



# Digicel

Digicel's Comments to Responses on the Consultation on  
Cost Model for Fixed Termination Rates – Draft Model

**25<sup>th</sup> August 2016**



We thank you for providing this opportunity for Digicel to share its views on the responses to the Draft Cost Model for Fixed Termination Rates consultation document. Digicel is of course available, and would be happy, to discuss our submission further.

The comments as provided herein are not exhaustive and Digicel's decision not to respond to any particular issue(s) raised in the consultation document or any particular issue(s) raised by any party relating to the subject matter generally does not necessarily represent agreement, in whole or in part nor does any position taken by Digicel in this document represent a waiver or concession of any sort of Digicel's rights in any way. Digicel expressly reserves all its rights in this matter generally.

Please do not hesitate to refer any questions or remarks that may arise as a result of these comments by Digicel to: -

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## Comments on CACU Submission

### **Question 1**

Digicel notes that the CACU endorses the general trend of a decline in voice but an increase in data. However we believe that the increase in data use has been underestimated.

### **Question 2**

Digicel notes that the CACU does not disagree with the proposal to model a migration to 100% NGN by 2020. Similarly Digicel does not believe that this is unreasonable.

### **Question 3**

Digicel notes that the CACU does not disagree with the average distances and this accords with the Digicel position. Provided that these distances have been calibrated against actuals then they are not unreasonable.

### **Question 4**

Digicel notes that the CACU is of the view that there is insufficient information for it to meaningfully respond to this question. This is similar to Digicel's position.

This gives rise to a situation where the only parties to the consultation which have sufficient information to properly assess the merits of a proposed OUR position are the OUR and the fixed incumbent. In this circumstance, other operators and the market in general must rely on the OUR to examine critically, the responses from the fixed incumbent as these are likely to be designed to minimise the impact of the proposed regulatory intervention on the fixed incumbent.

### **Question 5**

Digicel notes the CACU response.

### **Question 6**

Digicel notes the CACU response and that it is subject to a caveat regarding the source of the information.

### **Question 7**

Digicel notes the CACU response. However Digicel remains of the view that a number of the projected trends are not appropriate and in fact should reflect a lower cost attribution over time.



### **Question 8**

Digicel notes the CACU response. We remain of the view that it is not possible for us to fully comment on the proposed routing factors but have identified a number of specific areas that require further examination by the OUR.

### **Question 9**

Digicel notes the CACU comments.

## **Comments on Cable and Wireless (Jamaica) Ltd. (CWJ) Submission**

### **Question 1**

Digicel notes the CWJ response. We disagree with them that the broadband and leased line volumes “look reasonable”. Digicel believes that the proposed volumes are a material underestimate for these traffic types. This underestimate will have the effect of increasing the cost attribution to voice based services, inappropriately inflating the resultant Fixed Termination Rate (FTR).

### **Question 2**

Digicel notes the CWJ response. We disagree with them that the use of 2020 as an endpoint for the full migration to NGN is inappropriate. Based on our experience of deploying FTTH networks in a number of Caribbean markets the 2020 date is achievable.

The speed of migration is a matter of resource based expenditure. In a situation where delays in retiring depreciated current generation equipment results in higher FTRs then the incumbent has an incentive not to invest in the migration. It is the essence of dominance that the dominant entity can act independently of the market. The use of a longer migration period than is necessary rewards inefficiency and provides the incumbent with windfall profits. On the other hand using a shorter migration timeline provides a proxy for otherwise absent competitive pressures and gives the incumbent economic incentives to deploy NGN equipment in the shortest possible time, thus maximising consumer welfare benefit.



### Question 3

Digicel notes the CWJ response that the OUR's proposed Minimum Tree Topology seems valid. In respect of the comments on the urban dense and urban geotypes we believe that any differences in distances thrown up should not materially affect the derived FTR. This is for the following reason:

The location of MSANs and hence the requirement for a physical layer connection between them is not significantly driven by transmission capacity issues but rather by the location of end users and the number of customers they can accommodate. In an incremental cost model these locations would exist even when the termination voice increment is removed and hence the cost increment associated with the length of the internodal connection will be zero (or close to zero).

A jeopardy arises in modelling too long an intermodal distance. The shorter intermodal distances associated with NGN are in effect a result of the conversion of part of the connection to the customer from the "last mile" access portion of the legacy network to the "core" of the NGN network. Allowing too a high cost recovery on this NGN core cost element in the FTR runs the risk that absent sufficient retail competitive pressures double recovers the cost by maintaining high retail access costs based on the legacy access configuration AND by recovering higher wholesale costs in respect of the NGN based FTR.

In this regard it is appropriate for the OUR to use the lower end of the ranges of internodal distances.

### Question 4

Digicel notes the CWJ response. We note that the additional cost categories proposed by CWJ may already be incorporated in the categories proposed by the OUR and we suggest that this is clarified by the OUR. In addition we note that some of the cost categories proposed may not materially affect the operation of the model to determine FTRs. For example subsea cable systems are used to transport minutes into Jamaica. The point of handover for the purposes of FTRs is on the landward side of these systems and these elements lie beyond the network that requires modelling.

In respect of the interconnect specific costs we note that for an on-net call there are two legs, origination and termination. CWJ therefore self-supplies termination services in respect of on-net calls. The network elements used to support this internal self-supply must be aggregated with any additional elements used to supply external termination services to obtain the total cost



increment for the termination service. The cost recovery of any additional specific network elements for external supply of termination services will therefore be spread over the entirety of the termination increment demand (including on-net self-supply of termination).

We note that microwave towers are more likely to be deployed in rural geotypes given that CWJ has indicated that the Minimum Distance Tree methodology is valid and that this yields the same distances for legacy and NGN nodes in rural geotypes. If the intermodal distances are staying the same then there cannot be any increase in the number of nodes and therefore there will be no requirement of additional radio sites but rather a potential requirement for the upgrading of radio capacity on the existing routes. As CWJ itself points out this will be driven primarily by increases in demand for non-voice data services.

#### **Question 5**

Digicel notes the CWJ response. It is unsurprising that the incumbent considers the cost inputs proposed by the OUR to be too low. We would urge the OUR to critically assess any claims by CWJ that these cost inputs should be increased.

#### **Question 6**

Digicel notes the CWJ response.

#### **Question 7**

Digicel notes the CWJ response. However we disagree that the structure is reasonable for the reasons set out in our response.

#### **Question 8**

Digicel notes the CWJ response.

#### **Question 9**

Digicel notes the CWJ response. We believe that CWJ's comparison to networks in Europe is misguided. These networks are characterised by higher population densities, higher levels of fixed line penetration and much higher aggregate call volumes. This means that the termination service drives a much higher cost increment as more network capacity and elements must be deployed to support the traffic associated with the increment. In Jamaica much of the network is required to support other services and proportionately less is attributable to the incremental network load of termination services alone.

In this regard Digicel does not believe that the comparison made by CWJ is relevant or valid.