



**Digicel's Comments on Submissions**  
**to**  
**The Office of Utilities Regulation Consultation Document**  
**On the**  
**Estimate of Weighted Average Cost of Capital for**  
**Telecommunications Carriers**

## **OFFICIAL STATEMENT**

We thank the Office of Utilities Regulation for providing this opportunity for Digicel to comment on the other respondents' submission to the Office's consultation on the review of the Weighted Average Cost of Capital. 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 other respondents' submissions or any particular issue(s) raised by any party relating to the subject matter generally 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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### **Comments on submission from the Consumer Advisory Committee on Utilities (CACU)**

Digicel notes that CACU generally endorses the Office's approach and methodology. This generally aligns with Digicel's response to the Consultation.

Digicel wishes to address two aspects of the CACU's response.

The first is that much of its support for the specific values proposed by the Office is caveated by reference to the information provided by the Office. As Digicel has pointed out in its own submission, the validity of forward projections based on the historical information provided is seriously in doubt given the changed global economic environment as a result of the Covid-19 Pandemic.

The second is the issue of estimating a different WACC for both the Mobile and Fixed Sectors. Digicel notes CACU's support for this approach and its explicit statement that "*this should obtain as long as they are separate networks*". CACU's endorsement of the use of separate WACCs for fixed and mobile aligns with both the Office's and Digicel's views on the issue.

### **Comments on submission from Cable and Wireless Jamaica Limited (CMJ).**

Digicel notes that the broad thrust of much of CWJ's response is to seek the use of single common parameters for the fixed and mobile sectors.

In this regard CWJ's initial area of focus is on whether there is sufficient homogeneity to warrant the use of single WACC.

Digicel is strongly of the view that there are distinct attributes to the fixed and mobile markets in Jamaica which justify the estimation of separate WACCs for both sectors.

While it is correct that Digicel has commenced the deployment of fixed services in some geographic areas of the country, this has been limited in scope and expansion of the footprint has slowed following the initial deployment so that Digicel is primarily a mobile service provider.

Digicel notes that there are a number of holders of Domestic Carrier or Service Provider Licenses; these do not provide Mobile services.

CWJ points out the convergence in technologies in the fixed and mobile core networks however these convergences do not exist in the access network which is a major sink for investment in both markets.

In addition to the technological differences one must also consider the distinct commercial models which exist in the fixed and mobile sectors in Jamaica. Fixed is predominately post-paid with standing charges contributing to the access network cost recovery. This gives predictable recurring revenue and investment and cost recovery aligned to wider economic activity. Mobile

is predominantly pre-paid, with uncertainty as to the level and timing of recharge. The lack of recurring standing charges and a reliance on usage charges means that Mobile is more susceptible to revenue erosion from disruptive services provided using an ad funded model. At an intuitive level the greater uncertainty associated with Mobile would mean that borrowing for investments in this sector would attract a higher premium.

In more developed markets where there are higher levels of discretionary disposable income and where there is a more balanced pre and post-paid mix in the mobile customer base the differences between fixed and mobile might tend towards zero and a single WACC might be justified in the future. But it is not justified in Jamaica at this time.

In terms of the proposed gearing ratios, CWJ raises its objection in principle to the calculation of two separate ratios but gives its agreement in practice due to the output of the calculation. Digicel has also accepted that the OUR proposals are within an acceptable range.

In terms of the estimation of Beta, CWJ again raises its objection in principle and sets out that there is regulatory precedent for the use of a single Beta value. However it offers no specific comment which indicates that the output of the Office's estimations for both Betas are incorrect. The output of the Office's estimation which results in different Betas for fixed and mobile indicates that it was correct not to prejudge the matter.

Digicel notes that even though CWJ references the ECTEL approach as being the appropriate benchmark in a number of areas it glosses over the fact that ECTEL also estimated separate Betas. This indicates a degree of cherry picking which serves to undermine CWJ's assertions that the Office should use ECTEL as an exemplar in the estimation of WACC.

In respect of the MRP, CWJ strongly urges the Office to use the lowest estimate for MRP on the basis that estimating too high a WACC will result in a loss of competition. As Digicel has set out elsewhere, setting too low a WACC can have similar adverse market outcomes. Therefore Digicel encourages the Office not to eschew its proposed approach.

In terms of a number of parameters relating to wider economic performance Digicel once again point out the CWJ response fails to take account of the changed economic situation wrought by Covid-19. The projections for Risk Free Rate, Country Risk Premium, relative inflation, etcetera, are all based on indicators and trends which were stable and predictable and formed a valid basis to project forward. This is simply no longer the case. Digicel believes that the Office should defer completion of this exercise and re-consult on the issue when there is more certainty and stability in the input data.

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