
Office of Utilities Regulation

**Evaluation of CWJ's Tariff
Application, 2000/2001 and
Recommendations**



OFFICE OF UTILITIES REGULATION

July 19, 2000

TABLE OF CONTENTS

Page

TABLE OF CONTENTS	2
CHAPTER 1: BACKGROUND	3
CHAPTER 2: FINANCIAL OVERVIEW 1999/00	5
CHAPTER 3: CWJ'S RATES APPLICATION	7
CHAPTER 4: REVENUE ANALYSIS	14
CHAPTER 5: COSTS PROJECTIONS	19
CHAPTER 6: RECOMMENDATIONS.....	22

Inte - 10%
Less Rental ~~15%~~ 35%
12 1/2%



CHAPTER 1: BACKGROUND

Introduction

On June 1, 2000 an application for a tariff change, under the signature of Mr Errald Miller, President and Chief Executive Officer of Cable & Wireless Jamaica Limited (the Company) was submitted to the Honourable Phillip Paulwell, Minister of Industry, Commerce & Technology, for consideration. The basis of the application is that without such adjustments, for fiscal year 2000/01, the Company will fall short of the minimum permitted return on equity stipulated in its licence. Additionally, the Company also cited the need to adjust tariffs, in keeping with the process of rebalancing of telecommunication prices and in view of the ongoing reduction in international accounting rates.

Although the Telecommunications Act 2000 provides for the introduction of a price caps this will not come into effect until April 2001. The Act, therefore, provides for the rate regime specified in the 1988 licence to continue to apply in the intervening period. The current rate review is thus required to satisfy the provision of the 1988 licence which allows the Company an after tax rate of return on equity of 17.5-20%. In this regard, the current application represents the last such to be submitted by the Company to the Minister.

The rate of return and the relevant accounting approach for the purpose of the current review are those set out in the All Island Telephone Licence which, was granted under the 1893 Telephone Act.

Scope of OUR Work

The Minister has requested the OUR to carry out an evaluation of the tariff changes requested by the Company. In conducting this rate review the OUR is guided by the specific provisions for rate making stipulated in Section 27 and others of the All Island Telephone Licence, 1988, the objectives of the current telecommunications regime and general applicable regulatory principles.

The licence stipulates a thirty-day period for completion of a rate review. In carrying out this review, therefore the OUR has been constrained to focus on only those issues that are material. The resulting analysis is summarised under a number of headings viz.:

- An overview of the Company's financial performance
- A summary of the application for rate increases;
- A review of the demand and revenue estimates;
- A review of the cost projections;
- Recommendations

CHAPTER 2: FINANCIAL OVERVIEW 1999/00

Table 2.1 contains a summary of the Company's actual financial performance from April 1, 1997 through to March 31, 2000. For the financial year ending March 31, 2000, Cable & Wireless Jamaica posted an after-tax profit of J\$3,741,913,000. This was some 7.7% higher than the figure for 1998/99. By the Company's calculation, return on equity for the fiscal year was 14.90%. It should be noted, however, that revenue for the fiscal year reflects only seven months of the higher prices that came into effect on September 1, 2000. The OUR's approach in calculating return on equity, however is to project revenue using the new rate for a test year. This year begins on the date the revised rates are to come into effect (September 1, 2000).

**Table 2.1
Summary of Financial Performance (J\$'000)**

	1997/98	1998/99	% Change	1999/00	% Change
International Turnover	9,906,892	10,752,726	8.54	9,827,424	-8.60
Domestic Turnover	4,019,530	4,413,688	9.81	6,352,865	43.93
Net Revenue	13,737,251	15,189,346	10.57	16,072,284	5.81
Profit After Tax	3,138,904	3,475,577	10.72	3,741,913	7.66
Shareholders' Equity		25,270,874,		28,534,210	
Return on Equity		17.26%		14.90%	

*US\$ in
look for
12 month
Review.*

Bypass activities and the reductions in international settlement rates are the major factors cited by the Company as impinging adversely on its performance during the financial year. This is reflected in a 8.6% reduction in the Company's international turnover. Significantly, however, the value of domestic turnover increased by some 43.9%. The overall effect was that whereas, international revenue declined, net revenue increased by some 5.8%.

In the current application, the Company sets out two scenarios, viz. one without rate changes and the other with the requested changes. In the first scenario, the Company projects net revenue of \$16,274,945,000, profit after tax of \$3,011,963,000 and return on equity of 10.83% for the year to March 2001. In the second scenario with the rates proposed in its application, the Company forecasts net revenues of \$17,776,102,000,

after tax profit of \$ 4,136,614,000 and return on equity of 14.74% for the year to March 2001.

The up-shot of this, is that the Company projects that it will need an increase in revenues of \$1,445 million if it is to achieve returns of 14.74 % for its financial year or 17.5% for the year to August 2001 as calculated by the OUR. It proposes to achieve the bulk of this increase by imposing significant increases in the following rates: line rental (business and residential), inter-parish usage, intra-parish usage and moving to "calling party pays" for mobile telephony. At the same time, the per minute rate for out-going international calls is to be reduced by an average of 15%.

CHAPTER 3: CWJ's RATES APPLICATION

The application filed by the Company for a tariff change is based on the audited accounts for the twelve month period ending March 31, 2000, thereby making 1999/00 the "test period" as defined by Section 27 of the All Island Telephone Licence, 1988.

The Company has indicated that based on previous experience with the OUR, it has (without prejudice) based the current application on seven-twelfth of the increase in revenue it would need to achieve a 17.5% return on equity for the year. It claims this translates into 14.75% for the financial period ending March 31, 2001 provided that the rates take effect on September 01, 2000.

