



**The Office of Utilities Regulation Supplementary
Consultation Document on**

**The Cost Model for the Assessment of Fixed
Infrastructure Sharing Rates (Document No:
2021/TEL/013/CON.003)**

8 October 2021

I. INTRODUCTION

This response is submitted on behalf of Cable & Wireless Jamaica Limited and Columbus Communications Jamaica Limited (jointly hereinafter referred to as “**Flow**”). Flow welcomes the opportunity to respond to the Office of Utilities Regulation’s (“**OUR**”) Consultation Document, *Supplementary Consultation for the Cost Model for the Assessment of Fixed Infrastructure Sharing Rates*, dated 2 September 2021.

Please direct any questions you may have to Charles Douglas at charles.douglas@cwj.com.

CWJ is disappointed, after all the previous consultation on this matter, that the OUR still continues to appear to labor under the misconception of how its model should be applied. In paragraph 1.1 of the Consultation Document, in reference to the model, the OUR repeats its view that it must apply this model “to *determine* and validate rates...” [Italics added]. This is misconceived as, firstly, it suggests that the OUR might apply the model *ex ante*, whereas the proposed Infrastructure Sharing Rules (the “draft Rules”) anticipate an *ex-post* approach to costing, employed only if and when there is a dispute concerning pricing among parties negotiating an infrastructure sharing arrangement.

Secondly, this model cannot determine rates as it cannot foresee all the factors influencing and relevant to any particular infrastructure sharing arrangement. Even if all the OUR were to receive all the information it is appears to be seeking, this supplementary consultation will not change the basic fact that the model will necessarily remain too simplistic to address the realities of pricing infrastructure sharing arrangements. As we have discussed in our previous submission, the model can only serve as a guide or an approach to assessing proposed rates for such sharing.

II. FLOW’S RESPONSE TO OUR QUESTION 1: “WHAT ARE YOUR VIEWS ON THE FIGURES PRESENTED IN TABLE 1 ABOVE? PLEASE PROVIDE REASONS INCLUSIVE OF ANY DATA OR OTHER RELEVANT EVIDENCE TO SUPPORT YOUR RESPONSE. ALSO, PLEASE INDICATE ANY ADDITIONAL DISAGGREGATION IN THE NETWORK ELEMENTS (E.G. CONSIDERING DIFFERENT CONFIGURATIONS) PRESENT IN YOUR NETWORK.”

1. Although the OUR states that the purpose of this supplementary consultation is to provide clarity on some of the inputs included in the draft model and provide additional opportunity to provide additional inputs that may be useful in populating its model, the material the OUR presents is largely a restatement of that provided in the previous consultation. This time, however, the OUR has provided:
 - a more expansive definition of Unit CapEx and Unit Opex;
 - a list of the countries it used to develop its benchmarks; and
 - a list of the same unit costs CapEx and OpEx factors in Table 1 that it provided previously within the model.
2. In the previous consultation, Flow had posed four comments that begged clarity in respect to the OUR’s CapEx and Unit OpEx figures:
 - The CapEx cost items were too aggregated to comment on;
 - The sources for the “international benchmarks” and “external studies” cited by the OUR as sources for their figures so that we could at least judge their appropriateness;
 - The OpEx cost items were ill defined;
 - It is unclear how the import content would be treated.
3. The OUR has completely failed to provide clarity on these four issues:

- With respect to over-aggregation of CapEx cost items, the OUR has made no change. Instead, it simply asks the industry to provide “additional disaggregation of these network elements”. This cannot be a serious request: for example, how are we to define all the disaggregated configurations that might be found in our network and that might come up for an infrastructure sharing arrangement?
 - With respect to the sources of the benchmarks, the OUR has provided a list of the countries benchmarked, but no means by which participants in this consultation can cross-check the figures or their relevance.
 - With respect to the OpEx items, the OUR added a single sentence to its definition and provided an example of how the OpEx factor is multiplied by the Unit CapEx to derive annual OpEx. After two decades of participating in detailed cost modelling exercises with the OUR, Flow is concerned that the OUR could have presented this as a “clarification”. It is completely unhelpful.
 - With respect to import content, the OUR at least appears to confirm that the costs of transport and duties are to be covered in the CapEx figures.
4. Thus, the OUR has done little else than repeat the same question, it posed in the previous consultation, as such Flow is in no better position to respond to it.
 5. Finally, we note that the OUR has added a new aspect to the obscurity of its assumptions. It states that for the unit OpEx, the conversion of international benchmarks “considered the effect of purchasing-power-parity (PPP) between the benchmark countries and Jamaica”. This

apparently means that the OUR did not simply average the benchmark OpEx factors themselves, but in some unspecified manner adjusted them by some PPP coefficient. The OUR should have explained what PPP factors were used, how they were derived, and their relevance for the types of operational costs found in running and maintaining infrastructure in Jamaica.

