

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** Digicel, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** DIG-CW 1-1

**QUESTION:** Section 2, footnote 3: C&W suggests that the principles stated are consistent with the costing principles in most of the advanced regulatory jurisdictions. In establishing this view has C&W also ascertained whether in these jurisdictions: Separate models are used for separate entities? Are the models developed by the Regulator or the regulated entity? Apart from the UK, what other EU regulatory has put in place rates for mobile termination based on LRIC models?

**REPLY:** It is C&W's understanding that separate models are generally used for separate entities, and that the models are developed by the regulated entity with principles and guidelines from the regulator. In some cases, the Regulator also chooses to develop a LRIC model that they may reconcile with that being developed by the operator.

The European Commission requires that member states implement regulation stating that mobile operators are dominant in the market for calls terminating on their own networks and therefore must charge cost-orientated termination rates. Therefore, it is expected that all European mobile operators will be required to offer cost based termination charges of which LRIC is emerging as the clear choice. EU regulators that have already put in place, or have a stated intention to put in place mobile interconnection charges based on LRIC models include Greece, Holland, Denmark, Hungary, Romania, Spain, Sweden and the UK. The remaining EU regulators are generally in the process of mobile termination consultations and therefore the question of the exact costing methodology has not been addressed.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** Digicel, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** DIG-CW 1-2

**QUESTION:** Paragraph 2.1(a): Will C&W provide explain more precisely what it understands by the word “prudent” where it talks about service providers being able to determine the costs of “prudent investment”. What factors does C&W think should be taken into account in order to determine whether an investment is prudent?

**REPLY:** A prudent investment is one in which the allocation of resources is made with good judgment. For example, prudent investment would exclude unwise, excessive or extravagant expenditures.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** Digicel, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** DIG-CW 1-3

**QUESTION:** Paragraph 2.1(b): Do C&W's retail prices seek to recover costs in the same way as proposed for interconnect charges e.g. is there a separation of per call and per minute charges in accordance with underlying cost structures? As far as Digicel are aware C&W FTM call service does not follow this approach. How does C&W propose to deal with this apparent anomaly?

**REPLY:** C&W's retail prices are recovered consistent with market demand and expectations. C&W does not consider it an anomaly that retail prices do not include a per call charge. Demand characteristics of the market contribute to how retail costs are recovered.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** Digicel, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** DIG-CW 1-4

**QUESTION:** Paragraph 2.1(d): Digicel note that C&W believes that information needs to be checked against credible evidence. While we agree that a verbal quote may not be reliable, does C&W accept that an actual quotation from a major international supplier is verifiable? Would C&W agree that current prices are more relevant to a new entrant than 'historic' prices?

**REPLY:** The question is unclear as to what is meant by the term "actual." A quote from a major international supplier is generally verifiable if the quote is provided in written form. Whether current prices are more relevant to a new entrant depends on the purpose for which the prices are needed. If the new entrant is interested in how prices have changed over time, historic prices are as important as current prices. If the new entrant is interested in how much a specific facility would cost today, current prices are more relevant. Generally, market-based prices reflect current costs more so than historic costs.

C&W believes that current prices should form the basis for the FLLRIC modeling.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** Digicel, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** DIG-CW 1-5

**QUESTION:** Paragraph 3.1: Does C&W agree that companies have costs of capital unique to that company?

**REPLY:** Every firm has a cost of capital. Whether that cost of capital is unique or not depends on whether any other firm has the same cost of capital. It is possible that two firms have the same cost of capital.

C&W has proposed a single cost of capital across the fixed and mobile models. However, we would be willing to consider the alternative of two costs of capital--one for use in the fixed network and another in the mobile network if there are good reasons to do so. If it can be demonstrated that there is something inherently different in mobile and fixed gearing ratios, betas and/or other aspects of the cost of equity or debt, then the WACC assumed for the two models should be different. This difference, if it existed, would be demonstrated in the Phase 2 proceeding.

