

## **Abstract**

In this document the Office sets out three interim modifications to RIO-3. Interested parties are being invited to submit comments on the interim changes by **November 7, 2001**. On **November 21, 2001** the Office will issue a determination notice setting out its decision on these proposed changes.

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### **Comments from Interested Parties**

All persons who wish to express opinions on this Consultative Document are invited to submit their comments in writing to the OUR. Comments are invited on all aspects of the issues raised.

Responses to this Consultative Document should be sent by post, fax or e-mail to:-

Franklin Brown  
P.O. Box 593  
36 Trafalgar Road  
Kingston 10  
Fax: (876) 929 3635  
E-mail: [fknbrown.our@cwjamaica.com](mailto:fknbrown.our@cwjamaica.com)

Responses are requested by **2001 November 07**. Any confidential information submitted should be put in a separate Annex and clearly identified. In the interests of promoting transparent debate, respondents are requested to limit as far as possible the use of confidentiality markings. Respondents are encouraged to supply their responses in electronic form, so that they can be posted on the OUR's Web site (or a link included if the respondent wishes to post its response on its own Web site).

#### *Comments on responses*

As in all of the OUR's consultation periods, there will be a specific period for respondents to view other (non-confidential) responses and to make comments on them. The replies may take the form of either correcting a factual error or putting forward counter-arguments. Comments on responses are requested by **2001 November 14**, one week after the deadline for the receipt of responses.

Those who wish to view the responses that the OUR has received should make an appointment by contacting David Geddes, Communications Manager, by one of the following means:-

Telephone: (876) 968 6053 (or 6057)  
Fax: (876) 929 3635  
E-mail: [dgeddes@our.org.jm](mailto:dgeddes@our.org.jm)

The individual will be able to request photocopies to be made of selected responses at a price reflecting the cost to the OUR of its photocopying facilities. Copies may also be ordered by post by sending a cheque made payable to "Office of Utilities Regulation" (the contact details above should be used to find out the correct amount).

### *Timetable*

The timetable for the consultation on the interim proposals is summarised in the table below.

<i>Event</i>	<i>Date</i>	<i>Comment</i>
Issue of this consultative document by OUR	No later than Tuesday October 30, 2001	
Response to this consultative document by interested parties	Wednesday November 7, 2001	One (1) Weeks
Comments on respondents' response	Wednesday November 14, 2001	One (1) week
Response to Chapter 4	Wednesday November 21, 2001	Three (3) weeks
Issue of determination notice (Chapters 2 & 3 ) by the Office	Wednesday November 21, 2001	One (1) week

## CHAPTER 1: INTRODUCTION

### Purpose of this Document

- 1.0 On April 18, 2001, the Office approved, in part, Cable & Wireless Jamaica's (C&WJ) Reference Interconnect Offer (RIO-3). At that time, the Office indicated its intention to implement modifications to the approved RIO provisions on 1 September 2001. C&WJ did not complete the studies to support these modifications in time to meet the planned implementation date. In particular, the RIO modifications are to be supported by improved estimates of the values of C&WJ's assets to reflect the value of modern equivalent assets (MEAs). C&WJ's study of MEA valuation was not completed until 15 August 2001. C&WJ filed its proposal for a modified RIO (RIO-4) on August 23, 2001.
- 1.1 The Office is currently reviewing C&WJ's proposed RIO-4, its study of asset valuation, and the costing model used by the company for deriving mobile termination charges set out in RIO-4. A thorough review of the new information is required. As an interim measure the Office proposes to make three changes to RIO-3. The goal is to implement these changes by December 2001 and they are expected to remain in force until the Office completes its full assessment and review of RIO-4 and the asset study. Further modifications to the interconnection regime will then be implemented as required.

### Structure of this document

- 1.2 The next Chapter discusses the Office's proposed changes to RIO-3. In RIO-4 C&WJ has proposed the imposition of an access deficit charge on various services. The Office is of the view that the application of ADC to interconnection charges would be inappropriate at this time. The justification for the Office's position is set out in Chapter 3. Interested parties are asked to submit comments on this issue. Comments on this Chapter are due by **November 7, 2001**.
- 1.3 While the focus of this document is on the three modifications relating to RIO-3 the Office is also inviting comments on the provisions of RIO-4. In particular, comments are sought on the costing model developed by C&WJ for deriving mobile termination charges set out in RIO-4. Finally, interested parties with information that might be relevant to the assessment of RIO-4 are invited to make such information available to the Office.
- 1.4 Chapter 4 sets out some of the other issues relating to RIO-4 which the Office is seeking comments on from interested parties. Comments on these issues will be taken into consideration in the assessment of RIO-4. A further consultative document on the provisions of RIO-4 will be issued on **December 11, 2001**.

