

**CABLE AND WIRELESS (JAMAICA) LTD.
COMMENTS ON RESPONSES TO**

**COST MODEL FOR FIXED TERMINATION RATES – DRAFT
MODEL**

25 August 2016

I. INTRODUCTION

1. Cable & Wireless (Jamaica) Ltd. (“**C&WJ**”) welcomes the opportunity to respond comments to the Office of Utilities Regulation’s (“**OUR**”) its Consultation Document, *Cost Model for Fixed Termination Rates—Draft Model*, dated 22 June 2016.
2. We understand that, besides C&WJ, Digicel and the Consumer Advisory Committee on Utilities (“**CACU**”) submitted its comments to the Consultation Document. C&WJ is not responding to each statement by Digicel and the CACU; however, our not addressing any particular statement does not represent our agreement with such statement.
3. Please direct any questions you may have to Charles Douglas at charles.douglas@cwc.com.

II. C&WJ’S RESPONSE TO INTRODUCTORY COMMENTS

4. Digicel begins its response document by urging the OUR to implement interim rates before the consultation process reaches a conclusion. In our view this suggestion should be rejected. It is almost amusing that after profiting years from super-normal profits on mobile termination rates—profits that dwarf its outpayments for fixed termination—it has the boldness to suggest that the OUR should derail its current process to establish properly determined rates.
5. It also is surprising that Digicel proposes this now when the OUR is so close to determining rates.

III. C&WJ'S RESPONSE TO COMMENTS OUR QUESTION 1: "DO YOU AGREE THAT THE DEMAND PRESENTED ABOVE REASONABLY REPRESENTS THE JAMAICA FIXED MARKET?"

5. We disagree with Digicel's opinion that the projections for non-voice services are an underestimate. It begins with a flawed reporting of a Cisco estimate of internet traffic. Even before discussing that reporting, C&WJ notes that it is important to treat estimates of vendors who benefit from overestimates with a degree of scepticism.
6. It is true that Cisco estimates that there will be a 21% increase in fixed internet traffic between 2015 and 2020. However, that is a global estimate, there is nothing to suggest that the growth rate will be as high as that in Jamaica or even the Caribbean in general.
7. Digicel suggests that Cisco is expecting the increases to be higher in countries with relatively low levels of fixed broadband uptake. And cites Africa as an example of this. However, Cisco never makes this assumption, and more than that, Cisco never gives a figure for internet growth for Africa. It is the Middle East and Africa. The Middle East is an area that has been aggressively installing fibre networks. It is less an issue of take-up than facilitating large increases in demand through larger pipes.
8. But even if relative take-up was the decisive correlation between take-up and internet growth, Digicel cannot make the case that take-up in the model should lead to higher rates. Take-up of fixed internet in the model is realistically moderate. Over the modeled period, Jamaica will continue to be an overwhelmingly mobile internet nation.
9. Digicel then commits to providing the OUR with its own estimates. C&WJ urges the OUR to treat such a submission with great care as the non-voice peak load traffic for its fixed Broadband service are likely not be

representative, given the role (new entrant) and timing (recent) of its entry into the market.

10. Digicel then argues that the leased line demand is too low. C&WJ agrees that the need for fibre connections to high usage mobile LTE cell sites will require more capacity. From a modeling perspective there is a question of whether this demand should be modeling within the fixed network or whether this is captured in mobile network model. C&WJ believes it was incorporated in the mobile model, so including this in the fixed model would be double counting traffic. In any case, given the dedicated nature of this capacity and the pure nature of this LRIC modeling exercise, it is unlikely to make any significant difference.
11. Finally, with respect to Digicel's proposal to revisit the model in 12 months to understand the impact of the merger of LIME and FLOW, we believe that this is both an unworkable proposal and contradicts the methodological determination the OUR has already made on the question of what kind of fixed network to model. The OUR has already opined on whether to model a merged LIME/FLOW network and found for a number of reasons that modeling the LIME based network is most appropriate. Hence, this proposal should be rejected.

IV. C&WJ'S RESPONSE TO COMMENTS ON OUR QUESTION 2: "DO YOU AGREE THAT THE MIGRATION PERCENTAGE ABOVE AND THE FINAL NUMBER OF NODES ARE REASONABLE AND ACCURATELY REPRESENT THE FORESEEABLE FUTURE OF THE JAMAICAN MARKET?"

12. Digicel suggests that FLOW has provided the OUR with the future topology of its network as its provided projected volumes of NGN nodes. This is of course incorrect, and seems to suggest that Digicel has not carefully read the methodology document. The future topology of the network is

produced by the model itself. The NGN node projects are produced by the model itself.

