Columbus Communications Jamaica Limited

Response to
Cost Model for Fixed Termination Rates
Principles and Methodology

OPENING REMARKS

The views expressed herein are not exhaustive. Failure to address any issue in our response, does not in any way indicate acceptance, agreement or relinquishing of Flow's rights.

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Introduction

Columbus Communications Jamaica Limited (CCJL) thanks The Office of Utilities Regulation (OUR) for the opportunity to contribute to the development of a cost model to determine the cost of wholesale fixed interconnection services. Our approach to this response is to address the specific questions asked.

Responses to Specific questions

Question 1: Do you agree with the proposal to use a bottom-up model? Please explain your views.

For the purpose of developing interconnection rates in line with the Act, CCTL supports a bottom up model approach. This approach is in line with international best practices. The results should better reflect that costs of an efficient operator. The approach is also flexible enough to accommodate realistic costs faced by providers of fixed wholesale interconnect services.

Question 2: Do you agree with the decision of covering the period 2013-2020? Please explain your views.

The period from 2013 to 2020 would cover two years of actual data and five years of forecasted data. This seems reasonable based on the explanation provided. The resulting output is expected to inform interconnection prices for the period 2016 to 2020. This timeframe tends to be in sync with long term planning horizon and is consistent with timeframes used in other markets.

Question 3: Do you agree with the proposed data sources to be used? Please explain your views.

With respect to supplementing actual market data with international benchmarks where such market data is not available; such benchmarking analysis should follow international best practices including being based on markets similar to Jamaica in key market characteristics such as size, population and status of market development.

Question 4: Do you agree with including Pure LRIC, LRIC+ and SAC standards in the BULRIC model and the methodologies chosen for the allocation of common and joint costs? Please explain your views.

In the context of current technology of next generation networks a significant portion of costs is joint and common costs. In determining fixed interconnection rates, especially where investments in network infrastructure is needed to promote the development of new service offerings, an appropriate policy balance needs to be struck to incent investments in networks and promote market efficiency.

We believe it would be useful to have the various cost standards in the model to gain further insights in the outputs based on the different approaches.

Question 5: Do you agree that Network CapEx, Network OpEx, Licence, Retail costs, G&A Expenses, and Cost of Capital should be included in the cost base of the BULRIC Model in the manner indicated? Please explain your views.

In general all the cost categories referenced above should be included in the cost base for interconnection services. With respect to the detailed elements described in the document, we believe there should be further discussions on the various items referenced.

For example the OUR seems to suggest that activities such as billing and invoicing are purely retail activities, and such costs will not be allocated to interconnection services. However billing and invoicing activities are also relevant for wholesale / interconnection services. In fact the billing and invoicing function for the wholesale is separate from that for retail services. We consider such cost as unavoidable for the provision of interconnection services. To exclude these would result in an under recovery of costs. We believe the objective is to get to a reliable cost estimate for providing interconnection services. Decisions should not be made based on what is considered expedient, such as concerns with diverting efforts from network modelling.

Question 6: Do you agree with the proposal on the treatment of OpEx in the BULRIC models? Please explain your views.

Given that information on ratios of OpEx as a of percentage CapEX will likely be available to the OUR, these could be used at least as means of check and balance against bottom up calculations. This would allow for a case by case decision to be made based on the reliability of the information available. This is not inconsistent with the OUR’s proposed approach.

Question 7: Do you agree with the OUR’s view in how assets should be valued? Please explain your views.

The current cost approach for asset valuation is consistent with calculation forward looking interconnection costs. It is also consistent with international beats practices.

Question 8: Do you agree with the OUR's view in the application of MEA? Please explain your views.

We support the use of the modern equivalent asset (MEA) approach to asset valuation approach for the reasons stated in the document.

Question 9: Do you agree with the OUR's view to implement tilted annuities in the BULRIC model? Please explain your views.

CCTL will provide comments further in the process.

Question 10: Do you agree with the OUR that Network OpEx Working Capital (and not CapEx related) should be considered in BULRIC Models, provided it is relevant and has been efficiently incurred? Please explain your views.

The OUR briefly mentions that the use of the planning horizon concept, indicating that where this is used working capital related to network CapEx would be captured and no further allowance needs to be made for CapEx working capital in this case. It is unclear whether this approach would allow adequate recovery of costs in the context such inputs are imported and continuing devaluation. CCJL will consider this further and provide further comments in the next stage of this process.

Question 11: Do you agree with the OUR that Retail Working Capital should be included in the retail costs considered? Please explain your views.

Retail working capital should be included as part of retail costs.

Question 12: Do you agree with the OUR that the BULRIC model for fixed interconnection should consider a reference operator with the characteristics described above? Please explain your views.

Consistent with the modified scorch node approach to the model build advocated by the OUR in Chapter 6 of this document, we believe the use of a reference operator as described is logical.

Question 13: Do you agree with the OUR that the BULRIC model should be based on a yearly approach and that a forward-looking filtering tool should be implemented? If not, please explain your views.

In its analysis the OUR notes that where traffic is increasing year on year both the yearly and historical approaches give similar results. In the case where traffic is declining, the results would diverge. With declining traffic unit cost would tend to increase. As such, we believe that for services where traffic levels are actually declining, consideration should be given to using the historical approach as this would more accurately reflect the expected unit cost movements.

Question 14: Do you agree with the proposed list of services and the grouping of services into increments for the BULRIC model for fixed interconnection? In the case that you have a different view, please support with rationale.

In terms of the list of services, the current offerings is a useful starting point. With respect to service groupings into increments, at this point I would reserve comments. See response to Q15.

Question 15: Do you agree with the OUR's approach for Fixed Network Modelling? In the case that you have a different view, please support with rationale.

Given the proposed approach of building the model using a modified scorch node approach using LIME's network as the reference network, in the current context of an impending merger, and in all likelihood network changes, it is unclear at this point how the combined network will look. It is fair to say it will be a mix of both TDM and NGN type connectivity. It may be best to get some clarity on what a merged network would look like before taking a final position.

Question 16: Do you agree with the OUR's proposal to implement a glide path for adjusting rates from the TLRIC termination rate to the pure LRIC termination rate if there is a significant dollar value difference between the rates? Please provide reasons for your response.

It is unclear what the OUR considers a significant differential. In light of this, CCTL believes that the preferred approach is to first determine the rates from the modelling exercise. With information on the actual differential between existing and new rates, a further consultation on glide paths could be done at that point.

Question 17: Do you agree with the proposal not to allow peak/off-peak price gradients for fixed interconnection rates? If not, please explain your views.

To simplify the charging structure we support not having time of day differentials for interconnection rates.

Question 18: Do you agree with the proposal to charge for fixed interconnection using only duration per minute billed on a per second basis? If not, please explain and propose alternatives.

We agree that billing should be on duration per minute and continue to be billed per second.

Question 19: Do you agree with the proposal to define two charges depending on the interconnection level? If not, please explain your views.

We support the view that with the introduction of NGN the number of interconnection points will be reduced. In this context we would expect a simplified charging structure.

Bearing in mind other considerations e.g. network topology to be modelled, CCTL will provide further inputs when this information becomes clearer.

Conclusion

We trust the above responses will help to move the process forward and look forward to providing further input at subsequent stages of the process.