## CHAPTER 2: PROPOSED MODIFICATIONS TO INTERCONNECT REGIME

### Introduction

2.0 In this Chapter the Office sets out three interim changes to RIO-3 and invites interested parties to submit comments on these issues no later than **November 7, 2001**. The proposed changes are intended to improve RIO-3 and are expected to remain in effect until the Office completes its review of RIO-4, the asset study, and C&WJ's mobile costing model. The Office intends to issue a determination notice on the proposed changes on November 21, 2001.

### Retention Rate for Fixed - Mobile (FTM) Calls

2.1 Under the existing regime C&WJ is allowed to retain a fixed amount from the outpayment to mobile carriers to meet the cost of non-payment (bad debt) of bills by fixed line customers. This fixed amount was determined by the Office to be no more than 8% of the mobile termination rates. This 8% was to be deducted from the amounts billed for fixed termination. The Office indicated its intention (Notice of Approval/Disapproval of Reference Interconnect Offer – April 18, 2001) make modification to the regime on September 1, 2001.

2.2 The Office now proposes that the retention rate for calls originating on C&WJ's fixed network and terminating on either its own mobile network or the mobile network of Digicel or Centennial (FTM calls) will be increased by a bad debt premium of eight (8) percent of the applicable retail charge (i.e. the sum of the original retention and the relevant mobile termination rate). The retail charge will then be increased by the amount of the increase in the fixed retention rate. With regard to mobile to fixed calls the Office is also proposing the discontinuance of the current arrangement for bad debt.

2.3 In keeping with the proposed changes to the retention rate the current maximum retail rates for fixed to mobile calls (Table 2.0 below) should also be increased by 8%, while the maximum mobile termination rate remains unchanged.

**Table 2.0: Maximum Retail Price for Fixed to Mobile Calls**

		<i>Units</i>	<i>Peak</i>	<i>Off-Peak</i>	<i>Weekend</i>
Regional	Call Setup	J\$ per call	0.41400	0.28900	0.20700
	Duration	J\$ per minute	11.7982	11.7002	11.6362
National	Call Setup	J\$ per call	0.62200	0.43300	0.31100
	Duration	J\$ per minute	12.0832	11.8982	11.7782

Source: Table 5.4, p.19, "Cable & Wireless Jamaica's Reference Interconnect Offer, Determination Notice" Office of Utilities Regulation, 2001 February

- 2.4 Upon implementation of these changes, C&WJ (fixed network) will be responsible for bad debt associated with FTM calls. That is, C&WJ will be required promptly to remit to mobile carriers the amount billable for FTM calls less the retention, irrespective of when or whether the caller actually pays for the bill.
- 2.5 Finally, for mobile to mobile calls, the existing regime provides for the parties to negotiate any commercial arrangement regarding bad debt that they think fit. No modification to the current regime is proposed by the Office.

**C&WJ’s Fixed to Mobile Retail Rates**

- 2.6 In the February 2001 Determination Notice the Office determined that the retail rates for C&WJ’s fixed to mobile calls should remain at their existing levels (i.e. \$5, \$4, \$3 per minute). However, for calls originating on C&WJ’s fixed network to competing mobile operators the maximum retail rates shall not exceed the rates stipulated in Table 2.0 above.
- 2.7 The Office is now proposing to allow C&WJ to charge an amount up to but not more than the cost-oriented maximum specified in Table 2.0 above and amended at 2.2 above for calls from its fixed network to its own mobile network. C&WJ fixed will promptly remit to C&WJ Mobile the amount billable for such FTM calls less the retention. The Office intends that this policy apply to C&WJ’s price-cap plan (the basket for FTM calling), as well as to the RIO.

**Mobile Termination – International Incoming Calls**

- 2.8 Under the existing regime C&WJ’s fixed network is required to pay competing mobile carriers a termination rate for overseas calls terminating on their networks. The termination rate is defined as C&WJ’s per minute (retail) rate for calls that originate on its fixed network and terminate on its mobile network *minus* the fixed network retention rate contained in Table 2.1 below.

