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Office of Utilities Regulation

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# **Indirect Access: The Cost - Benefit Analysis for Two – Stage Dialing**

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## **Consultative Document No. 3**

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**OFFICE OF UTILITIES REGULATION**

## **Abstract**

The Office of Utilities Regulation (OUR) commenced the consultative process on Indirect Access in February of 2003 pursuant to its mandate under Section 4 (2) of the Telecommunications Act (2000) which states:

*“... In making a decision in the exercise of its functions under this Act the Office shall observe reasonable standards of procedural fairness, act in a timely fashion and observe the rules of natural justice, and without prejudice to the generality of the foregoing, the Office shall -*

***(a) consult in good faith with persons who are or are likely to be affected by the decision...”***

Since then the OUR has published two Consultative Documents on the matter, in February of 2003 and again in February 2006. These publications have focused on various issues of Indirect Access ranging from, a definition of Indirect Access, the form of Indirect Access to be introduced, cost recovery, cost-benefit analysis, unfair burden test, billing arrangements, service specifications, implementation issues and timescales, and general rules of operation for Indirect Access operators. This consultation on the matter of Indirect Access will present the cost-benefit assessment and unfair burden test of introducing Two-stage dialling (2SD) notably through the use of direct exchange lines (DELs). This cost-benefit analysis and unfair burden assessment in turn provides the parameters for determining whether to mandate this form of Indirect Access in fixed retail telecommunications markets in Jamaica. This work precedes a similar process of cost-benefit analysis to be conducted on the more traditional forms of Indirect Access (Carrier Pre-selection, Call Selection, Carrier Pre-selection with call by call override). The cost-benefit analysis produces a net benefit to society, whilst the assessment has identified no unfair burden that is likely to result from requiring C&WJ (as a dominant operator in the relevant economic markets) to enable 2SD services from DELs.

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## Comments from Interested Parties

Persons who wish to express opinions on this third Consultative Document on “Indirect Access in Telecommunications” are invited to submit their comments in writing to the OUR. Responses to this Consultative Document should be sent by post, fax or e-mail to:-

Carey Anderson

P.O Box 593

36 Trafalgar Road, Kingston

Fax: (876) 926-3635

Email: canderson@our.org.jm

**Responses are requested by, Friday, August 24, 2007.** Any confidential information should be submitted separately and clearly identified as such. In the interest of promoting transparent debate, respondents are requested to limit as far as possible the use of confidentiality markings. Respondents are encouraged to supply their responses in electronic form, so that these can be posted on the OUR's Website, <http://www.our.org.jm> , (or a link included where the respondent wishes to post its response on its own website).

### Comments on responses

The Office's intention in issuing this Consultative Document is to present, for consultation, the results of its cost benefit analysis and assessment of any unfair burden arising from the introduction of 2SD using DELs. The responses to this Consultative Document are a vital part of that public debate, and so as far as possible, should also be publicly available. The Office considers that respondents should have an opportunity both to have access to the evidence and opinions submitted in other responses, with which they may disagree, and to comment on them. The comments may take the form of either correcting a factual error or putting forward counterarguments.

**Comments on responses are requested by Friday, September 14, 2007,**

### Arrangements for viewing responses

To allow responses to be publicly available, the Office will keep the responses that it receives on files, which can be viewed by and copied for visitors to the OUR's offices. Individuals who wish to view the responses should make an appointment with Gillian Henderson, at the OUR Information Centre, by one of the following means:-Telephone: (876) 968-6053, email: ghenderson@our.org.jm

Fax: (876) 929-3635

The OUR's offices are at:

3<sup>rd</sup> Floor, PCJ Resource Centre, 36 Trafalgar Road, Kingston 10

Office of Utilities Regulation

Indirect Access: The Cost-Benefit Analysis for Two-Stage Dialling; A consultative Document

Document No: TEL 2007/12

July 14, 2007

The individual will be able to request photocopies of selected responses at a price, which reflects the cost to the OUR.

