

CONSUMER ADVISORY COMMITTEE ON UTILITIES

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Office of Utilities Regulation
P.O. Box 593
36 Trafalgar Road
Kingston 10, JAMAICA

ATTENTION: Fay Samuels

Dear Sir/Madam,

The Consumer Advisory Committee on Utilities (CACU) is grateful for the opportunity to contribute to the regulatory consultation process regarding the **Estimate of the WACC for Telecommunications Carriers**.

Having discussed and considered the proposed approach to updating the parameters for the estimation of the Weighted Average Cost of Capital (WACC) for fixed and mobile telecommunications carriers in Jamaica, the CACU offers the following comments/observations in response to the OUR's Consultative Document.

Question 1

Do you agree with the approach to estimate separate WACCs for fixed line and mobile? Please justify your position and provide supporting information and references.

CACU Response

Yes, we agree that the separation should remain for fixed networks vs mobile networks. This should obtain as long as they are separate networks.

Question 2

Do you agree that a gearing ratio of 35.54% for fixed and a gearing ratio of 35.72% for mobile is reasonable? Please justify your position and provide supporting information and references.

CACU Response

Yes we agree with the ratios stated. The CACU is on record as being in agreement with the optimal gearing approach. Based on the global data provided the results follow with that approach.

Members • Yasmin Chong (Chairman) • Carolyn Arnold • Kadian Birch • Erwin Burton
• Devon Gayle • Paul Goldson • Gilroy Graham • Wayne Grant • Carolyn Young

Question 3

Do you agree that a risk-free rate of 2.26% for both segments (fixed and mobile) is reasonable? Please justify your position and provide supporting information and references.

CACU Response

Yes, we agree. Examination of the data seems to indicate that the selected risk-free rate is reasonable.

Question 4

Do you agree that a Country Risk Premium (CRP) of 3.42% for Jamaica is reasonable? Please justify your position and provide supporting information and references.

CACU Response

Yes, this seems reasonable based on the data provided.

Question 5

Do you agree that a Debt Premium parameter of 1.59% for the Jamaican telecom sector is reasonable? Please justify your position and provide supporting information and references.

CACU Response

Yes, this seems reasonable based on the data provided.

Question 6

Do you agree with the approach to estimating beta? Do you agree that a Beta of 0.697 for fixed and a Beta of 0.918 for mobile are reasonable? Please justify your position and provide supporting information and references.

CACU Response

Yes we agree, considering the data provided.

Question 7

Do you agree with the approach to estimating the MRP? Please justify your position and provide supporting information and references.

CACU Response

Yes we agree, considering the data provided.

Question 8

Do you agree with the values, 4.76% and 2.32% to be used for expected inflation for Jamaica and the United States of America respectively? Please justify your position and provide supporting information and references.

CACU Response

Yes we agree, considering the data provided, including the fact that IMF was used as the source for inflation parameters. It means all operators are on a levelled playing field.

Question 9

Do you agree with the estimated WACC for fixed carriers (10.75%) and mobile carriers (12.63%)? Please justify your position and provide supporting information and references.

CACU Response

Yes. Based on the process used to derive these values. This is an overall reduction from the 2016 consultation.

The CACU looks forward to further engagement with the Office of Utilities Regulation (OUR) on this and other matters of regulatory importance.

Sincerely yours,
CONSUMER ADVISORY COMMITTEE ON UTILITIES

Carolyn Young (Ms)
Administration Lead