**Table 2.1: C&WJ Retention for Mobile Termination of International**

		<i>Units</i>	<i>Peak</i>	<i>Off-peak</i>	<i>Weekend</i>
Regional	Call Setup	J\$ per call	0.414	0.289	0.207
	Duration	J\$ per minute	1.447	1.349	1.285
National	Call Setup	J\$ per call	0.622	0.433	0.311
	Duration	J\$ per minute	1.732	1.547	1.427

Source: Table 5.2, p.19, Cable & Wireless Jamaica Reference Interconnect Offer, Determination Notice, February 2001.

- 2.9 The fixed network retention rates equal the per minute rates for fixed termination plus a surcharge of \$0.912 (US\$0.02) per minute to cover the

incremental costs of call origination (compared to termination) and retail costs. The surcharge is based on international benchmarks; in particular, the amounts allowed for call setup adjustment and retail by the UK's Competition Commission, formerly the Monopolies and Mergers Commission, for 2001-2002.

- 2.10 The Office now proposes that for each minute of incoming international calls that terminate on a mobile network, C&WJ fixed is to pay the mobile carrier the U.S. international settlement rate less C&WJ's fixed-termination rate, as specified in RIO-3 and set out in Table 2.2 below. The US settlement rate shall apply irrespective of the country of origin of the call.

**Table 2.2: Fixed Termination**

		<i>Units</i>	<i>Peak</i>	<i>Off-Peak</i>	<i>Weekend</i>
Regional	Call Setup	J\$ per call	0.414	0.289	0.207
	Duration	J\$ per minute	0.535	0.437	0.373
National	Call Setup	J\$ per call	0.622	0.433	0.311
	Duration	J\$ per minute	0.820	0.635	0.515

**Source: Table 5.1, p.18, "Cable & Wireless Jamaica's Reference Interconnect Offer" Determination Notice, Office of Utilities Regulation, February 2001**



## CHAPTER 3: ACCESS DEFICIT CHARGES

### Introduction

3.0 The Telecommunications Act, 2000 allows for the possibility for an access deficit charge (ADC):-

“Where appropriate, interconnection costs shall include provision for a supplementary charge, being a contribution towards the access deficit of the interconnection provider” - section 33(1)(f)

3.1 In the RIO Determination Notice of February 2001 the Office indicated its intention to consider the appropriateness of imposing an ADC on interconnect charges in the future. In RIO-4 (Tariff Schedule) C&WJ is proposing the imposition of ADC on the following services:-

- ? PSTN Terminating Access Service;
- ? Retention rate applicable to calls originating on its fixed network;
- ? Special Access Services (119 Emergency, 110 Emergency); and
- ? National Freephone Access Service

3.2 The Office is of the view that the application of an ADC to interconnect charges would not be appropriate at this time. The justification for this position is set out below. The due date for the submission of comments on this Chapter is **November 7, 2001**.

### Access Deficit Charges

3.3 An access deficit charge (ADC) represents the shortfall of revenues from line rentals and installation charges below the costs of the access network (including a reasonable return on capital). Access-deficit charges (“ADCs”) are designed to avoid inviting inefficient competitive entry when the incumbent carrier’s prices are unbalanced; in particular, if the following two conditions obtain:-

- ? the incumbent’s prices for competitive services substantially exceed cost; and
- ? the regulator prevents the incumbent from rebalancing rates; i.e., from lowering prices of competitive services close to cost while raising prices of non-competitive services, subject to the price-cap constraints.

3.4 If these conditions are met, an inefficient competitor could operate profitably by arbitraging the regulatory rate structure. It could offer lower prices than the incumbent’s, even if it had significantly higher costs. The

result would be misallocation of resources and reduction of the productivity of the telecommunications sector.

- 3.5 The inclusion of an appropriate ADC in interconnection charges can prevent this undesirable outcome by leveling the playing field. An ADC that is set at the proper level allows full scope for efficient entry and possibly entry that is slightly inefficient. It does not, however, encourage entry by firms that are substantially less efficient than the incumbent.

### **International Settlements**

- 3.6 Incoming international settlements represent a hefty share of C&WJ's profitability. Settlement rates are determined through international negotiations and are not subject to price-cap constraints. Nevertheless, the Office considers the (expected) profits from international settlements in ensuring that the price-cap plan allows C&WJ the opportunity to cover its costs—including the cost of capital.
- 3.7 Given the large profits from international settlements, it is conceivable that C&WJ's prices for non-competitive services are below cost, while prices of competitive services are close to cost.<sup>1</sup> Such a situation would *not* justify the imposition of ADCs. Low prices of non-competitive services do not encourage inefficient entry. Such entry is invited only by competitive prices that substantially exceed costs.