The application is driven primarily by the need to rebalance prices due to declining international settlement rates resulting from the actions of the US telecom regulator, the Federal Communications Commission (FCC). This process which has been in train for the last three years has taken on even greater urgency this year with the FCC benchmark settlement set to reach US\$0.19 by January 2001.

Under the proposed tariffs set out by CWJ, international revenues are projected to account for 37.71% of gross revenues for the year as compared with the 65.43% that it represented just prior to the beginning of the rebalancing process in 1997/98. At the same time, revenues from domestic services (line rental, call revenues including domestic cellular, calling cards, etc) will account for 51.88% as compared with 26.55% in 1997/1998. These results indicate that there has been significant progress in achieving rebalancing and by the same token, should indicate that the prices for domestic services such as access and conveyance are being moved closer to costs.

Table 3.1 below provides a comparison of the proposed access rates with current rates.

Table 3.1
Rental Rates for Main Line & PBX (\$/Month)

	Current	Proposed	Change
Business	500.00	750.00	50%
Residential:-			
• <i>Standard Tariff Package</i>	210.00	350.00	66.67%
• <i>Low User Package</i>	100.00	150.00	50.00%
Toll Free Lines:-			
• Domestic	500.00	750.00	50.00%
• International	500.00	750.00	50.00%

Increases are also been sought on the rates for both intra and inter-parish calls. According to the Company, the proposed new rates are aimed at bringing prices in line with costs. Table 3.2 below provides a comparison of the current rates vis-à-vis those proposed by the Company.

Table 3.2
Domestic Usage Rates (\$/Minute)

	Current	Proposed	Change
<i>Standard Tariff Package</i>			
Intra-Parish:-			
Full	0.15	0.30	100.00%
Reduced	0.15	0.28	86.67%
Weekend	0.15	0.25	66.67%
Inter-Parish:-			
Full	0.76	1.00	31.58%
Reduced	0.53	0.70	32.08%
Weekend	0.38	0.50	31.58%
<i>Low User Package</i>			
Intra-Parish:-			
Full	0.29	0.58	100.00%
Reduced	0.27	0.54	100.00%
Weekend	0.22	0.44	100.00%
Inter-Parish:-			
Full	1.14	1.63	42.98%
Reduced	0.86	1.23	43.02%
Weekend	0.56	0.80	42.86%

* The first 60 minutes of intra-parish calls per line per month are free

Similarly domestic calls using prepaid calling cards are to be increased. A comparison of the proposed rates along with the current ones are set out in the Table 3.3 below.

Table 3.3
Domestic Pre-Paid Calling Cards (\$/Minute)

	Current	Proposed	% Change
Intra-Parish:-			
Full	0.44	0.58	31.82%
Reduced	0.38	0.54	42.11%
Weekend	0.22	0.44	100.00%
Inter-Parish:-			
Full	1.48	1.63	10.14%
Reduced	1.06	1.23	16.04%
Weekend	0.56	0.80	42.86%
*Cellular:-			
Full		8.00	
Reduced		6.00	
Weekend		4.00	

* Cellular rates do not currently vary according to time of day. Rather there are two rates, prepaid (\$4.00 and post paid (\$4.00). The Company will also be moving to Calling Party Pays under the proposed rate regime.

Table 3.4
Rates for Domestic Toll Free (\$/Minute)

	Current	Proposed	Change
Intra-Parish:-			
Full	0.30	0.58	93.33%
Reduced	0.26	0.54	107.69%
Weekend	0.15	0.44	193.33%
Inter-Parish:-			
Full	1.10	1.63	48.18%
Reduced	0.73	1.23	68.49%
Weekend	0.38	0.80	110.53%

Other Domestic Charges

Increases in certain calling features are also being sought by the Company. These services as well as the level of increases requested are set out in the Tables 3.5 below.

**Table 3.5
Rates for Special Features (J'\$)**

	Current	Proposed	Change
Call Forwarding:-			
- Business Installation	35.00	70.00	100.00%
- Residential Installation	35.00	70.00	100.00%
Business Monthly Rental	30.00	45.00	50.00%
Residential Monthly Rental	15.00	45.00	50.00%
Call Waiting:-			
- Business Installation	35.00	70.00	100.00%
- Residential Installation	35.00	70.00	100.00%
- Business Monthly Rental	30.00	45.00	50.00%
- Residential Monthly Rental	15.00	25.00	66.67%
Conference Calling:-			
- Business Installation	35.00	70.00	100.00%
- Residential Installation	35.00	70.00	100.00%
- Business Monthly Rental	30.00	45.00	50.00%
- Residential Monthly Rental	30.00	45.00	50.00%

Table 3.6
Rates for Outgoing International Calls (\$/Minute or part thereof)

	Current	Proposed	Change
IDD			
• USA			
Full	30.00	27.00	-10.00%
Reduced	28.00	25.00	-10.71%
Weekend	26.00	23.00	-11.54%
• Canada			
Full	35.00	27.00	-22.86%
Reduced	31.00	25.00	-19.35%
Weekend	28.00	23.00	-17.86%
• United Kingdom			
Full	35.00	27.00	-22.86%
Reduced	31.00	25.00	-19.35%
Weekend	28.00	23.00	-17.86%
Rate Via Operator*			
<i>Person/Station:-</i>			
USA	90.00	81.00	-10.00%
Canada	105.00	81.00	-22.86%
United Kingdom	105.00	81.00	-22.86%
<i>Additional Minutes</i>			
USA	90.00	27.00	-70.00%
Canada	105.00	27.00	-74.29%
United Kingdom	105.00	27.00	-74.29%

- Operator assisted calls attract additional surcharges as follows:-
(i) Per call surcharge \$20, and (ii) Request for time and charge of \$20.