## **Timetable**

The timetable for the various public consultations including an indicative date for publication of Determination Notice is set out in the Table below:-

Event	Proposed Date
Publication of Third Consultative Document on Indirect Access	Thursday 12, July 2007
Responses to Third Consultative Document	Friday 24, August 2007
Comment on Responses	Friday 14, September 2007
Determination	Friday 12, October 2007

**This Consultative Document is not to be construed as a legally binding document and does not constitute or amount to legal, commercial or technical advice of the Office of Utilities Regulation. This consultation is hereby engaged in without prejudice to the legal position of the Office and its duties under applicable legislation. Additionally, the views and opinions expressed herein reflect the Office's present considered view and as such should not be construed as a definitive position of the Office.**

## Introduction

- 1.0 The OUR embarks on this third consultative document on the matter of Indirect Access with a view to making a determination on whether the cost-benefit analysis (CBA) and unfair burden test results provide support for the introduction of Two-stage dialling (2SD) using direct exchange lines (DELs) for international outgoing calls from fixed lines, fixed to mobile calls and calls to non-geographical numbers from fixed lines.
- 1.1 2SD involves the use by a service provider of a standard retail service to allow customers to access its services and may be implemented by using either DELs or toll-free lines. The service provider would use and pay for the DEL or toll-free service just like any other customer using these services and no special wholesale arrangements are required.
- 1.2 This move by the Office may appear to contradict the stance the Office took in the two previous Consultative Documents on the matter of Indirect Access and the issue of 2SD in particular. C&WJ has held the view that 2SD is a form of Indirect Access. The Office however did not agree with this proposition on the ground that 2SD does not provide consumers with a similar end-to-end call experience as provided by access network providers and CPS, CS, etc. The Office has argued that in any case 2SD is an inherent functionality within the network setup and therefore there should be no need for the Office to mandate C&WJ to offer this service.
- 1.3 The Office is also not of the view that a particular form of Indirect Access is prohibited unless it is mandated by the Office. Internet access and toll free access to calling card platform are services that were not mandated by the Office but which could be construed to be provided by Indirect Access.
- 1.4 The Office has received a number of complaints from Operators that they are being obstructed from using 2SD via DELs to provide outgoing international services due to the terms and conditions of C&WJ's service contracts.
- 1.5 The Office has therefore decided that rather than be detained on the point of whether or not 2SD is Indirect Access it will, without prejudice, treat it as such in order to promote competition in the markets for retail telephony services from fixed lines. C&WJ did note in its response to the second Consultation document on Indirect Access that *"...the provision of a toll-free service [a form of 2SD], by C&WJ, which enables its customers to access the platform and networks of other carriers and IAO [Indirect Access Operators] is a form of Indirect Access and is in accordance with section 36(2) of the Act"*.
- 1.6 As such the Office has, pursuant to the provisions of Section 36 of the Telecommunications Act 2000 (here in 'the Act') conducted a cost-benefit

analysis and given proper and adequate consideration to whether requiring C&WJ (as a dominant operator in the relevant economic markets), to allow 2SD, via DELs, imposes an unfair burden on any carrier or service provider.

- 1.7 The cost-benefit analysis results suggests that requiring C&WJ to allow 2SD via DELs may generate a net benefit to society, whilst not imposing an unfair burden on any carrier or service provider. As a result, the Office proposes to make it incumbent on C&WJ to make 2SD available, via DELs, to other operators wishing to provide such services.
- 1.8 Responses to Indirect Access Consultative Document No.2 were filed by C&WJ, Digicel and Merit Communications. These industry players continue to make valuable contributions to the consultative process and their responses are continue to provide important parameters for the Office's Determinations on the matter of Indirect Access, amongst others.