13. Digicel then uses some illogical reasoning to suggest that FLOW would be happy to make public its current volume of legacy nodes. Further, Digicel asserts that because the OUR did not make such volumes public, the OUR appears to be intentionally disadvantaging other respondents. This trail of false logic does not merit serious consideration.
14. C&WJ disagrees with the Digicel suggestion that simply on the basis of shorter loop length, the peak throughput forecast should be increased. The fact is that MSAN loop lengths have to be shorter than TDM nodes to deliver *any* quality of service.
15. C&WJ also disagrees with Digicel's suggestion that opex has to be reduced anymore than is already built into the model. C&WJ believes that in any case, the OUR already reduced the opex associated with NGN components beyond what is realistic.
16. Finally, Digicel appears to suggest that the model can do away with the geotyping of nodes entirely as irrelevant. C&WJ disagrees. The geotype is essential for the projection of how many NGN nodes are deployed in the future given the varying density of population.

V. C&WJ'S RESPONSE TO OUR QUESTION 3: "DO YOU AGREE THAT THE AVERAGE DISTANCE EXTRACTED FROM THE GEOGRAPHICAL ANALYSIS PERFORMED, REASONABLY REPRESENTS THE PREVAILING AVERAGE LENGTH OF THE BACKHAUL NETWORK IN THE GEOGRAPHY OF JAMAICA?"

17. We agree with Digicel's point that if the distances of the "legacy" topology has been calibrated against actual distances, they should be reasonable. However, We disagree with Digicel's assertion that the number of MSANs will be the same in rural geotypes, a point we have made elsewhere. Furthermore, we disagree

with its assertion that the link lengths for the NGN nodes will in general follow the same routes as the legacy topology and therefore there will be no cost increase in the physical transmission layer. While we understand that legacy routes can be used, what part of what was access in the legacy network is core in the NGN. As Digicel itself acknowledges, the access lengths is reduced. The flipside of this is that the internodal (core) lengths are increased.

VI. C&WJ'S RESPONSE TO COMMENTS ON OUR QUESTION 4: "DO YOU AGREE THAT THE RESOURCES OBTAINED ARE REASONABLE TO SATISFY DEMAND?"

18. Neither Digicel nor CACU had substantive comments on this question.

VII. C&WJ'S RESPONSE TO COMMENTS ON OUR QUESTION 5: "DO YOU AGREE THAT THE UNITARY COSTS USED FOR THE RESOURCES ARE ACCURATE FOR TELECOMMUNICATIONS OPERATIONS IN JAMAICA?"

19. It is unfortunate the Digicel, particularly having asked for and received more time to respond to the Consultation Document, was unable to provide all its comments on time. Should the OUR allow Digicel to provide a view on these costs inputs beyond the timeframe the OUR has set, those views should be made public and other stakeholders be afforded the opportunity to comment on them.

VIII. C&WJ'S RESPONSE TO COMMENTS ON OUR QUESTION 6: "DO YOU AGREE THAT THE COST TRENDS ARE REASONABLE?"

20. Digicel urges that the OUR use additional data points for the cost trends. It is our understanding that the costs trends provided will be used for each

year of the model. The OUR needs to clarify this and allow for further comment, if it is not the case.

IX. C&WJ'S RESPONSE TO COMMENTS ON OUR QUESTION 7: "DO YOU AGREE THAT THE COST STRUCTURE SHOWN ABOVE IS REASONABLE FOR AN OPERATOR WITH THE DEMAND PRESENTED IN TABLE 1 AND IN TABLE 2?"

21. We find Digicel's comments on the cost structure puzzling as they appear to be finding problems in the change of a series that stays for all intents and purposes stable. There are no grounds for suggesting that there is a problem with a complex model because network opex stays basically the same over the modeling period. They do not show that network opex should decline any more than other cost categories. Part of this may be misinterpretation. Digicel states that the "depreciation levels for the combined legacy and NGN switching category are higher in every year after 2014 than the initial combination in 2013." The table does not speak to levels of costs but relative shares.

X. C&WJ'S RESPONSE TO COMMENTS ON OUR QUESTION 8: "DO YOU AGREE WITH THE ROUTING FACTORS USED?"

22. Many of Digicel's comments on routing factors appear to reflect a misunderstanding of the methodology that was decided up in the Consultation last year. What is modeled is a self-standing national fixed network, just as what was modeled for the mobile sector was a self-standing mobile network. If mobile traffic was taken into consideration, this Consultation Document would look very different from what it does.
23. With respect to the comment on power, this model produces pure LRIC as well as LRIC+ results so the question is not whether power is incremental

to traffic, but how the relationship between the power element and the node element is modeled.

24. We do not understand Digicel's use of the word "stuffed" and so cannot respond to their comment on "stuffed" values.

XI. C&WJ'S RESPONSE TO COMMENTS ON OUR QUESTION 9: "DO YOU AGREE WITH THE SERVICES' UNIT COSTS OBTAINED ARE REASONABLE?"

25. While we agree with Digicel that the results by service category change direction in a few of the model years, it is not surprising given the pure LRIC nature of the results, and the fact that the model is not fully populated with costs. We believe that once service specific costs and other aspects of the model are corrected (as we have discussed in our comments), the unit cost trend may be more stable.

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