

Digicel

Digicel's comments

to

The Office of Utilities Regulation Consultation Document

on

Update of the Cost Model for Fixed Termination Rates – Draft Model

27th January 2021

OFFICIAL STATEMENT

We thank you for providing this opportunity for Digicel to make a submission on the Update of the Cost Model for Fixed Termination 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 documents 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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General

Digicel notes that this consultation process relates to an update of the existing model while preserving the underlying costing principles. In light of this Digicel has restricted its comments to the specific topics which are being consulted upon.

By way of comment on the process itself, Digicel notes that the Mobile Termination Cost Model is also being updated. Given the position of Flow as both a mobile operator and the dominant fixed operator, Digicel wishes to highlight the risks of competitive distortions should the Determinations in respect of updating both the Fixed and Mobile Termination Rates become unsynchronised.

We trust that the Office will protect against this in the planning of its work program.

Question 1: Do you agree that the demand presented above reasonably represents the demand of the Jamaican fixed market? Please justify your position and provide supporting information and references.

Digicel Response:

Digicel wishes to query the projected doubling of the “Transit” category over the modelled period in a scenario where all other traffic types are projected to decline significantly.

The transit category is projected to move from 30% of all demand to over 60% of all demand over the period.

Transit traffic will arise where other networks do not directly interconnect and instead use the Flow fixed network as an intermediary. At the volumes projected and where a transit charge is being levied there is a clear business case for direct connection of the source and sink networks.

If Flow is not offering direct connection to its mobile network but is instead using its fixed network as a gateway switch for its mobile network then the costs associated with this traffic should be assigned to mobile termination and not fixed termination.

In respect of the 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.

Question 2: Do you agree that the number of access nodes is reasonable and accurately represents the realities of the Jamaican market? Please justify your position and provide supporting information and references.

Digicel Response:

Given that the Office has no actual information as regards the location of access nodes, Digicel agrees that it is not unreasonable to use the same network number and distribution of nodes as included in the existing Fixed Cost Model as inputs to the update. However, Digicel notes the lack of actual information about assets which by their nature are fixed in location. This raises the question as to whether the actual number and locations of nodes would result in a lower FTR.

Digicel agrees with the approach where the C&WJ and Columbus network are effectively considered as one. Even if Flow was to provide information that the two networks were to be maintained separately then this should not be reflected in the model unless it can be demonstrated that this approach gives rise to cost efficiencies. Otherwise, Flow as an SMP operator, would be compensated for inefficient management of its network resources.

Digicel agrees with the approach where the model is based on a fully NGN network from 2020. This is in keeping with the Office's previous Determination.

Question 3: Do you agree that the unitary costs and trends used for the resources are accurate for a telecommunications operator in Jamaica? Please justify your position and provide supporting information and references.

Digicel Response:

Digicel notes that the unitary costs are based on information from Flow which has been validated against international benchmarks or, in the absence of new information, is based on the current model inputs.

Given the commonalities that exist between fixed and mobile networks, Digicel suggest that where relevant, a consistency check is carried out between the fixed and mobile cost models to ensure that similar unitary costs are aligned.

Digicel notes that the outputs from the updated model for 2020 in the 2016 consultation document largely conform to the forecast for 2020 generated by the current model. The most significant divergence appears to be on the transmission side with much higher levels of transmission and ethernet ports being forecast by the updated model.

In respect of the forecast for ethernet ports, Digicel notes that the 2016 consultation outlined that the model was producing different forecasts for the volume of ethernet ports required from NGN nodes and in the transmission network while the output from the updated model is forecasting identical volumes of ports.

Question 4: Do you agree that the resources obtained are reasonable to satisfy the demand? Please justify your position and provide supporting information and references.

Digicel Response:

Digicel is concerned that the fixed model is predicting the need for and including the cost of towers and microwave hops which in practice will already be in place and are primarily used for mobile services. Where Microwave backhaul is used for fixed services this will either also carry mobile driven backhaul traffic or will alternatively be carried only on links installed primarily for mobile services. In terms of tower costs, the incremental loading due to microwave backhaul dedicated to fixed will be marginal. For these reasons Digicel believes that the volumes of towers and microwave links generated by the model as being required for fixed should have a small or zero cost attributed to them.

Digicel notes that the model predicts a length of fibre. The cost of this fibre will depend on the extent to which the cable is for the sole use of the voice network. The incremental cost of a single fibre pair or a DWDM wavelength to support voice services will be very low where the sizing and cost of the cable itself is driven primarily by non-voice or mobile services. It is not clear what modularity of cable size is being used as an input to the model.

Question 5: Do you agree that the cost structure shown above is reasonable for an operator with the demand and characteristics of the modelled operator? Please justify your position and provide supporting information and references.

Digicel Response:

Digicel notes that the proportion of costs which will be attributed to Opex by the updated model are in excess of what was forecast by the 2016 iteration and are trending upwards. Digicel requests that the Office outlines in more detail the drivers of this increase.

Question 6: Do you agree with the routing factors used? Please justify your position and provide supporting information and references.

Digicel Response:

Digicel believes that there are a number of errors in the routing factors for non-voice services as a number of these have routing factors of 600, 1,000 or 2,000.

As outlined previously, Digicel believes that a separate non-voice demand for self-supplied mobile transmission should be added to the model. The dimensioning of this can be readily obtained from the mobile cost model.

Question 7: Do you agree that the unit costs obtained for services are a reasonable representation of the costs in the Jamaican market? Please justify your position and provide supporting information and references.

Digicel Response:

Digicel notes that the updated model outputs for 2020 are below the forecast outputs from the current model. We believe that the primary driver for this is likely to be the relative increase baseline in non-voice demand for 2020 which was approximately 4 times the 2016 forecast for 2020.

Given that the updated model is forecasting a threefold increase in non-voice demand between 2020 and 2025 we would have expected to see a similar downward trend in unitary costs over the period. This is not the case with the rates remaining relatively flat over the period. Digicel would welcome the Office's views on this counterintuitive outcome and an opportunity to comment on these.

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