### **Legislative Framework**

- 1.9 Effective competition in the supply of telecommunications services confers benefits to customers as well as carriers and service providers. For customers such benefits usually take the form of improved service quality and reliability, choice of supplier, and lower prices. Competition can also give carriers and IAO incentives to make improvements in their efficiency and to exploit opportunities for growth and innovation.
- 1.10 The aims and objectives of the Office in its regulatory mandate are codified pursuant to Section 4 of the Telecommunications Act, (2000). Under the Act. These include:-
  - a. to promote and protect the interest of the public by-
    - i. promoting fair and open competition in the provision of specified services and telecommunications equipment;
    - ii. promoting access to specified services;
    - iii. providing for the protection of customers
  - b. to promote the telecommunications industry in Jamaica by encouraging economically efficient investment in, and use of, infrastructure to provide specified services in Jamaica.
- 1.11 Other sections of the Telecommunications Act, 2000 provide for the development of a competitive regime within Jamaica's telecommunications sector. These include provisions concerning Number Portability and Indirect Access. The requirements regarding the latter are set out at Section 36 of the Act. Sections 36(1) and (2), provide as follows;-

“(1) The Office may make rules subject to affirmative resolution imposing on a dominant public voice carrier, the responsibility to offer a particular form of Indirect Access to its network to other interconnection seekers, if the Office is satisfied on reasonable grounds that such rules are necessary in the interest of customers and that:-

- a. the benefits likely to arise from the requirement to provide a particular form of Indirect Access outweigh the likely cost of implementing it; and
- b. the requirement to provide the particular form of Indirect Access will not impose an unfair burden on any carrier or service provider.”

(2) In section 36, subsection (1) “Indirect Access” is defined as the method whereby customers are able to select the services of any service provider who uses a public voice carrier’s network to provide specified services”.

1.12 Other provisions of the Act that are likely to have a bearing on the issue of Indirect Access are those at Sections 28, 29, 30, 31, 32, 33, and 34. Other provisions of the Act that are pertinent to the consultation on Indirect Access include Section 8 which sets out the legislative framework for the management, assignment and use of numbering resources for telecommunications. The Office has issued its Determination Notice on the management and allocation of numbering resources for various services. These include numbering resources that are requisite for the proper implementation of call-by-call carrier selection and thus, this subject will receive no further consideration in this document<sup>1</sup> as it is not pertinent to the introduction of 2SD via DELs.

1.13 Following a market analysis conducted by the Office, C&WJ has been found dominant in the markets for (1) fixed line access (2) fixed line domestic retail services (3) fixed line international retail services and (4) fixed network interconnection services<sup>2</sup>. In the remainder of this document, the OUR therefore considers the possible introduction of Indirect Access (via 2SD using DELs) for:

- Outgoing international calls from fixed lines;

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<sup>1</sup> Jamaica National Numbering Plan, Tel 2003/09, October 2003.

<sup>2</sup> See Determination Notice on Dominant Public Voice Carriers, published in July 2003.



- Fixed to Jamaican mobile calls; and
  - Calls from fixed lines to non-geographic numbers in Jamaica.
- 1.14 Given the nature of 2SD using DELs, the OUR does not consider it reasonable to also include in an Indirect Access regime, national fixed-to-fixed calls.

### **This document**

- 1.15 The Office is cognizant of the fact that there already exists to some degree Indirect Access in the form of 2SD in the outgoing international calls market, albeit through the use of toll-free access lines. The Office notes however that there is not a regime for this type of access via the use of DELs, unless access to these DELs is priced at a special rate<sup>3</sup>. The Office believes that this form of access should be available to service providers and Indirect Access seekers should be allowed to use DELs to provide a 2SD service. The Office is of the view that this will bring additional benefits to the society whilst incurring only minimal supplementary costs. On this basis, and as set out in further details below, the Office considers that the introduction of 2SD services via DELs will create a net benefit for the society.
- 1.16 The remainder of this Document is structured as follows:
- a) Section 2 presents the cost-benefit methodology and the economic rationale for the OUR's approach;
  - b) Section 3 present the findings of the OUR's analysis;
  - c) Section 4 requests comment on these findings;and
  - d) Section 5 provides an assessment of the potential Unfair Burden arising from the introduction of 2SD using DELs.

