhaustive and Digicel's decision not to respond to any particular issue(s) raised in the Consultation Document does not necessarily represent agreement, in whole or in part nor does any position taken by Digicel in this document represent a waiver or concession of any sort of Digicel's rights in any way. Digicel expressly reserves all its rights in this matter generally.

Please do not hesitate to refer any questions or remarks that may arise as a result of these comments by Digicel to:

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General

Digicel notes that this consultation process relates to the development of a cost model which might potentially be used as part of the assessment of access disputes in respect of fixed network infrastructure.

Digicel supports this initiative together with the publication of indicative model outputs. This approach gives guidance to the market and provides the incumbent confidence that the Office has a robust methodology to ensure its ability to recover is costs. It also provides potential access seekers confidence that should there be failure to provide access on acceptable terms the Office has the capability to make timely market interventions.

Question 1: Do you agree with the parameters included in worksheet "2A INP NW" of the Fixed Infrastructure Sharing Cost Model? Please justify your position and provide supporting information and references.

Digicel notes that the sheet 2A INP NW indicates that all fibre is aerial (Cells F46, F47).

If this was the case, then there would be no contributions from either duct or cable landing stations to the price of dark fibre and these elements would not need to be modelled.

There is no category for submarine cable which also provides inter-urban capacity in the Jamaican market.

The cost base for terrestrial and submarine cable will be separate and the model should provide separate costing and pricing for these distinct forms of dark fibre capacity.

Digicel notes that duct and dark fibre access are used as baseline building blocks of networks and contracts for such access often takes the form of an Irrevocable Right of Use (IRU). These typically have upfront payments equating to the "capital" value of the access with a recurring annual operational charge. Ideally, the model should indicate how the output prices would be reflected in such a pricing construct.

Question 2: Do you agree with the relationships and usage factors defined between the different resources and the services included in the Fixed Infrastructure Sharing Cost Model? Please justify your position and provide supporting information and references.

Digicel does not agree with the usage factor for poles. The model outlines average cables carried. It is not clear how the model considers situations where the poles carry cables for copper based services.in this scenario, the cost of the pole will have a shared attribution between copper based and fibre based services. This would reduce the cost contribution of the pole to the dark fibre costs.

Digicel notes that the Description of the Fixed Infrastructure Sharing Cost Model outlines that while there are on average, 4 ducts per trench, only 50% of them are used and that this is an Axon assumption.

There is a significant difference between "used" and "usable". If the duct is usable but currently unused then it is available for the duct access service. The initial design of the trench and its capacity was for 4 ducts. The trench cost should be apportioned across all usable ducts even if not currently in service. The additional ducts consume trench resources and should have the costs of those resources attributed to them.

Similarly, the apportionment of pole costs is based on the computed number of lit pairs in a cable. A rational operator would not purchase cable, a pole route has a significantly higher fibre count than its medium term to long term requirement. Therefore, the apportionment methodology should be based on the actual fibre count not the lit count.

Question 3: Do you agree with the unit costs and useful lives considered in the Fixed Infrastructure Sharing Cost Model? Please justify your position and provide supporting information and references.

Digicel does not agree with the approach proposed in respect of long life network assets such as poles and ducts. The proposed use of a CCA approach for assets which are substantially depreciated and for

which there is unlikely to be alternative competing market entry runs the significant risk of over recovery by the incumbent.

Where these assets can be reused for the provision of fibre based NGA services the appropriate approach is to use a HCA methodology. This distinction was recognised by the European Commission in its 2013 Recommendation[1] on costing methodologies to promote competition and enhance the broadband investment environment.

Paragraph 33 of this recommendation states "NRAs [National Regulatory Authorities] should value all assets constituting the RAB [Regulatory Asset Base] of the modelled network on the basis of replacement costs, except for reusable legacy civil engineering assets." [emphasis added]

This excludes the use of legacy (i.e. embedded) civil engineering assets such as duct and poles from the replacement cost methodology.

The reasoning for this approach is set out in paragraphs 34 to 39 of the recitals to the Recommendation.

Digicel notes that this approach was adopted by the Irish Regulator in 2016[2] and reapplied in 2018.[3]

The cost of each category of modelled asset will be a mixture of United States Dollar denominated cost and Jamaican Dollar denominated costs. It is not clear what the proportionate weighting for each currency is for the different modelled assets and services.

Digicel does not agree with the proposed asset lives.

In particular we believe that even within the bounds of a +/- 30% randomisation the asset lives for poles is significantly understated. Arguments in favour of a longer assumed lifetime for poles are supported by a 2016 report prepared by Jeffery J. Morrell of the Department of Wood Science & Engineering at Oregon State University on behalf of the North American Wood Pole Council.[4] This report advocated a predicted service life for poles of over 40 years, even in the most demanding regions of the US, with the report further stating that the actual lifetime is likely to be in excess of 55 years.

Even allowing for the 30% "randomisation" of input data both wooden poles and concrete poles appear to carry similar quantities of cable and have not dissimilar asset lives. However the cost of concrete poles produced by the model is more than 5 times the cost of wooden poles. No rational operator would spend 5 times the money on an asset that had equivalent capacity and only marginal additional asset life. This sense check indicates that the asset life for concrete poles is also seriously underestimated.

In terms of the other asset lives there appears to be some inconsistency. The trench asset life is set at 35 years however the asset life for the duct and manholes within the trench are shorter at 33 years. It is Digicel's expectation that if the trench has a life of 35 years then the elements within it will have the same usable asset life.

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[1] 2013/466/EU: Commission Recommendation of 11 September 2013 Consistent non-discrimination obligations and costing methodologies to promote competition and enhance the broadband investment environment

[2] Pricing of Eir's Wholesale Fixed Access Services - ComReg 16/39

[3] Market Review Wholesale Local Access (WLA) provided at a Fixed Location Wholesale Central Access (WCA) provided at a Fixed Location for Mass Market Products Response to Consultation and Decision - ComReg 18/94

[4] TB_Est_Servic_Life_of_Wood_Poles

Question 4: Do you agree with the inputs included in the Fixed Infrastructure Sharing Cost Model regarding the ancillary services? Please justify your position and provide supporting information and references.

Digicel notes that where an assessment is carried out by the incumbent on foot of an access request this information is also of use for the incumbent's own internal planning purposes for future deployments. Therefore, Digicel believes that the feasibility study should have a parameter factor less than 1 applied to it.

Question 5: Do you agree that the services results obtained in the Fixed Infrastructure Sharing Cost Model are a reasonable reflection of the inputs outlined and the methodology determined? Please justify your position and provide supporting information and references.

Digicel believes that based on issues raised in the previous answers, the modelled outputs would allow for over-recovery of the costs by the incumbent.

In terms of duct rental, Digicel notes that it is unlikely that an access seeker will rent an entire duct but rather will rent space to install a subduct. What is included in the duct rental and subduct rental prices should also be explicitly stated in the documentation accompanying the model.

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