Table 3.7
International Rates for Pre-Paid Calling Card (\$/Minute)*

Region	Current	Proposed	Change
Outgoing International			
-USA	48.00	39.50	-17.71%
- Canada	48.00	39.50	-17.71
- United Kingdom	48.00	39.50	-17.71
- Western Europe	96.00	65.00	-32.29
- Caribbean (Commonwealth)	24.00	22.00	-8.33
- Caribbean (Other)	48.00	39.50	-17.71
- South & Central America	97.00	65.00	-32.99
- Rest of World	144.00	95.00	-34.03
Incoming International			
- Commonwealth Caribbean	25.00	22.00	-12.00
- North America	50.00	39.50	-21.00
- United Kingdom	50.00	39.50	-21.00

*Mobile callers have to add applicable cellular airtime charges to the above rates

CHAPTER 4: REVENUE ANALYSIS

The rate application submitted by the Company covers two scenarios: the Base Case and the Application Case. In the Base Case the Company sets out its projected revenue and its return on equity for the financial year ending March 31, 2001, on the assumption that prices remained unchanged. Other considerations underpinning this scenario are the introduction of competition in the provision of international prepaid cards and the advent of competition in domestic mobile services.

The Base case also took account of the impact of lower settlement rates on in-payments and out-payments. The assumption made by the Company about the continued drop in international settlement rates is in keeping with the FCC Benchmark Order. By January 2001, settlement rates between Jamaica and US carriers are set to fall to US\$0.19 per minute. This lower settlement rate also applies to non-US carriers such as Teleglobe and British Telecoms. The OUR has requested and has received copies of the relevant settlement rate agreements between CWJ and its international carriers. A schedule for settlement rates is set out in summary in table 4.1 below.

Table 4.1
Schedule for Settlement Rates

Period	Accounting Rate (US\$/Minute)	Settlement Rate (US\$/Minute)
April 2000 - June 2000	0.80	0.40
July 2000 - September 2000	0.70	0.35
October 2000 - December 2000	0.60	0.30
January 2001- March 2001	0.38	0.19

The equity figure used in the Company's Base Case analysis was \$28,733,897 million compared with the equity set out in the Company's audited financial statements for 1999/2000 of \$28,534,210,000. (See Table 4.2 below which shows the difference between the total for equity used in the Company's Base Case and that used in the OUR's calculation).

The Company's projected Income Statement for 2000/01 shows a return on equity of 10.83%, or 6.67% below the minimum return on equity specified by the All Island Telephone Licence, 1988. Thus, the perceived need for upward adjustments in some domestic prices to offset some of the loss in revenue due to the reduction in settlement rates. The OUR has, however, constructed its own Base Case Scenario which concludes that the projected return on equity will be 14.76% or 2.74% below the minimum return.

Table 4.2 below, gives the comparison between the OUR's Base Case and that supplied by the Company.

**Table 4.2
Actual and Base Case Analysis**

	1999/2000	2000/2001 CWJ Base Case	2000/2001 OUR Base Case
Gross Turnover	17,887,547,000	17,749,825,000	18,948,104,000
Less Out-payments/Cost of Sales	1,815,263,000	1,474,878,000	1,492,842,000
Net Turnover	16,072,284,000	16,274,947,000	17,455,262,000
Total Operating Costs	10,281,838,000	11,350,768,000	10,760,028,000
Operating Profit/Contribution	5,790,446,000	4,924,179,000	6,955,234,000
Profit Before Tax	5,460,083,000	4,649,513,000	6,450,429,000
Profit After Tax	3,741,914,000	3,110,797,000	4,212,636,000
Shareholders' Equity		28,733,897,000	28,534,210,000
Return on Equity		10.83%	14.76%

The major difference between the OUR's Base Case and that of CWJ is to be found in, the equity employed (as explained above) and the assumptions made about incoming international traffic and revenues. CWJ projects revenues from incoming international traffic at \$4,609,899,000, representing a 34.8% drop below the 1999/2000 level.

The following assumptions underpin CWJ's calculations: -

- price elasticity for incoming international calls of -0.3;
- settlement rate reduction pass through to overseas consumers of 50%;
- little or no recovery of prior year's bypass traffic. By pass was estimated at 57 million minutes for the year ended March 2000;
- overall growth in incoming international traffic of 4%;

- exchange rate of J\$41.2 per US\$1; and
- settlement rates will fall as set out in Table 4.1 above and consistent with agreements reached between overseas operators and CWJ.

The OUR's Base Case projects \$951,763,000 in additional in-payment revenues when compared with CWJ. The starting point for the OUR's calculation is a review of the actual incoming minutes recorded by CWJ for the financial year 1999/2000 net of estimated bypass traffic. Total actual net incoming minutes for all countries in that year were 343,956,000 minutes after discounting for bypass traffic of 57,909,000 minutes.

In the OUR's Base Case, recorded actual US minutes for 1999/2000 are used as the starting point. These minutes are then adjusted upward to reflect estimated bypass traffic, thereby giving gross incoming minutes for the year. A 5% year on year growth rate is then applied and the resulting minutes are then evenly distributed over the twelve-month period.

The employment of a 5% growth rate before elasticity and bypass adjustment for US traffic takes cognisance of the fact that in a previous submission CWJ indicated that prior to the advent of bypass it experienced annual growth in excess of 7%. With the expectation that there will be a net installation of 50,000 thousand lines during the year and even with assumptions about dilution in their contribution to overall incoming minutes, a 5% growth estimate is reasonable.

The gross US incoming minutes before any adjustment for lower settlement rates and collection charges and bypass thus amounts to 351,427,000. The following assumptions regarding price elasticity, pass-through and bypass are then made: -

- price elasticity of -0.5;
- pass through of lower settlement rate of 50% (of settlement rate reduction) to US consumers in the form of lower collection charges; and
- projected bypass for 2000/2001 of 25 million minutes.

