

# REQUEST FOR PROPOSALS TO CONSULT ON AND DEVELOP LONG RUN INCREMENTAL COST (LRIC) MODEL FOR FIXED LINE INTERCONNECTION RATES

## Clarification #1

---

**DATE: APRIL 28, 2014**

### **Question 1**

The timetable in this RFP is longer than we would have expected for this assignment. Could you clarify how this timetable was derived – for example based on minimum applicable consultation periods under the Act or previous experience with this type of project?

### **Answer 1**

The timetable was determined based on maximum time allowed for each phase of the consultation process. Each phase includes some amount of lag time to account for request for extensions by operators and unexpected events which may occur. Against that background, the OUR is cognisant that the allotted time may be more protracted than what may actually be used to complete the project if everything flows smoothly. Ideally, the OUR would prefer to conclude the process in less time than the 20 months allotted.

### **Question 2**

In order for us to determine an appropriate financial proposal for this fixed fee assignment it would be useful if OUR could provide some further guidance on:

- Full time work periods expected in each of Phases 1-6 by the consultants. The timeframes presented are elapsed times but we will need to know the time periods that OUR expects consultants to work on deliverables and time needed for OUR to be making internal assessments, model development and decisions.
- Complexity of the models - Cost models can be very simple or can be sophisticated – some further guidance on the type of model would enable us to develop a more tailored proposal.

- Maximum consulting budget available for this assignment

There is significant variation possible in scope on an assignment of this nature and for a 20-months project we would need some additional guidance on at least two of these factors to ensure we fully understand your requirements.

## **Answer 2**

A period of approximately one (1) month is allotted for the OUR's internal review of draft documents submitted by the consultant in each phase. An additional two (2) months is set aside for comments on documents from the industry. However, as indicated earlier, the actual time taken to complete each task may be less than the period earmarked for the activity. Therefore, the consultant has to make a proposal knowing his own staff assignment that will enable the process to be completed within the required timeframe.

The model should be as sophisticated needed to meet the purpose of the assignment. As indicated in the RFP *"It is expected that the consultant will identify and assess all possible options for the development of the LRIC model {bottom-up, top-down, or hybrid} and recommend the most appropriate formulation given the local context. The model to be developed should be one of a generic fixed operator with symmetric rates. However, it should be noted that the OUR recently concluded the process of developing a LRIC model for mobile termination and it is generally expected that consistency of treatment of LRIC modelling principles will be maintained for this cost modelling process. The information will be used to inform the discussions in a consultation document, which should include but not be limited to the following:*

- *Long-run and forward looking costs;*
- *Efficient networks and technology;*
- *Network topology;*
- *Relevant increment;*
- *Asset valuation;*
- *Asset life and depreciation;*
- *Capex and Opex; and*
- *Common costs"*

There is no maximum consulting budget. As indicated in the RFP, the consultant will be selected under the Quality and Cost-Based Selection method.

### **Question 3**

Could you please clarify if the existing cost models for mobile call termination rates have been derived using the same approach as described in this RFP – particularly if OUR staff took responsibility for the development of the cost model during that assignment?

### **Answer 3**

The cost model for mobile termination rates was developed by the consultant and not by the staff of OUR.

### **Question 4**

We expect Lime to run a shared core network for its fixed and mobile services. Is it OUR's expectation that parts of the mobile cost model will be re-used for this assignment – i.e. does the mobile cost model have functionality to include fixed services?

### **Answer 4**

No. The mobile cost model does not have the functionality to include fixed services. Therefore, none of the mobile cost model will be reused for this project.

### **Question 5**

Is the decision document (in the fifth stage) to set prices or just to finalise the model and leave final prices and further analysis and adjustments to be done by OUR?

### **Answer 5**

The decision document in the fifth phase will be used to respond to comments received on the draft model and indicate the OUR's final decision on the structure and inputs to the model. It will also be used to set the fixed termination rate. No further analysis or adjustment will be carried out by the OUR after this stage.

### **Question 6**

In paragraph B.1, the OUR specifies the requirement for calculating LRIC and Standalone costs of defined wholesale services. Can the OUR clarify if by referring to standalone costs it intends to implement a calculation that dimensions and costs a network that is required for the provision of a single service defined in that paragraph? We note that following this principle is likely to

result in large differences between LRIC and standalone costs. This is because the share of fixed and common costs in fixed telecoms networks is usually very large.

### **Answer 6**

By stand alone cost, the OUR is referring to the generally accepted meaning of the term.

Stand Alone Costs (SAC) - where the service is the only service provided. This means that all the common costs are included and attributed to that service whose cost is being calculated.

### **Question 7**

In paragraph B.2, the OUR sets out the requirement of the model to also determine the costs of some retail services. Can the OUR specify if the model should only determine the network costs of those retail services or also the costs typically associated with retail activities, such as customer billing, marketing and others?

### **Answer 7**

The cost for retail services should include all costs associated with delivering the service to the consumer.

### **Question 8**

In paragraph C.5, the OUR sets out the requirements to train OUR staff to enable them to assist in the development of the model and model manual. Can the OUR clarify if it expects that the model will exclusively be built by the dedicated OUR staff under the guidance of the consultant or if it expects that different areas of the model may be developed by OUR and consultant staff?

### **Answer 8**

The model can be developed as a collaborative approach between the assigned OUR staff and the consultant. What is important is that the assigned OUR staff are put in a position to be able to independently develop a similar model in the future.