Important to emphasize here is that the FLLRIC modeling is for an efficient fixed network and mobile network, and a primary objective for the outputs of these models is the setting of respective reciprocal termination rates. So, although a different cost basis (including, possibly, cost of capital) will exist for determination fixed vs. mobile termination, the costs of different fixed networks and different mobile networks will not be modeled. Thus, we propose that, although an assumption of the model will be that there is more than one mobile network operating in the Cayman Islands, a single set of costs for an efficient network, including a single WACC based on optimal gearing ratio, cost of debt, etc., will be generated,.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** Digicel, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** DIG-CW 1-6

**QUESTION:** Paragraph 3.5: C&W states that rigorous engineering or statistical studies must be undertaken to establish CVRs. Can C&W provide further explanation? What exactly is involved here? Who does C&W propose should carry out these studies/tests? Where does this fit into the timetable?

**REPLY:** At this time, C&W has taken no action to compute cost-volume relationships and will not unless a determination is made in Phase 1 that cost-volume relationships are necessary for the FLLRIC modeling. If a determination is made, C&W expects to consider who will perform the computation in consultation with the Authority. If these are required, then it is expected that the undertaking of these studies will be conducted as part of the modeling process since they will be an input into the LRIC model.

We would like to emphasise that, according to our proposal, the use of cost-volume relationships (CVR) would only be used in the analysis of non-network capital costs (e.g., buildings, vehicles, power, air-conditioning) and opex (e.g., finance, regulatory, legal) where necessary. In cases where the non-network costs and opex are fully variable to the volume increment, it will not be necessary to develop a CVR. Network assets both for the fixed and mobile networks would be modeled on a bottom-up basis and would not require CVRs.

The nature of the engineering and statistical studies depends on the nature of the cost for which the CVR is being constructed. The exact type and methodology for the study is not determined until full analysis of the cost type and, particularly the cost driver, has been undertaken. Examples of studies that may be considered when developing CVRs include:

- Engineering Models that attempt to model an asset's costs on the basis of underlying unit costs of component parts; and
- Statistical Techniques such as time series regression analysis, cross sectional regression analysis, structural

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** Digicel, 21 June 2004

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change analysis, derivations of economies of scale, or  
headcount analysis.

The technique that is employed is determined by the nature of the  
cost and the availability of sufficient survey data.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** Digicel, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** DIG-CW 1-7

**QUESTION:** Paragraph 3.6: Can C&W explain what is meant by “dimensioning”. How does C&W propose that “routing factors” are calculated?

**REPLY:** Dimensioning a component means determining the size of the component, such a switch, that is necessary to serve the expected demand and include enough spare capacity for planning purposes and resilience.

Examples of bottom-up dimensioning rules can be found in literature cited in response to WVCIL-CW 1-6, for example, #11 and #27 (sections 4.3, 5.4). The dimensioning of the mobile network will require specification of such technical assumptions as spectrum, carrier bandwidth, carriers per sector, geographic traffic distribution, cell capacity, coverage, cell sectorization, grade of service as well as the subscriber and traffic volumes.

Routing factors should be calculated based on actual routing characteristics of network traffic. In some instances this may require a traffic study. If routing factors are inefficient or are not representative of the market, then proxy routing factors can be used. So, for instance routing factors from other LRIC or engineering models may be relied upon. Phase 1 of this public consultation is intended to identify principles and guidelines. In Phase 2 of this proceeding C&W will determine the routing factors in the cost model (including an explanation of how they were arrived at), at which time other parties to the proceeding will have an opportunity to comment on the routing factors.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** Digicel, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** DIG-CW 1-8

**QUESTION:** Paragraph 3.24: Given its recognition of the superiority of using Ramsey pricing has C&W attempted to calculate elasticities?