The OUR's choice of an elasticity of -0.5 as opposed to the -0.3 used by CWJ reflects the OUR's survey of empirical studies of elasticity in telecoms which yields estimates ranging

between -0.3 and -1.9. The -0.3 used by CWJ is reflective of the Company's estimate of short-run elasticity and is at the very conservative end of the spectrum. It is agreed that in forecasting the immediate effect of the reductions in settlement rates an estimate of short-term elasticity is what is to be considered. At the same time, however, the Office takes note of the fact that the process of settlement rate reduction has now been in train for a few years, hence, the forecast must also take effect of the lag effect of such reductions. In this context, it is felt that an estimate of -0.5 is more reasonable than the figure submitted by CWJ.

In terms of bypass, the OUR's projection of a significant recapture of bypass traffic takes account of the fact that the new Telecommunications Act provides for the control of bypass activities and to date there has been an active programme of shutting down such operators. Additionally, a number of operators previously identified by CWJ have been disconnected. In any event, it is reasonable to assume that the lower settlement rates will have some effect in reducing the propensity to engage in bypass activities

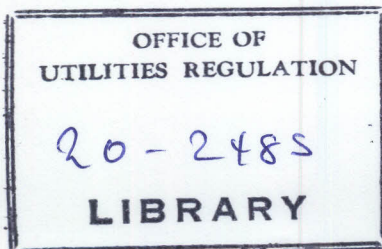
Feeding these assumptions into the calculations the OUR projects US total incoming minutes for 2000/2001 at 358,898,000 compared with the conservative estimate of 293,876,000 by CWJ. Incoming minutes for all other routes were based on those supplied by CWJ in its rate application. Total incoming minutes for 2000/2001 are thus projected at 432,408,000 compared with CWJ's projection of 367,382,000 (See **Appendix I**).

The OUR has also utilised a lower exchange rate to the US dollar (J\$42 to US\$1) than that employed by the Company. This is based on the fact that the end of the first quarter exchange rate as reported by the Planning Institute of Jamaica in its Economic Update & Outlook, (January – March 2000) was \$42.10. The use of a lower rate of exchange than that specified by CWJ in the rate analysis generates additional revenues but this also results in a higher figure for out-payments. Since Jamaica receives a greater level of incoming than out-going call, however, the net effect of this on the incremental income needed by the Company is positive.

In addition to the change in revenue that results from the adjustments in the traffic volumes and the exchange rate, the following changes have also been made to the revenue projection submitted by the Company: -

- The initial submission by the Company indicates mobile gross revenue of \$2,323,463,000 for the base case. Following queries requesting further information on the accounting for mobile, a figure of \$2,448,232 was submitted. The OUR takes the view that this reflects an updated projection for mobile and has accordingly, increased gross revenue by the difference of \$124 million.
- The projected cost of sales total for the year include an amount of \$121 million to be paid to third party mobile operators as out-payment. Assuming symmetry in traffic and interconnection charges one would expect a similar figure for in-payments. There is, however, no corresponding amount in the revenue projections indicating that CWJ's expects to receive counter payments from such operators. This figure has, therefore been disallowed.

CWJ using the OUR's approach of allocating revenue over the twelve-month period beginning with the date the new rates come into effect has indicated a revenue gap of \$1.445 billion for the seven month from September 2000 to March 2001.



CHAPTER 5: COSTS PROJECTIONS

Total Operating Cost (excluding the capitalised portion) for fiscal year 2000/01 is projected to increase by 9% on the figure for 1999/00. The projected increase outstrips projected inflation for the year (4-6 %) by at least three percentage points. The Company cites staffing adjustments, inflation, anticipated exchange rate impact and such needs as increased marketing and retraining contingent on the expected changes in the competitive environment. The movements in the major categories comprising operating cost are set out in **Appendix II**.

The OUR's calculation shows that total operating expense net of the capitalised portion is set to rise by just over 7% for the year. While this is also above projected inflation for the fiscal year, it could be argued that this may be justified on the basis of some of the expansion been undertaken by the Company.

While the overall increase in cost does not appear to be unreasonable, the OUR has identified a number of operating cost items which raise concerns. These are discussed below.

Marketing

According to the explanatory notes submitted by the Company in response to queries from the OUR the total expense for marketing includes an amount of \$48,000,000 which represents a charge from Cable and Wireless PLC to Cable and Wireless Jamaica for cricket sponsorship. The OUR has two reservations about this charge.

Firstly, there is no indication of the formula or principle on which such expenses are allocated among subsidiaries. More fundamentally, the OUR is of the view that items of cost expenditure undertaken by Cable and Wireless PLC are more of a direct benefit to the PLC Brand than it is to its Caribbean subsidiaries. The point here is that test cricket is broadcast to an international audience. Since Cable and Wireless PLC. is the entity that operates globally, it is reasonable to argue that it is also the entity which benefits most from such sponsorship. The amount for cricket sponsorship has therefore, been omitted from the OUR's revision of cost.

Similarly, the amount of \$20,000,000 for donations is omitted as the OUR is of the view that it is the shareholders of the Company that should bear the cost for charitable ventures.

Blue Sky

The category of expense under the heading 'Total Legal/Regulatory' includes a number of sub-items denoted 'Blue Sky'. The explanation supplied by the Company indicates that these represent amortisation of cost associated with negotiating the 'New Telecoms Agreement' with the government. 'Blue Sky' expenses are to be written off over the three-year period over which the new agreement is being implemented.