III. FLOW'S RESPONSE TO OUR QUESTION 2: "WHAT ARE YOUR VIEWS ON THE FIGURES PRESENTED IN TABLE 2 ABOVE? PLEASE PROVIDE REASONS INCLUSIVE OF ANY DATA OR OTHER RELEVANT EVIDENCE TO SUPPORT YOUR RESPONSE AND, IF APPLICABLE, THE USEFUL LIVES THAT YOU CONSIDER APPROPRIATE TO BE INCLUDED IN THE FIXED INFRASTRUCTURE SHARING COST MODEL."

1. Notwithstanding the fact that the asset categories that the OUR asks are too highly aggregated for practical application, we can generally agree that these asset lives appear reasonable. However, the exception is the "Submarine Cable Landing Stations" item, which is still too ill-defined to for us to be able to comment on it.

IV. FLOW'S RESPONSE TO OUR QUESTION 3: "WHAT ARE YOUR VIEWS ON THE PERCENTAGE OF FULLY DEPRECIATED ASSETS INCLUDED IN THE DRAFT MODEL? PLEASE PROVIDE REASONS INCLUSIVE OF ANY DATA OR OTHER RELEVANT EVIDENCE TO SUPPORT YOUR RESPONSE AND, IF APPLICABLE, THE PERCENTAGE YOU CONSIDER TO BE INCLUDED IN THE FIXED INFRASTRUCTURE SHARING COST MODEL."

1. The OUR has stated that by "fully depreciated" it means that the asset "do not generate any costs for its owner (i.e., these costs are already fully recovered)". Presumably, by "costs" the OUR means capital costs and depreciation.
2. The OUR confirms that the elimination of the fully depreciated asset in the model does not "affect the calculation of operational costs". However, nor

does the model reflect the fact that operating older assets can be more expensive than newer ones.

3. The OUR has made the estimate of fully depreciated assets based on “Axon’s experience in the field”, which is not a basis that Flow can comment on. However, irrespective of the validity of the source, an assumption of a national average fully depreciation is more likely than not to be irrelevant to any specific infrastructure arrangement.

V. FLOW’S RESPONSE TO OUR QUESTION 4: “WHAT ARE YOUR VIEWS ON THE INPUTS CONCERNING STAFF-RELATED COSTS? PLEASE PROVIDE REASONS INCLUSIVE OF ANY DATA OR OTHER RELEVANT EVIDENCE TO SUPPORT YOUR RESPONSE AND, IF APPLICABLE, THE FIGURES THAT YOU CONSIDER APPROPRIATE TO BE INCLUDED IN THE FIXED INFRASTRUCTURE SHARING COST MODEL.”

1. Flow believes when the time comes to price ancillary services, infrastructure service providers will use the costs—direct and indirect—of the relevant staff at the time of the provision of the service. As for the particular values the OUR puts in its model: they are largely irrelevant as they may or may not reflect the actual staff costs involved.

VI. FLOW’S RESPONSE TO OUR QUESTION 5: “WHAT ARE YOUR VIEWS ON THE FIGURES CONSIDERED FOR UNIT COSTS FOR LANDING STATIONS? PLEASE PROVIDE REASONS INCLUSIVE OF ANY DATA OR OTHER RELEVANT EVIDENCE TO SUPPORT YOUR RESPONSE AND, IF APPLICABLE:

i. THE UNIT COSTS THAT YOU CONSIDER APPROPRIATE TO BE INCLUDED IN THE FIXED INFRASTRUCTURE SHARING COST MODEL; AND

1. The OUR says that the unit costs of a cable landing station accounts for “all the costs associated with the landing station... these costs include the costs of rental (or construction), maintenance and operation of the landing station”. This is still an overly vague description. For example, the OUR’s

phrasing seems to suggest that only costs associated with the building are included. Do these costs include land? Cabinets? Cages? Fiber access?

2. With respect to OpEx, the OUR states “the general maintenance and operational costs associated with the landing stations.” This is a step back from the more specific description of the operating costs included in the Descriptive Manual, which included references to power, cooling, and security. As before, we disagree that all of the costs are space related as the OUR assumes. This is especially significant as the non-space related costs are numerous and usually specific to customer requirements and the cable landing station itself.
3. As we noted in our previous submission, some of the costs associated with sharing facilities within a cable landing station cannot be known generically *a priori* as the activity of infrastructure sharing changes the nature of the facility. For example, some of these stations were built to be largely unmanned, and additional cost would be required to make them accessible in a controlled manner. These can be very significant in the case of cable landing stations, which are Critical National Infrastructure.
4. With respect to the assumed percentage of space that could be used to place equipment, the OUR appears to disregard the obvious point (that we made in our previous submission) that the percentage of total space available for colocation will differ depending on 1) what station is being considered, 2) what use the customer has for the space in question, 3) how many potential customers may be involved, 4) what are the controlled access requirements and 5) the other uses currently unoccupied space may be dedicated for, e.g., further capacity expansion, new SLTE vendors and power feed equipment replacement.
5. Finally, the major source for the building data that the OUR used (“Market trend report 2018-2019 on Caribbean & Latin America construction”,

prepared by BCQS international) is unlikely to reflect the actual cost of as cable landing stations have particular attributes as Critical National Infrastructure.