## **Section 2**

### **Cost-Benefit Analysis Methodology**

- 2.0 Typically a cost-benefit analysis for the introduction of a new service looks at the net welfare benefit or loss expected to accrue to society as a result of the introduction of this service. It therefore seeks to quantify all the likely benefits and costs from introducing the service. The difference

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<sup>3</sup> C&WJ does in fact provide wholesale international voice minutes to International Voice Service Providers (IVSPs) wishing to resell C&WJ's international voice service. The IVSP platform can be reached by the use of tollfree lines or may be reached by a regular telephone service (DEL). However since it is a resale service, such calls are rerouted via C&WJ's international network and, as such, the IVSP cannot by-pass C&WJ's international network. This provides only limited scope for competition and hence the potential for price reductions and benefits to consumers is also limited, as compared to the use of 2SD using DELs.

between the expected benefits (quantifiable) and costs is then considered to be the net benefit (quantifiable) to society. A positive net figure implies a net welfare gain to society while conversely a negative figure represents a net welfare loss to society.

- 2.1 In the previous consultative document, the Office solicited comments on the proposed approach to identify and calculate the costs and benefits of Indirect Access. Some Respondents such as Merit Communications (now trading as Flow Jamaica) expressed comfort with the approach proposed but urged the Office to take into consideration when calculating the benefits, the likely gains to businesses and the economy which will occur with the downward pressure on prices induced by new operators or service operators. In the remainder of this section, the Office sets out how this approach has been applied in the specific case in question.

### **The sources of benefits**

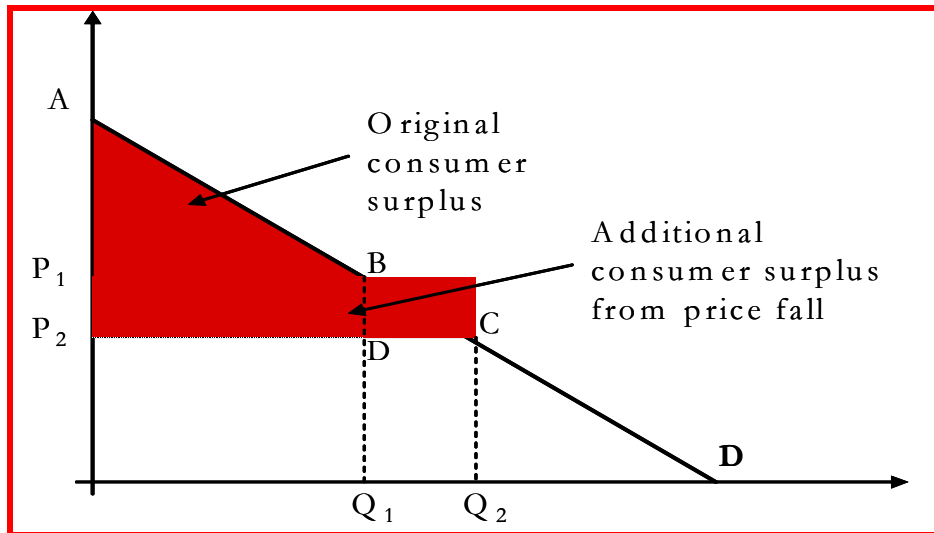
- 2.2 The benefits of 2SD arise from the benefits of the additional competition in the market place that its introduction is likely to stimulate.
- 2.3 The major quantifiable benefit of 2SD stems from the possible price reductions that may occur as a result of increased competition. For example, in the case of international outgoing calls, the Office understands that C&WJ currently prices calls above their estimated unit costs (including the cost of capital)<sup>4</sup>. Therefore, new entrants may be attracted to enter this market in order to gain some of the surplus currently earned by C&WJ. In order to gain market share a new entrant may undercut C&WJ's retail tariffs for these calls. In response, C&WJ may also reduce its call charges. Thus, both consumers who switch to receiving services from new entrants and those who remain with C&WJ are likely to face lower prices as a result of the market entry.
- 2.4 The benefits to consumers can therefore can be divided into two groups:
  - Type 1 benefits accrue to those consumers who switch from the incumbent provider to a 2SD provider. These benefits result from the lower call prices that migrating customers enjoy.
  - Type 2 benefits accrue to those consumers who remain with the incumbent operator (C&WJ). The increased level of customer switching that is precipitated by 2SD may force C&WJ to also reduce tariffs, so yielding these Type 2 benefits.