Two items of particular concern are Scholarship payment (\$16.00 million) and refurbishing (\$30.00 million) of the former Goodyear tyre factory in St. Thomas. The OUR is of the view that these are not legitimate items of cost that accrue to the Company in the normal course of its business. Moreover, it is hard to conceive of such items as scholarship expenditure and the refurbishing costs of the Goodyear Factory (laudable though they may be) as investments that will earn the Company future income or expenses that are occasioned in quest of current revenue. This total of \$46 million has therefore been eliminated from total operating expense for the base case.

Depreciation

The Company calculated depreciation for the fiscal year using the projected value of assets slated to be in service at March 31, 2001. The All Island Telephone Licence, 1988 provides, however that "... Costs as used in this paragraph, shall include depreciation in relation to plant in service during the last month of the test period at the rate of depreciation specified in the Schedule to this licence". This definition excludes the inclusion of depreciation for plant brought into use during the year 2000/01 or plant held for future use.

Notably, the Company in its rate application has identified 1999/00 as the test year. In this regard, the relevant asset balances that should have been employed for depreciation calculations are those for assets in service at March 31, 2000. The OUR has, therefore,

recalculated depreciation using this basis to obtain a figure of \$3,459,463,117 as against the \$3,812,465,624 shown in the Company's submission. This calculation is set out in detail at **Appendix III**.

A summary of the adjustments detailed above are supplied in Table 5.1 below.

Table 5.1
Cost Adjustments Summary (\$)

	CWJ	OUR	Cost Reductions
Depreciation*	3,812,465,624	3,459,463,117	353,002,507
Marketing:-			
• Donation	20,000,000	Disallowed	20,000,000
• Cricket Sponsorship	48,000,000	Disallowed	48,000,000
Blue Sky Expenses:-			
• Scholarship	16,000,000	Disallowed	16,000,000
• Refurbishing	30,000,000	"	30,000,000
Total			467,882,507

- See Appendix III for detailed depreciation computation

CHAPTER 6: RECOMMENDATIONS

Appendix IV contains the OUR revised figures for incremental revenue. The OUR's incremental revenue analysis maintains the following from the Company's application: -

- The proposed reduction in outgoing collection charges (-\$31,000,000)
- The proposed new rates for feature services, namely Magic Touch, Teleclass, and Feature packages are approved as per CWJ's application (- \$104,633,143).
- The amount to be raised from other services including directory (\$360,005,143)
- The level of international out-payments (\$54,111,845).

OUR's Recommendations

A list of the services and their revised prices is set out in **Appendix V**.

The OUR's recommendations are summarised below: -

- Adoption of calling party pays (CPP) for mobile services, with revised prices.
- Accept the Company's proposal for an average 15% reduction in collection charges for outgoing international calls inclusive of international prepaid calling cards.
- Accept the Company's proposal of no increase to the rates charged for domestic and international data services including national leased circuits and international leased lines, frame relay, Internet services, ISDN services.
- Accept the proposal for no change to the charges for international telegraph and domestic telegraph and telex services.
- Reject the proposal for an imposition of a \$20 dollar charge for national directory enquires.
- Increase monthly line rentals for business, regular residential and low user residential customers (12%, 10% and 20% respectively).
- Increase the charges for services such as magic touch, teleclass, and feature packages.
- Increases the charges for domestic intra and inter-Parish calls.

Incoming International Revenue

APPENDIX I

OUR Estimation	April	May	June	July	August	September	October	November	December	January	February	March	Total
US 2000/2001	27,540	28,175	27,652	32,117	32,703	28,383	28,464	28,889	32,945	31,489	28,699	31,842	358,898
Canada	1,323	1,453	1,391	1,360	1,336	1,408	1,399	1,391	1,258	1,384	1,306	1,338	16,347
UK	2,152	2,167	2,300	2,476	2,355	2,073	2,091	2,224	2,409	2,309	2,089	2,295	26,940
Rest of Europe	141	139	138	144	138	129	131	130	143	131	129	134	1,627
BCALA Businesses	1,871	1,990	1,910	1,995	1,980	2,044	2,101	2,123	2,064	2,155	2,015	2,231	24,479
Caribbean - Other	213	223	225	226	223	223	221	218	214	213	207	214	2,620
Rest of World	129	132	126	122	125	128	127	124	114	128	122	120	1,497
Total	33,369	34,279	33,742	38,440	38,860	34,388	34,534	35,099	39,147	37,809	34,567	38,174	432,408
Settlement Rate (US\$/Min)	0.40	0.40	0.40	0.35	0.35	0.35	0.30	0.30	0.30	0.19	0.19	0.19	
Exchange Rate	42												
Settlement Rate (JA\$/Min)	16.80	16.80	16.80	14.70	14.70	14.70	12.60	12.60	12.60	7.98	7.98	7.98	
USA	16.80	16.80	16.80	14.70	14.70	14.70	12.60	12.60	12.60	7.98	7.98	7.98	
Canada	16.80	16.80	16.80	14.70	14.70	14.70	12.60	12.60	12.60	7.98	7.98	7.98	
UK	16.80	16.80	16.80	14.70	14.70	14.70	12.60	12.60	12.60	7.98	7.98	7.98	
Rest of Europe	16.80	16.80	16.80	14.70	14.70	14.70	12.60	12.60	12.60	7.98	7.98	7.98	
BCALA Businesses	12.64	12.64	12.64	12.64	12.64	12.64	12.64	12.64	12.64	7.95	7.95	7.95	
Caribbean - Other	16.80	16.80	16.80	14.70	14.70	14.70	12.60	12.60	12.60	7.98	7.98	7.98	
Rest of World	16.80	16.80	16.80	14.70	14.70	14.70	12.60	12.60	12.60	7.98	7.98	7.98	
Inpayment Revenues (JA\$'000)													
USA	462,664	473,332	464,558	472,124	480,732	417,237	358,644	364,006	415,110	251,279	229,018	254,101	4,642,807
Canada	22,226	24,410	23,369	19,992	19,639	20,698	17,627	17,527	15,851	11,044	10,422	10,677	213,483
UK	36,154	36,406	38,640	36,397	34,619	30,473	26,347	28,022	30,353	18,426	16,670	18,314	350,821
Rest of Europe	2,369	2,335	2,318	2,117	2,029	1,896	1,651	1,638	1,802	1,045	1,029	1,069	21,299
BCALA Businesses	23,651	25,155	24,144	25,218	25,029	25,838	26,558	26,836	26,091	17,135	16,022	17,740	279,417
Caribbean - Other	3,578	3,746	3,780	3,322	3,278	3,278	2,785	2,747	2,696	1,700	1,652	1,708	34,270
Rest of World	2,187	2,218	2,117	1,793	1,838	1,882	1,800	1,562	1,436	1,021	974	958	19,566
Total	552,810	567,602	558,926	560,964	567,163	501,301	435,212	442,339	493,340	301,651	275,788	304,567	5,561,662

