Abstract

On October 30, 2001 the Office published a consultative document titled "Proposed Modifications to the Existing Interconnect Regime." In that document the Office sought the opinion of interested parties on its intention to make certain interim changes to RI0-3. In this document the Office sets out its determination with regard to the proposed changes. All interconnection agreements should now be modified to reflect the Office's determination. These changes are effective as of November 22, 2001.

CONTENTS

Page

CHAPTER 1: INTRODUCTION

Purpose of this document

1.0 In its consultative document of October 30, 2001 the Office proposed the following interim modifications to the existing interconnect regime:-

(i) existing fixed retention rates to increase by 8% of the applicable retail rates.
(ii) carriers may increase the applicable retail rates for fixed to mobile calls by the amount of the increase in the fixed retention rates at (i) above.
(iii) the maximum retail rates set out in Table 5.4 of the Office's Determination Notice of February 21, 2001 to be increase by 8%.
(iv) discontinue the existing bad debt arrangement for calls originating on a mobile network and terminating on C&WJ's Fixed network.
(v) C&WJ to be free to price calls from its fixed to C&WJ's Mobile network up to the maximum retail rates as per item (iii) above.
(vi) for incoming international calls to mobile networks the mobile carrier is to receive the US settlement rate less the fixed network retention rate of RIO-3.

1.1 Comments on the proposed modifications were submitted by C&WJ and Digicel. Responses to the comments were also received from C&WJ and Digicel.

1.2 The next Chapter contains the Office's determination with regard to the proposed modifications. Chapter 3 of the consultative document sets out the Office's arguments regarding the imposition of ADCs.

CHAPTER 2: MODIFICATIONS TO EXISTING INTERCONNECT REGIME

Determinations

2.0 The Office has determined that the following modifications be made to the existing interconnect regime:-

(i) the current fixed retention rates are to increase by 8.7% of the applicable retail charges.

(ii) carriers may increase the existing retail rates by the increase in the fixed retention rates at (i) above.

(iii) maximum retail rates (Table 5.4, p.19, Determination Notice of February 2001) for calls originating on C&WJ's fixed network to any mobile network (including C&WJ's mobile) shall increase by 8.7%.

(iv) the regulatory restriction on the rates charged by C&WJ for calls originating on its fixed network and terminating on its own mobile network has been lifted. C&WJ is now free to charge no less than the current rates ($5, $4, $3) but any increase shall not exceed the maximum established at (iii) above.

(v) for mobile to fixed calls the current arrangement for bad debt is discontinued.

(vi) with regard to the termination of incoming international calls on mobile networks C&WJ's fixed is to pay mobile carriers including Digicel and Centennial the following:-

- Peak $5.332;
- Off-Peak $6.281; and
- Weekend $6.900.

2.1 These modifications are effective as of November 22, 2001 and remain in force until the Office's review of RIO-4 is complete. January 31, 2002 is the deadline set by the Office for issuing its determination on RIO-4.

Retention Rate for Fixed - Mobile (FTM) Calls

2.2 C&WJ has asserted that the allowance for bad debt should be increased and that a 12 percent allowance would be appropriate. C&WJ has not, however, adduced any persuasive evidence to support that assertion. Consequently, the Office determines that for the interim period, the allowance for bad debt will be 8 percent, which is consistent with C&WJ's overall experience with bad debt. During the Office's proceeding to evaluate permanent changes to the RIO (scheduled for 12/2001 to 1/2002), C&WJ will have a further opportunity to adduce persuasive evidence that an increase in the allowance for bad debt is justified.

2.3 Digicel has noted that if C&WJ is to retain 8 percent of the retail FTM price for bad debt, the maximum permitted retail prices must increase by more than 8 percent if mobile carriers are to retain their current margins. Accepting this logic, the Office determines that the maximum permitted retail prices for FTM calls will all increase by 8% plus an additional 0.7%. This amount allows C&WJ to retain 8 percent of the higher price (for bad debt) and mobile carriers to retain their current margins.

C&WJ'S Fixed to Mobile Retail Rates

2.4 Digicel has argued that C&WJ Mobile should be required to charge the maximum permitted retail rates for FTM calls. The Office, in its forthcoming proceeding on permanent changes to the RIO, plans to address the issue of whether retail FTM rates should be uniform across carriers. This issue is, however, too complex to be resolved prior to implementing the interim policies described herein. The Office therefore adopts the policy proposed in the Consultative Document, that is C&WJ will have flexibility to set retail prices for FTM calls to C&WJ Mobile at or below the new maximum levels.