6. Thus, again, we are in no better position to comment on these assumptions than we were in the first consultation.

ii. **ANY COSTS RELATED TO LANDING STATIONS THAT SHOULD, IN YOUR VIEW, BE CONSIDERED IN THIS CALCULATION.”**

1. Please see our comments above.

VII.FLOW’S RESPONSE TO OUR QUESTION 6: “WHAT ARE YOUR VIEWS ON THE FIGURES CONSIDERED FOR THE PERCENTAGE OF AERIAL CABLES? PLEASE PROVIDE REASONS INCLUSIVE OF ANY DATA OR OTHER RELEVANT EVIDENCE TO SUPPORT YOUR RESPONSE AND, IF APPLICABLE, AN ALTERNATIVE PERCENTAGE THAT YOU CONSIDER APPROPRIATE TO BE INCLUDED IN THE FIXED INFRASTRUCTURE SHARING COST MODEL.”

1. We think the appropriate assumption will be whatever the relevant case is when it is brought to the OUR for resolution. It is more likely that any given infrastructure sharing arrangement will be an either/or, i.e., either aerial or buried rather than some average of the two. If the OUR thinks it must have a model output for this particular attribute, perhaps it might consider running two different scenarios, one with 100% aerial, one with 100% buried.

VIII. FLOW’S RESPONSE TO OUR QUESTION 7: “WHAT ARE YOUR VIEWS ON THE FIGURES CONSIDERED FOR THE NETWORK INPUTS PRESENTED IN TABLE 3 ABOVE? PLEASE PROVIDE REASONS INCLUSIVE OF ANY DATA OR OTHER RELEVANT EVIDENCE TO SUPPORT YOUR

RESPONSE AND, IF APPLICABLE, THE NETWORK PARAMETER FIGURES THAT YOU CONSIDER APPROPRIATE TO BE INCLUDED IN THE FIXED INFRASTRUCTURE SHARING COST MODEL.”

1. It is not clear to Flow why the OUR has repeated this question in this consultation. It has neither clarified nor justified why these specific assumptions for these network inputs should be determined in advance. All the OUR does is repeat the assumptions and make some general statements about how they were derived.
2. We note that most of these relationship values cannot be determined on an “average” national level, which is what the OUR appears to be seeking to establish. As we have stated before, the average relationships and usage factors in the model—even if they were obtainable—are highly likely to be completely irrelevant to any actual infrastructure sharing arrangement. The arrangement should reflect the actual facilities under discussion between the relevant two parties. In fact, these assumptions made in advance without reference to any particular facility are more likely to create misplaced expectations on the part of infrastructure seekers and needless conflicts.

IX. FLOW’S RESPONSE TO OUR QUESTION 8: “DO YOU CONSIDER THAT THERE ARE ANY ADDITIONAL ANCILLARY SERVICE THAT SHOULD BE INCLUDED IN THE FIXED INFRASTRUCTURE SHARING COST MODEL? IF YES, PLEASE DESCRIBE SUCH SERVICE(S), AND PROVIDE DETAILED INFORMATION ON THE LABOUR AND MATERIAL COSTS ASSOCIATED WITH THESE SERVICE(S).”

1. As we have previously said the proposed set of three ancillary services is not exhaustive and, indeed, would not be fully representative of the likely ancillary services that would be required for infrastructure sharing arrangements. For example, the “feasibility study” stops at identifying elements that could be shared. What about surveying, asset clearing, project design and implementation and other activities that are very typical and very specific to customer requirements? Another example:

“Accompaniment” is defined unclearly in the Descriptive Manual as “a technician’s support during any task developed by the infrastructure seeker”. Does this include recurring supervised access to colocation facilities?

2. These are just two examples of why the list of three services is insufficient. However, more generally, the attempt to list *a priori* all of the ancillary services that might be required is akin to trying to foresee all the different types of infrastructure sharing arrangements that might occur. It will be more productive for the OUR, should a dispute arise, to focus its efforts on validating the reasonableness of the service required and the specific man-hours and labour rate proposed.

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