APPENDIX II

PROJECTED INCREMENTAL EXPENDITURE TO BE EXPLAINED

Source: Operating Budget Analysis

EXPENDITURE ITEMS	ACTUAL EXPENDITURE 1998/99 J\$	ACTUAL EXPENDITURE 1999/00 J\$	PROJECTED EXPENDITURE 2000/01 J\$	INCREMENTAL INCREASE J\$	PERCENTAGE INCREASE (%)	OUR RECOMMENDED ADJUSTMENT J\$
Salaries						
Permanent Staff	2,581,570,205	2,623,238,212	2,697,680,259	74,442,047	2.84	2,697,680,259
Contractors	52501354	52,619,351	67,124,586	14,505,235	27.57	67,124,586
Temporary Staff	21,912,458	22,054,470	58,361,989	36,307,519	164.63	58,361,989
<i>Total Salaries</i>	<i>2,655,984,017</i>	<i>2,697,912,033</i>	<i>2,823,166,834</i>	<i>125,254,801</i>	<i>4.64</i>	<i>2,823,166,834</i>
Other Staff Costs						
Pension	293,350,931	273,310,397	231,679,136	-41,631,261	-15.23	231,679,136
Social Security	494,852,225	519,223,152	691,710,270	172,487,118	33.22	691,710,270
Accomodation	33,651,473	26,693,838	26,973,720	279,882	1.05	26,973,720
Training - Course	39,911,923	41,093,245	121,945,503	80,852,258	196.75	121,945,503
Redundancy	225,233,718	491,611,834	319,058,681	-172,553,153	-35.10	319,058,681

EXPENDITURE ITEMS	ACTUAL EXPENDITURE 1998/99 J\$	ACTUAL EXPENDITURE 1999/00 J\$	PROJECTED EXPENDITURE 2000/01 J\$	INCREMENTAL INCREASE J\$	PERCENTAGE INCREASE (%)	OUR RECOMMENDED ADJUSTMENT J\$
Other	321,089,659	321,295,213	327,387,448	6,092,235	1.90	327,387,448
<i>Total Other Staff Cost</i>	<i>1,408,089,929</i>	<i>1,673,227,679</i>	<i>1,718,754,758</i>	<i>45,527,079</i>	<i>2.72</i>	<i>1,718,754,758</i>
Operating Costs						
Travel and Entertainm	32,506,542	38,209,483	53,202,000	14,992,517	39.24	53,202,000
Vehicles	499,964,104	455,558,043	305,040,767	-150,517,276	-33.04	305,040,767
Building/Admin. Costs	910,971,302	944,506,874	1,010,776,738	66,269,864	7.02	1,010,776,738
Network & Technical	334,569,580	389,262,469	565,452,899	176,190,430	45.26	565,452,899
Computer	173,163,289	206,423,081	262,306,000	55,882,919	27.07	262,306,000
Communications	211,622,137	372,772,702	544,351,320	171,578,618	46.03	544,351,320
Marketing	159,574,526	120,861,604	256,493,114	135,631,510	112.22	196,493,114
Consultancy	43,137,792	120,338,143	105,753,427	-14,584,716	-12.12	105,753,427
Professional Fees	81,917,126	169,689,024	222,879,926	53,190,902	31.35	222,879,926
Bad and Doubtful Deb	280,789,868	303,146,754	279,948,338	-23,198,416	-7.65	279,948,338
Finance	21,870,707	50,222,989	34,080,000	-16,142,989	-32.14	34,080,000
Royalty to C&W for Br	12,909,909	65,000	0	-65,000	-100.00	0

