

CONSUMER ADVISORY COMMITTEE ON UTILITIES

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Office of Utilities Regulation
P.O. BOX 593
36 Trafalgar Road
Kingston 10, JAMAICA
Attention : Evona Channer

Dear Ms. Channer,

Re: Estimate of the Weighted Average Cost of Capital for Telecommunications Carriers

The Consumer Advisory Committee on Utilities (CACU) thanks the Office of Utilities Regulation (OUR) for the opportunity to participate in the consultative process on WACC for telecommunication companies in Jamaica.

In that regard, please find attached, the CACU's response to the Consultation Document on the ***Estimate of the Weighted Average Cost of Capital for Telecommunications Carriers***.

We look forward to further discourse on this important matter.

Regards.

Sincerely yours,

CONSUMER ADVISORY COMMITTEE ON UTILITIES

Carolyn A. Ferguson (Ms)
Engineer & ICT Professional
Committee Member
Consumer Advisory Committee on Utilities
"The consumers' voice on utilities"

Question 1

Do you agree with the approach to estimate separate WACCs for fixed line and mobile?

CACU Response

Yes, we agree that the separation should remain for fixed networks vs mobile networks. This should obtain as long as they are separate networks. The market views the risk as different for both networks. WACC is usually considered after corporate tax (Equation 2).

However we note that the current corporation tax rate is 25% which has been in effect since January 1, 2014. OUR's document states 33.33% on page 11 point 2.4 Tax adjustment.

Question 2

Do you agree with the use of an optimal gearing approach and the ranges specified?

CACU Response

Yes. We agree with the use of the optimal gearing approach which levels the field for all regulated companies and reflects and reflects close to ideal.

Question 3

Do you agree with the approach to estimating the risk free rate? Please give reasons for your response where changes to the approach are being proposed.

CACU Response

We agree with the approach to estimate risk free rate as the reasoning put forward in the documentation uses a sound empirical approach.

Question 4

Do you agree with the estimate of the debt premium? Please be detailed in your response providing data to support your calculation where a different approach/value is being recommended.

CACU Response

Yes, we agree with the estimate of the debt premium

Question 5

Do you agree with the approach to estimating beta? Please provide a detailed response where changes to the approach are being proposed.

CACU Response

Yes we agree with the approach to estimating beta. It continues to be aligned with the forward looking approach that is used to calculate the WACC.

Question 6

Do you agree with the approach to estimating the MRP? Please provide a detailed response where changes to the approach are being proposed.

CACU Response

Yes we agree with the approach to estimating MRP. Considering the “use of annual data from 1953 – 2014 to neutralise outliers on both sides of the mean.”

Question 7

Do you agree with the values to be used for expected inflation for Jamaica and the United States of America?

CACU Response

The document states :

6.3 An IMF report published in March 2015 indicated that “growth should reach 2 percent in 2015/16, and inflation is projected to fall to an average of 5 1/4 percent, largely owing to lower fuel prices”. The projected annual average inflation for fiscal year 2015/2016 for the US economy is 1.9%. The OUR proposes to use these figures for expected inflation in the estimate of the WACC.

This indicates Jamaica’s inflation rate of 5 ¼ percent and 1.9 percent for the US. The sources were reviewed, the IMF Seventh review for Jamaica and Federal Reserve Bank of Philadelphia. The Philadelphia Federal Reserve Bank serves eastern Pennsylvania, southern New Jersey, and Delaware. These appear to be credible sources for the data. Hence the CACU has no issues with the values to be used.

Question 8

Do you agree with the estimated WACC for fixed and mobile networks?

CACU Response

Yes. WACC for fixed and mobile are 13.85% and 15.69% respectively.