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<sup>4</sup> This is based on an analysis of information provided by C&WJ to the OUR regarding its compliance with the price cap regime.

- 2.5 Both Type 1 and Type 2 benefits will result in an increase in consumer surplus. Thus, an estimate of the likely scale of consumer benefits from the introduction of 2SD should focus on estimating the increase in consumer surplus generated by the markets in which it is introduced.<sup>5</sup> This is illustrated with reference to Figure 1.

**Figure 1: Consumer surplus**

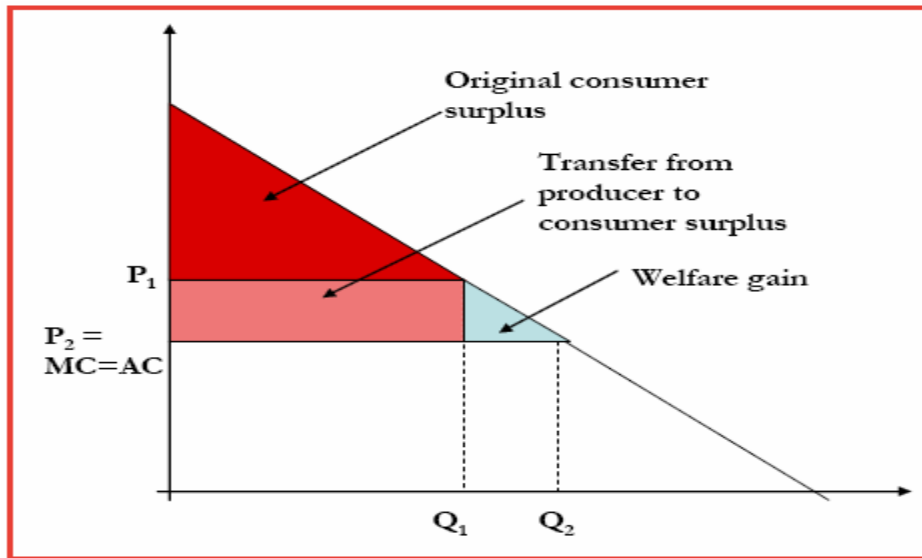


- 2.6 Consumer surplus represents, across all consumers, the difference between what a consumer is prepared to pay for a good and the price actually paid. Thus in Figure 1, the original equilibrium price is assumed equal to  $P_1$  and total consumer surplus arising from consumption of the good is represented by the dark shaded triangle ( $P_1$ , A, B). Following a reduction in price to  $P_2$ , the difference between what consumers are prepared to pay for the good and the actual price paid, increases. Hence consumer surplus increases to include also the lighter shaded area (see Figure 2 below).

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<sup>5</sup> The introduction of additional competition in a market may also yield other benefits to consumers, including increased innovation and improvements in quality of service. However, these can be difficult to quantify and are therefore excluded from the quantitative analysis presented in this document.

**Figure 2: Welfare change**



- 2.7 Part of the increase in consumer surplus may represent a transfer of welfare from producers to consumers. Figure 2 shows the situation where price falls from  $P_1$  to a level  $P_2$ , equal to the average cost of production. Prior to the price reduction the lighter shaded rectangle represented the profit earned by the supplier. Following the price reduction this profit (producer surplus) is transferred to the consumer. Thus, in this situation, consumer benefits from the introduction of competition equate to trapezium bounded by  $P_1 - P_2$  and length  $Q_2$ . The smaller blue triangle represents the overall welfare gain/benefit to society resulting from the reduction in price.