APPENDIX III

Depreciation Calculation

Category	Closing Balance 2000/01	Depreciation Rate	Depreciation Charges CWJ Computation	Closing Balance 1999/00	Depreciation Charges OUR computation	Difference
Buildings	5,695,376,776	2.00	113,907,536	5,589,225,160	111,784,503	2,123,032
C. O. switching	19,402,124,833	4.50	836,237,710	16,845,496,702	758,047,352	78,190,358
C.O Operator systems	4,807,400	4.50	210,863	4,684,607	210,807	56
C. O. Satellite & Earth Station	677,724,001	6.50	42,818,350	695,605,939	45,214,386	(2,396,036)
C. O Transmission	9,674,114,484	6.50	592,186,988	7,348,194,886	477,632,668	114,554,320
C. O. Telex	104,822,154	4.50	4,598,364	0	-	4,598,364
C.O.E. Digital		4.50		98,869,331	4,449,120	(4,449,120)
St. App Small PBX/PABX	201,916,808	8.00	15,604,881	198,000,503	15,840,040	(235,159)
St. App. Telex	165,770,470	6.50	10,470,125	165,809,233	10,777,600	(307,475)
St. App. M.R.E.	5,340,556	22.50	1,167,617	38,475,250	8,656,931	(7,489,314)
St. App. General	3,719,614,243	6.50	232,320,474	3,611,260,742	234,731,948	(2,411,474)
St. Conectn./Cust. Prem. Wiring	7,488,930,396	10.00	731,837,780	6,853,281,871	685,328,187	46,509,593
Large PBX/PABX Units	1,279,663,255	8.00	96,144,161	1,112,317,452	88,985,396	7,158,765
Public Teleph ones	463,170,360	6.50	28,864,052	133,627,699	8,685,800	20,178,252
Pole Lines	1,423,029,233	5.00	68,539,539	1,299,827,362	64,991,368	3,548,171
Metallic Aerial Cable	7,698,020,187	6.25	466,045,823	7,294,735,172	455,920,948	10,124,875
Non-Metallic Aerial Cable	317,844,967	6.25	18,477,464	293,819,362	18,363,710	113,754
Metallic U/Ground Cable	5,641,216,263	2.80	152,133,402	5,401,325,405	151,237,111	896,291
Non-Metallic U/ground Cable	288,657,240	2.80	7,532,477	259,148,504	7,256,158	276,319
Metallic Submarine Cable	4,143,071	8.00	321,418	4,268,315	341,465	(20,047)
Non-Metallic Submarine Cable	782,079,107	8.00	60,137,241	736,260,193	58,900,815	1,236,426
Aerial Wire	198,077,813	5.50	10,780,357	189,243,039	10,408,367	371,990
Underground Conduits	5,013,592,051	2.00	98,042,313	4,524,001,510	90,480,030	7,562,283
Land	222,332,429		-	209,134,143	-	-
Motor Vehicles		22.50		25,902,659	5,828,098	(5,828,098)
Motor Vehicle e & Sp. Purpose Vehicle	155,119,175	22.50	31,023,835	1,588,179	357,340	30,666,495
Work Equipment		9.50		59,548,426	5,657,100	(5,657,100)
Testing Equipment		9.50		56,080,227	5,327,622	(5,327,622)
Training School Equipment		9.50		5,483,788	520,960	(520,960)
Office Furniture		9.50		103,672,458	9,848,884	(9,848,884)
Office Support Equipment		9.50		56,274,019	5,346,032	(5,346,032)
Furniture and Fittings	1,930,622,544	9.50	193,062,254		-	193,062,254
General Purpose Computers	-	9.50	-	1,245,603,871	118,332,368	(118,332,368)
Plant In Service	72,558,109,816		3,812,465,024	64,460,766,007	3,459,463,117	353,001,907
Plant Held For Future Use	250,879,662			137,945,058		
Total Assets	72,808,989,478			64,598,711,065		

APPENDIX V

Access Lines

		1998/99	Current	Proposed	Recommended	% Change
		Rates	Rates (\$/Month)	Rates (CWJ)	Rates (OUR)	
Exchange Line (Main Line & PBX Trunks)						
Business	Rental	215.00	500.00	750.00	560.00	12.00
Residential -Standard Tariff	Rental	100.00	210.00	350.00	230.00	9.52
Residential- Low User Package	Rental	-	100.00	150.00	120.00	20.00
Toll Free Lines						
Domestic	Rental	-	500.00	750.00	560.00	12.00
International	Rental	-	500.00	750.00	560.00	12.00

Domestic Usage (Per minute or part thereof)		1998/99	Current	Proposed	Recommended	% Change
		Rates	Rates 1999/2000	Rates (CWJ)	Rates (OUR)	
<i>Standard Tariff (Calls Dialed Directly by the Customer - per minute or part thereof)</i>						
Intra-Parish	Full	0.15	0.15	0.30	0.30	100.00
	Reduced	0.15	0.15	0.28	0.28	86.67
	Weekend	10.5	0.15	0.25	0.25	66.67
Inter-Parish	Full	0.76	0.76	1.00	0.95	25.00
	Reduced	0.38	0.53	0.70	0.70	32.08
	Weekend	0.38	0.38	0.50	0.50	31.58
<i>Low User Tariff</i>						
Intra-Parish	Full	-	0.29	0.58	0.44	51.72
	Reduced	-	0.27	0.54	0.38	40.74
	Weekend	-	0.22	0.44	0.30	36.36
Inter-Parish	Full	-	1.14	1.63	1.34	17.54
	Reduced	-	0.86	1.23	1.06	23.26
	Weekend	-	0.56	0.80	0.70	25.00

The first 60 minutes of intra-parish calls per line per month are free.

Key to Time Bands

Full	Weekdays - from 6:00am to 5:59 pm
Reduced	Weekdays - from 6:00pm to 5:59 am
Weekend	Weekend - Saturday 12:01 to Monday 5:59 am

Domestic Toll Free Usage (Per minute or part thereof)		Current Rates	Proposed Rates	Recommended Rates	% Change
			(CWJ)	(OUR)	
Intra-Parish	Full	0.30	0.58	0.44	46.67
	Reduced	0.26	0.54	0.38	46.15
	Weekend	0.15	0.44	0.30	100.00
Inter-Parish	Full	1.10	1.63	1.34	21.82
	Reduced	0.73	1.23	1.06	45.21
	Weekend	0.38	0.80	0.70	84.21
Fixed to Mobile (per minute or part thereof)					
	Full	3.86	8.00	5.00	29.53
	Reduced	3.86	6.00	4.00	3.63
	Weekend	3.86	4.00	3.00	(22.28)

