

**CABLE AND WIRELESS (JAMAICA) LTD.
REPLY COMMENTS ON
ESTIMATE OF THE WEIGHTED AVERAGE COST OF CAPITAL
FOR TELECOMMUNICATIONS CARRIERS**

(Consultation Document 2016/TEL/006/CON.001)

1 July 2016

I. INTRODUCTION

1. Cable and Wireless (Jamaica) Ltd. (“**C&WJ**”) welcomes the opportunity to respond to comments made on the Office of Utilities Regulation’s (“**OUR**”) approach to estimating the Weighted Average Cost of Capital (“**WACC**”) for fixed line and mobile telecommunications licensees operating in Jamaica.
2. C&WJ would like to use this opportunity to respond to comments made by Digicel Jamaica in response to the OUR’s Question #1: “Do you agree with the approach to estimate separate WACCs for fixed line and mobile?”

II. RESPONSE TO DIGICEL JAMAICA COMMENTS

3. C&WJ’s position, articulated in its initial comments, is that there is no valid purpose to estimate a separate WACC for fixed line and mobile, since there is no longer significant variation in the risk profiles between the two telecoms operators in Jamaica today—C&WJ and Digicel Jamaica. Both licensees currently operate fixed line and mobile networks; both offer a similar portfolio of services; and both market and sell their portfolio of fixed and mobile services to a comparable set of customers in Jamaica. Furthermore, market dynamics and trends in technology convergence reinforce the conclusion that a unified measure of WACC is appropriate in the forward-looking framework the OUR has chosen to apply to estimating WACC.
4. Digicel Jamaica acknowledges the possibility “for the two sectors to converge over time, especially in the context of fixed-mobile convergence (FMC) and with the emergence of operators that are both fixed and mobile players.” Digicel Jamaica, however, rejects this possibility and concludes that “convergence is not complete in Jamaica, because there are still major differences in segmentation between fixed-line and mobile users at present.” Furthermore, Digicel Jamaica contends that “the use of a separate WACC for

fixed and mobile sections of the industry is best practice.” See, Digicel Jamaica comments, p. 6.

5. C&WJ have several objections to this response by Digicel Jamaica. First of all, we agree with Digicel Jamaica that technology convergence is underway in Jamaica today, but is not yet complete. We do not agree, however, that “major differences” remain between the two licensees operations in Jamaica or, most importantly, that the completion of this convergence process is a necessary or sufficient pre-condition to establishing a unified WACC. To the contrary, the licensees operations and service offerings in Jamaica are quite similar. In addition, there is an irrefutable trend towards greater convergence, and if this trend is considered within the OUR’s forward-looking framework, it is clear that technology-based distinctions in estimating WACC are not appropriate. Such distinctions create an artificial variation in licensees’ costs that distort economic efficiency and impede the development of telecoms competition in Jamaica.
6. Secondly, even if we concede technology-specific differences in risk, we believe the risk profile of fixed technology today and on a forward-looking basis is increasingly volatile. Fixed networks in Jamaica are already moving to next-generation IP technology and transitioning from copper to fibre-based broadband transmission. Fixed providers’ efforts to deploy and integrate fibre into their network and promote broadband adoption have increased their financial risk. According to a pronouncement by the European Commission:

Investments into fibre depend for their amortisation on the take-up of new services provided over NGA networks in the short and medium terms. The costs of capital [necessary to finance a fibre-based network

today, therefore] should reflect the higher risk of investment relative to investment into current networks based on copper.¹

7. Finally, Digicel Jamaica claims that technology-specific measurement of WACC is best practice, but does not provide support for this claim. While it may have been a more common practice a decade ago to produce technology-specific WACCs, we do not believe it is best practice today. Reference to the WACC benchmarks presented in the OUR's Consultation Document demonstrate this point: there is no single or "best" approach to estimating WACC. Three of the six benchmarks presented in Table 4 (on p. 28) to the Consultation Document produce a single WACC measure for fixed line and mobile, and of the remaining three benchmarks that produce technology-specific WACCs, in only one case is the variation between the measures significant (i.e., > ½ of 1 percentage point). This is because almost all of the inputs to the WACC calculations are identical for fixed line and mobile. See, for example, the benchmark inputs used for cost of debt (Table 4, identical for 6 of 6 benchmarks), gearing (Table 2, identical for 3 of 6 benchmarks) and Beta (Table 7, identical for 3 of 6 benchmarks).
8. In light of all the above factors, as well as the further detail provided in C&WJ's initial comments, we encourage the OUR to reject Digicel Jamaica's arguments for technology-specific WACCs and to apply a single WACC applicable to both mobile and fixed licensees in Jamaica, consistent with market trends and the OUR's forward-looking methodology.

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¹ See, European Commission recommendation of 20 September 2010 on regulated access to Next Generation Access Networks, ¶ 23.