## Estimating the Benefits

- 3.0 The OUR's analysis of the potential benefits of Indirect Access via 2SD (using DELs) focuses on the market for outgoing international calls from fixed lines. International experience suggests that this is the market for which Indirect Access is likely to have most beneficial impact. In its assessment of the benefits of 2SD via DELs, the OUR has therefore concentrated on analysing the potential benefits arising to consumers of these calls. Although this risks understating the benefits, the OUR considers that this is a reasonable and conservative approach to take –as any additional benefits from fixed to mobile calls and calls to non-geographic numbers being available via DEL 2SD will simply increase the scale of potential benefits. As set out below, the OUR does not consider that including these other call types in the cost-benefit analysis will

significantly increase the costs of 2SD operators, and therefore the approach taken by the OUR does not affect the conclusions of its analysis.

- 3.1 As previously described, 2SD is viewed by the Office as a competitive tool that could increase competition in the market for international outgoing calls from fixed lines, fixed to mobile calls and fixed line calls to non-geographic numbers.
- 3.2 Concentrating on outgoing international calls from fixed lines, the Office envisages that with the introduction of 2SD new entrants to the market, i.e., IAO, will undercut the existing market price to make an international call from a fixed network (which presently stands at J\$15 per-minute) so as to attract customers and gain market share. C&WJ is expected to react to this price movement by lowering their prices for international outgoing calls so as to minimise the loss in its market share. As set out in the theoretical framework, consumers can be expected to benefit from these reductions in prices, both from lower call prices and the increased quantity of international calls that will be made following the reduction in prices. This can also be expected to be the case for the other call types under consideration.
- 3.3 The scenario of the cost-benefit analysis described above reflects that of the introduction of an entirely new product or service to the market. However, the OUR is aware that 2SD services, via toll-free lines, are already being marketed by IAO. Therefore, in this cost-benefit analysis, the OUR has sought to consider the incremental costs and benefits to society of requiring C&WJ to also allow IAO (existing and prospective) to offer 2SD services through DELs (i.e., with standard national call charges).

#### **Estimated incremental benefits from 2SD using DELs**

- 3.4 Given that some 2SD services have been introduced, it is not appropriate for the Office to include the total net benefits of 2SD in an assessment of the benefits of 2SD via DELs. The Office has therefore completed its cost-benefit analysis by considering the incremental net benefits from offering 2SD via DELs, compared to offering 2SD only via toll-free lines.
- 3.5 The Office considers that requiring C&WJ to enable IAO to offer 2SD via DELs could serve to promote further price competition in the provision of outgoing international calls from fixed lines, thus generating benefits to consumers over and above those already accruing from the introduction of 2SD using toll-free lines. C&WJ presently charges the called party J\$2.50 per minute (peak and off-peak) for calls to a toll free access line. This compares to tariffs for calls of using a DEL of J\$0.60 off-peak and J\$0.90 peak of per minute usage. Thus, if a service provider uses a DEL to offer 2SD, it can expect to save J\$2.50 per minute compared to the situation

where the IAO uses a toll free access line (because it is no longer paying any local call charges). In a competitive market, it is likely that this cost reduction would be passed on, at least in part, to consumers. Although consumers will now be faced with having to pay a local call charge of up to J\$0.90 per minute, if IAO pass on their cost savings in the form of reduced tariffs, consumers could still expect to make additional savings on 2SD calls of up to J\$1.90 on a per minute basis. As shown in Figures 1 and 2 above, this is likely to generate increases in consumer surplus of at least J\$1.90 on a per minute basis. Therefore, if, on a per minute basis, the incremental costs to society of requiring C&WJ to enable IAO to offer 2SD, is no more than J\$1.90, the Office considers that the introduction of this form of Indirect Access will serve to generate net benefits for consumer.