International Telephone Rates

International Direct Dialling (IDD)		Current Rates	Proposed Rates	Recommended Rates - OUR	% Change
			CWJ		
<i>Per minute or part thereof</i>					
USA (Zone 1)	Full	30.00	27.00	27.00	-10.00
	Reduced	28.00	25.00	25.00	-10.71
	Weekend	26.00	23.00	23.00	-11.54
Canada (Zone 2)	Full	35.00	27.00	27.00	-22.86
	Reduced	31.00	25.00	25.00	-19.35
	Weekend	28.00	23.00	23.00	-17.86
United Kingdom (Zone 3)	Full	35.00	27.00	27.00	-22.86
	Reduced	31.00	25.00	25.00	-19.35
	Weekend	28.00	23.00	23.00	-17.86

Key to Time Bands

Full	Weekdays from 6:00am to 5:59 pm
Reduced	Weekdays from 6:00 to 5:59 am
Weekends	Weekend from Saturday 12:01 am to Mondays 5:59 am

Rate Via Operator

Surcharges for operator assisted calls:-

Per call surcharge	20.00	20.00	20.00	0.00	
Time & Charge	20.00	20.00	20.00	0.00	
<i>Person/Station:-</i>					
USA	90.00	81.00	81.00	-10.00	
Canada	105.00	81.00	81.00	-22.86	
United Kingdom	105.00	81.00	81.00	-22.86	

Prepaid Calling Cards**

** Includes World Talk and Cardphone services

Domestic		Current	Proposed	Recommended	% Increase(+)/ (-) decrease
		Rates (\$/Minute)	Rates - CWJ	Rates (OUR)	
Intra-Parish:-	Full	0.44	0.58	0.58	31.82
	Reduced	0.38	0.54	0.54	42.11
	Weekend	0.22	0.44	0.44	100.00
Inter-Parish:-	Full	1.48	1.63	1.63	10.14
	Reduced	1.06	1.23	1.23	16.04
	Weekend	0.56	0.80	0.80	42.86
Cellular*	Full	3.86	8.00	3.00	-22.28
	Reduced	3.86	6.00	4.00	3.63
	Weekend	3.86	4.00	3.00	-22.28

* Applicable to calls from fixed lines and payphones terminating on cellular

International Outgoing*

USA	48.00	39.50	39.50	-17.71
Canada	48.00	39.50	39.50	-17.71
United Kingdom	48.00	39.50	39.50	-17.71
Western Europe	96.00	65.00	65.00	-32.29
Caribbean (Commonwealth)*	24.00	22.00	22.00	-8.33
Caribbean (Other)	48.00	39.50	39.50	-17.71
South & Central America	96.00	65.00	65.00	-32.29
Rest of World	144.00	95.00	95.00	-34.03

* Antigua/Barbuda, Barbados, Bermuda, Dominica, Grenada, St. Kitts & Nevis, St. Vincent, The Cayman Islands, Trinidad & Tobago.

* Add applicable airtime charges to the above rates for calls originating from a cellular phone.

Incoming International

Commonwealth Caribbean	25.00	22.00	22.00	-12.00
USA & Canada	50.00	39.50	39.50	-21.00
United Kingdom	50.00	39.50	39.50	-21.00

Calling Features

		Current Rates	Proposed Rates (CWJ)	Recommended Rates (OUR)	% Change
Magic Touch					
Call Waiting	Installation	35.00	70.00	70.00	100.00
	Monthly Rental				
	Business	30.00	45.00	45.00	50.00
	Residential	15.00	25.00	25.00	66.67
Call Forwarding	Installation	35.00	70.00	70.00	100.00
	Monthly Rental				
	Business	30.00	45.00	45.00	50.00
	Residential	15.00	25.00	25.00	66.67
Conference Calling	Installation	35.00	70.00	70.00	100.00
	Rental	30.00	45.00	45.00	50.00
Special Features					

Special Features

Exchange Hot Line	Installation	35.00	35.00	35.00	35.00	0.00
	Monthly Rent					
	Business	6.00	6.00	6.00	6.00	0.00
	Residential	4.50	4.50	4.50	4.50	0.00
Special Billing Number	Installation	35.00	35.00	35.00	35.00	0.00
	Rental	6.00	35.00	35.00	35.00	0.00

Directory Related Services

(One Time Service Charges)

Change of Name (billing & Directory)

	1998/99	Current Rates	Proposed Rates (CWJ)	Recommended Rates (OUR)	% Change
Business	61.50	300.00	300.00	300.00	0.00
Residential	36.75	200.00	200.00	200.00	0.00

Change of Number

Business	86.10	300.00	300.00	300.00	0.00
Residential	61.50	200.00	200.00	200.00	0.00

Change of Instrument

Desk type to desk type	36.75				
Desk type to wall type/vice versa	86.10	400.00			

Bar/Unbarred PBX Extension

		100.00	100.00	100.00	0.00
--	--	--------	--------	--------	------

Call Out Charge (per visit)

		560.00	560.00	560.00	0.00
--	--	--------	--------	--------	------

Drop Wire

Per 100 feet open wire	38.50	100.00	100.00	100.00	0.00
Per 100 feet drop wire	35.10	100.00	100.00	100.00	0.00

Directory Listing

Additional Listing

Business	5.10	146.00	146.00	146.00	0.00
Residence	5.10	146.00	146.00	146.00	0.00
Guest of Hotel	5.10	146.00	146.00	146.00	0.00
Reference to another service of customer (per listing)	5.10	146.00	146.00	146.00	0.00
Reference to another customer		146.00	146.00	146.00	0.00
Additional Line of information	5.10	146.00	146.00	146.00	0.00

Private Listing

	60.00	120.00	150.00	150.00	25.00
--	-------	--------	--------	--------	-------