Mobile Termination – Incoming International Calls

2.5 The Office accepts C&WJ's point that the retention rate for international-to-mobile calls should include the relevant cost of international transport. The Office also notes Digicel's comment that the retention rate for international to mobile calls should not include the costs of local switching and transmission. The Office would need additional time to verify the facts surrounding this issue. It intends to examine this issue for the January determination with respect to RIO-4. On the basis of the above and using information available to the Office at this time it has determined that C&WJ's Fixed shall pay mobile operators the following rates for terminating incoming calls:-

Peak:	$5.332
Off-Peak:	$6.281
Weekend:	$6.900

2.6 These rates will all be reassessed when the Office makes its determination with regard to permanent changes in the RIO.

CHAPTER 3: ACCESS DEFICIT CHARGE

Introduction

3.0 The Consultative Document proposed that access-deficit charges should not be imposed at the present time – either as part of the interim plan or when the permanent changes to the RIO are implemented early next year. The Office continues to hold to the view that ADCs may be appropriate when international competition is permitted in Phase III.

C&WJ's Arguments for Access Deficit Charges

3.1 C&WJ advanced four reasons why ADCs should be considered prior to Phase III:-

(i) Because of the access externality, it may be economically efficient to price access lines below their cost

(ii) Mobile subscribers benefit (through the access externality) from being able to communicate with fixed subscribers but (absent ADCs) do not contribute to the costs of fixed access lines.

(iii) Mobile calls substitute to some extent for wireline calls.

(iv) C&WJ does not currently cover its costs, including a "normal" return to capital.

OUR's Response to C&WJ's Arguments

3.2 Each of the arguments advanced by C&WJ are discussed below.

(i) Because of the access externality, it may be economically efficient to price access lines below their cost

3.3 While it may be economically efficient to price access lines below their cost, it does not, however, justify imposing ADCs in the short term. In the short term access lines are, indeed, priced below cost; so subscribers do enjoy the benefits of access externalities. Nevertheless, market forces do not prevent C&WJ from pricing other services so as to recover its total costs – even in the absence of ADCs.[1] With the introduction of international competition, market constraints on C&WJ's ability to recover its costs may well become more important; so the efficacy of imposing ADCs will be considered at that time.

[1] C&WJ alleged that it does not currently earn a "normal" return. This allegation does not appear to be based on market constraints, but rather on C&WJ's view of the regulatory constraints imposed by its price-cap plan.

(ii) Mobile subscribers benefit (through the access externality) from being able to communicate with fixed subscribers but (absent ADCs) do not contribute to the costs of fixed access lines

3.4 Mobile subscribers benefit (through the access externality) from being able to communicate with fixed subscribers but (absent ADCs) do not contribute to the costs of fixed access lines. This point is certainly correct, but it cuts both ways. Fixed subscribers also benefit from being able to communicate with mobile subscribers, but (absent ADCs flowing the opposite direction) do not contribute to the cost of mobile service. In terms of economic efficiency, one can make a stronger case for having fixed subscribers contribute to mobile service than vice versa, because demand for mobile service is much more elastic than demand for fixed service. Hence, ADC revenues going *to* the mobile sector would be likely to generate far more benefit (i.e., stimulation in number of subscribers) through access externalities than an ADC revenues coming *from* the mobile sector.

(iii) Mobile calls substitute to some extent for wireline calls

3.5 Mobile calls substitute to some extent for wireline calls. Again, this point is certainly correct, though the elasticity of substitution with respect to wireline prices may not be very large. In any event, such substitution is not necessarily bad. It is problematic only if C&WJ is required to price its services so far above costs as to invite *inefficient* competition. In reality, it does not appear that C&WJ prices either intra-parish usage or inter-parish usage are far above costs. In any case, the Office has no information that presently supports that position.

(iv) C&WJ does not currently cover its costs, including a "normal" return to capital

3.6 C&WJ alleges that it does not currently cover its costs, including a "normal" return to capital. Based on the information that the Office evaluated before C&WJ's price-cap plan was implemented, it concluded that the price-cap plan does give C&WJ the opportunity to recover its costs, including the cost of capital. In any event, the Office believes that the use of an ADC is not the proper way to redress any alleged shortfall in C&WJ's earnings.

3.7 For these reasons, the Office has determined *not* to impose ADCs either as part of the interim plan or when the next permanent changes to the RIO are implemented early next year.