**Question 1: Do respondents agree with the present Office's per-minute approach to the cost-benefit study for the introduction of 2SD using DELs? If not, please propose a more appropriate approach.**

**Question 2: Do respondents agree with the Office's assessment of the potential benefits from the introduction of 2SD using DELs?**

### **Expected Costs**

3.6 In this section, the OUR considers the potential costs of an Indirect Access regime based on 2SD via DELs. As set out above, 2SD using toll-free lines is already available to consumers and therefore, the analysis of expected costs should, like the benefits set out above, consider only the incremental costs of 2SD via DELs, compared to the current situation where 2SD is available only via toll-free lines. To the extent that the other costs associated with 2SD have already been incurred, they are not relevant for this analysis.

3.7 The OUR considers that these costs fall into two categories:

- For calls already carried by 2SD IAO, the additional costs of routing a call via a DEL number rather than a toll-free number; and
- For calls switching to 2SD as a result of the further price competition, the additional cost of call routing compared to the costs of a direct access call.

- 3.8 When a local 10-digit toll free number is dialled by a caller, the number is “translated” into a pre-determined regular telephone number which is used by the switching network to route the call to its intended destination.
- 3.9 The actual call connection is carried out in the same manner as if the routing number were dialled directly by the caller. In light of this, there should therefore be no additional cost to C&WJ to establish a call connections using regular telephone number in place of a toll free number.
- 3.10 The Office envisages that there should be no net additional conveyance costs on C&WJ’s network (compared to call conveyance costs for outgoing international calls originating via a toll-free line). That is, no additional network connection costs on a per-minute level result from an IAO using DEL access rather than toll-free access.
- 3.11 The other costs that are usually associated with 2SD such as retail and sales costs in this instance will remain on a per minute basis, as is. The Office envisages no new retail or sales costs that will increase the cost of a call on a per minute basis.

#### **The additional cost of routing calls already carried by 2SD IAO**

- 3.12 Compared to routing a call via direct access, a 2SD service will involve additional routing on C&WJ’s network, akin to setting up a second call. The less efficient routing of this call will lead to additional network conveyance costs being incurred for every call made via 2SD IAO that would not otherwise be carried by an IAO. The Office has estimated the potential scale of these costs by analysing C&WJ’s reference interconnection offer charges for call termination. These charges are considered to be cost reflective and therefore the Office believes they provide a reasonable indication of the additional costs of call routing. The call duration element of C&WJ’s call termination charge varies from J\$0.202 per minute (peak) to J\$0.101 per minute (off-peak), whilst the call set-up charge varies from J\$0.236 per call (peak) to J\$0.118 per call (off-peak). Taken together, this suggests that the costs of additional call routing are likely to be less than the consumer benefits that might arise for customers switching to take an Indirect Access service from the introduction of a DEL Indirect Access service (i.e., up to J\$1.90 per minute)..

**Question 3: Are there any additional costs that could result from replacing toll-free access with DEL access to further international outgoing calls?**

### **Cost-Benefit Analysis: the results**

- 4.0 Based on the above cost-benefit analysis, the Office considers that the results clearly indicate that the incremental benefits will outweigh the likely

costs to society of requiring C&WJ to allow 2SD services via DELs. The results, once reaffirmed, will give the Office the authority to make it incumbent on C&WJ to allow the use of DELs by a Service Provider wishing to use these lines to provide international calling from fixed lines, fixed to mobile calls and fixed line calls to national geographic numbers, once this does not place any security risk and/or place C&WJ under any unfair burden or unfair competitive disadvantage.