### **Competitive Services**

- 3.8 Imposition of ADCs on the services set out below has been considered.

(i) *Local Mobile Services*

Mobile services have been open to competition since the Telecommunications Act was passed, and Digicel has now been operating for over 6 months. Competitive local mobile services compete primarily with C&WJ's mobile services, which are not subject to price-cap regulation. To be sure, there is some competition between local mobile calls and intra-parish calls. But the large difference between the prices of intra-parish calls and those of mobile calls (whether mobile-originated or fixed-to-mobile) limits the extent of competition. It does not appear to be necessary to impose ADCs in order to prevent inefficient competition for local mobile services.

(ii) *Inter-Parish Calls*

The prices of C&WJ's inter-parish usage appear to be fairly close to costs. Furthermore, C&WJ has considerable

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<sup>1</sup> Given that international settlement rates significantly exceed costs and that in aggregate C&WJ's prices approximately cover costs (including the cost of capital), it follows that the prices of some services *must* be less than (fully-distributed) cost.

flexibility to raise intra-parish prices and lower inter-parish prices if it chooses to do so. Thus, there does not appear to be any danger of inefficient competitive entry for inter-parish usage.

(iii) *Intra-Parish Calls*

The prices of C&WJ's intra-parish usage do not appear to be substantially above costs. In any event, experience in other countries has shown that competition for local calls develops very slowly (if at all). Thus, there does not appear to be any need for ADCs to prevent inefficient competition for intra-parish usage.

(iv) *Access*

Access to C&WJ's fixed network appears to be priced below cost. Consequently, there is no danger of attracting inefficient entry and no need for ADCs to prevent such entry.

(v) *International Services*

When international services are opened to competitive entry in March 2003, it is quite possible that ADCs will be necessary to prevent inefficient competitive entry. Nevertheless, there is obviously no need for ADCs to prevent inefficient entry in international services until entry is allowed.

3.6 In light of the above the Office concludes that ADCs are not appropriate in Jamaica at this time. The efficacy of ADCs should, however, be seriously considered for imposition at the time that international competition is permitted.

## CHAPTER 4: REFERENCE INTERCONNECT OFFER (RIO-4)

### Introduction

The Office is currently conducting a review of RIO-4, but that review will take time given the complexity of the issues involved, particularly matters relating to C&WJ's MEA Study and the model developed by the Company for determining mobile termination charges. The Office intends to issue a consultative document on the outstanding issues relating to RIO-4. The projected date for publication of this document is **December 11, 2001**. Interested parties are invited to submit comments on RIO-4 by **November 21, 2001**.

### Other RIO Issues

Below is a list of outstanding issues relating to RIO-4. The Office is inviting interested parties to submit on these and any other topics they consider to be relevant.

1. *C&WJ's Mobile Costing Model*  
The OUR is in receipt of a detailed description of the costing model used by C&WJ to develop the mobile termination charges set out in RIO-4. A copy of the model description is attached at Annex A to this document.
2. *Additional RIO Services*  
For the services listed below the Office seeks evidence and comments on the appropriate charges and the methodology that should be used to derive them as well as the charging mechanism.
  - ? Fault Report Service,
  - ? Speaking Clock Service,
  - ? International DQ Service,
  - ? 1-888-Call C&WJ Service,
  - ? National Freephone Service,
  - ? International Freephone Service,
  - ? 56 Kbit/s Messaging Bearer Service,
  - ? International Signalling Service, and
  - ? Directory Number Inclusion and Publication Service.
3. *Uniform Mobile Termination*  
In the Determination Notice of February 2001 the Office indicated that it was disposed to the imposition of a common termination rate for all mobile operators. At that time at least one mobile licensee expressed reservation about the adoption of this model. The Office now seeks comments from mobile carriers and the public on the desirability of imposing a common mobile termination rate.

### **Timetable for Public Consultation**

Comments on the above and other issues relating to RIO-4 are due by November 21, 2001. The timetable for the consultation on RIO-4 is summarised in the table below.

<i>Event</i>	<i>Date</i>	<i>Comment</i>
Issue of this consultative document by OUR	Tuesday December 11, 2001	
Response to this document by interested parties	Tuesday January 11, 2002	One (1) month
Comments on respondents' response	Tuesday January 18, 2002	One (1) Week
Issue of determination notice on RIO-4 by the OUR.	Monday, January 31, 2002	

**ANNEX A: CABLE & WIRELESS JAMAICA'S MOBILE SERVICE COSTING  
MODEL**