## **The potential for 2SD via DELs to impart an Unfair Burden on C&WJ**

- 5.0 The issue of unfair burden takes the same prominence in this form of Indirect Access as it did with the other traditional forms of Indirect Access (CPS, CS, etc). The Office addresses the issue here with due consideration of the myriad issues that may affect the incumbent, C&WJ. The Office endeavours in its considerations here, to ensure that its decisions do not unfairly place C&WJ in an onerous and uncompetitive position.
- 5.1 Previously, C&WJ has argued that prospective competitors (IAO) should not be allowed to access C&WJ customers who receive subsidized access rates. It was argued that such a situation would mean that C&WJ would be subsidizing its competitors, placing C&WJ in an uncompetitive position, thus amounting to what may constitute an unfair burden. However, the Office does not consider this situation as one of unfair regulatory burden. C&WJ is not restricted by a sub cap under the generalized pricing cap regime on the pricing of its access service and is therefore free to rebalance its own retail tariffs. The fact that it has not chosen to do so should not therefore lend validity to the issue as a reason for postponing the introduction of 2SD. Any apparent unfair burden obtained in this instance is self-imposed.
- 5.2 In any case C&WJ only partially funds its access service through the revenue from outgoing international calls. Indeed, over recent years outgoing international calls have played an increasingly smaller role in funding the access service. For example, in 2004-05, outgoing international calls from the PSTN contributed approximately J\$467 million to the funding of C&WJ's access service, compared to only J\$383 million in 2005-06. By comparison, in 2004-05 incoming international traffic contributed at least J\$1.6 billion<sup>6</sup>. Introducing 2SD may not therefore

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<sup>6</sup> Cost data for incoming and outgoing international calls was provided by C&WJ to the OUR in the file "*PC Submission service by category and service components as March 31 2005.xls*". Incoming international revenues were provided by C&WJ to the OUR in the file "*OUR data request June 28 2005.xls*" and outgoing international call revenues in the file, "*Price cap compliance model FY 2004-05.xls*". It is not clear  
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significantly affect C&WJ's ability to fund its access service. In support of this, we also note that:

- C&WJ does not face any regulatory constraints in rebalancing its access tariffs towards cost. A sub-cap within the overall price cap applied to C&WJ was removed in the Office's revised price cap determination of January 2004. C&WJ is therefore free, within normal market constraints, to amend its access prices. The fact that it has not chosen to do so should not therefore form a valid reason for postponing the introduction of 2SD.
  - The Office will in due course consult on a revised range for C&WJ's cost of capital. The Office is of the view however that the current cost of capital faced by C&WJ is potentially lower than the 26.7% calculated in 2000<sup>7</sup> reflecting a reduction in inflation expectations in the Jamaican economy. The access network has a relatively higher proportion of capital costs than other parts of C&WJ's PSTN and thus a reduction in the cost of capital applied to C&WJ will reduce its apparent access deficit relatively more than it will reduce the cost of other C&WJ services.
- 5.3 Additional concerns of Unfair Burden have to do with the recovery of costs related to the introduction of the mandated service. To avoid unfair burden, any such costs should be recovered from market participants in a fair and equitable manner. However, the Office foresees no unfair burden to C&WJ in this regard as all costs that may be incurred can be recovered from the IAOs. The Office will further ensure that C&WJ has the opportunity to recover costs it incurs in a reasonable and proper manner, thus not imposing any unfair burden on C&WJ.

**Question 4: Do respondents agree with Office's assessment of Unfair Burden? If not please state why.**

## **Conclusion**

The Office in this leg of the consultative process is intent on bringing this aspect of Indirect Access (2SD) to a close. While 2SD is treated as an interim measure, the Office believes that its impact on the market will provide an important guide

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from the data provided whether the incoming international call revenues include incoming calls to mobiles. The cost estimate includes the costs of incoming international calls terminating on C&WJ's fixed and mobile networks and therefore the estimated contribution of incoming international calls to the access deficit stated above may be underestimated. For incoming international calls we do not have comparable figures for 2005-06.

<sup>7</sup> The Office of utilities Regulation engaged Charles Rivers and Associate to calculate to cost of capital of C&WJ various line of business operations.

for the future assessment of the other traditional forms of Indirect Access. The Office is aware that the longer the process continues the less relevance Indirect Access will have.

The cost-benefit analysis here shows that there is likely to be substantial net benefit to society from enabling existing and prospective IAOs to use DELs for the provision of 2SD services. Further, the Office does not consider that requiring C&WJ to provide access will create an unfair burden for any party. The Office is therefore proposing a regulatory regime wherein C&WJ is required to enable IAO to utilise DELs for the purposes of providing 2SD services for outgoing international calls from fixed lines, fixed to mobile calls and calls from fixed lines to non-geographic numbers.