**REPLY:** C&W has not attempted to calculate elasticities for this proceeding.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** Digicel, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** DIG-CW 1-9

**QUESTION:** Paragraph 3.26: C&W argue that it will show in its detailed methodology that its approach will generate enough comprehensive information to capture an accurate level of economically justified fixed shared and common costs. Is C&W not presenting every detail of the proposed methodology now because C&W is not clear itself of the methodology it is proposing? If this is not the case, can we please see the full proposal so as to be able to comment more usefully. As with any modeling exercise, the devil is in the detail and reference to other jurisdictions is not sufficient to make comments on unless C&W is proposing to exactly following one of the references listed? For instance FAC Modeling follows established international principles but misapplication of principles can lead to widely incorrect results.

**REPLY:** C&W has presented every detail of the proposed methodology considered by C&W at this time. Phase 1 of this public consultation is intended to, "identify generally accepted economic and 'best practice' regulatory costing principles to be adopted by Cable & Wireless in a FLLRIC model." The application of principles, which appears to be at the heart of the question, will be undertaken in Phase 2 of this proceeding, at which time parties to the proceeding will have an opportunity to comment on the application of principles.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** Digicel, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** DIG-CW 1-10

**QUESTION:** Paragraph 2.9, Scorched Earth: Under the scorched earth assumption how does C&W deal with the issue of having switch sites outside Cayman? If the model is supposed to represent efficient market entry in Cayman would using the scorched node approach in the case of C&W not also require an assumption that a new entrant would also have to have purchase a licence to operate in another jurisdiction?

**REPLY:** Paragraph 2.9 does not address Scorched Earth. However, in an effort to be responsive, C&W provides the following response:

The goal of the modeling exercise is to establish the forward-looking cost of an efficient operator in the Cayman Islands. Given the regulatory policy favouring the location of new entrant switches in the Cayman Islands, we believe that assuming the switch is located in the Cayman Islands for modeling purposes is justified.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** Digicel, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** DIG-CW 1-11

**QUESTION:** Paragraph 3.41: Can C&W please provide details of how it determines that particular costs should be assigned to particular activities. In turn how will it determine that these particular activities to represent cost are associated with fixed or mobile networks, and in the case of the latter how these relate to mobile termination.

**REPLY:** C&W will use the principle of cost causation to determine how costs should be assigned to particular activities. Ultimately, costs have to be assigned to the different lines of businesses and then to the different services provided. The process begins with first attributing costs either directly to services where cost causation justifies it (that is, where a specific activity caused the cost to occur) or to network components, related functions or other functions. Network component costs include the costs relating to the various components of transmission, switching and other network plant and systems. Related function costs are the costs of functions necessary for the provision of services to the customer such as billing, maintenance, and customer services. Finally, other function costs are the cost of functions not related to the provision of particular services but are an important part of the operations of the company. This includes things like planning, personnel and general finance.

The process of assigning costs to network components, related functions or other functions requires that some type of allocation method be used. The allocation method will vary for each cost item and ideally will reflect the cost driver that results in bringing the costs into existence. For example, maintenance and repair costs will in many cases be directly assigned to the network component that is being repaired or maintained. The wages and benefits of a switch technician will be assigned to the switch network component. In some cases an allocator such as the time spent carrying out repair work might be required. This could be the case if a technician repairs both switches and transmission facilities.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** Digicel, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** DIG-CW 1-12

**QUESTION:** Paragraph 3.42, Demonstrable inefficiencies: As part of its attempt to remove demonstrable inefficiencies does C&W propose to exclude inefficiencies where lower costs can be exploited due to economies of scope as a fixed and mobile operator? If so, how do they propose to reconcile this with the fact that the model is supposed to reflect efficient entry prices for a mobile operator as opposed to a dual operator?

**REPLY:** C&W does not propose to model separately the economies of scope, if they exist, that may be available from providing fixed and mobile services. We are proposing to model two self-standing networks, one fixed and one mobile. However, there may be economies available among operators that ought to be captured in the model. As part of the modeling exercise, for example it must be assessed whether it is more efficient for the mobile network to build a full backbone infrastructure or to purchase leased lines and other commercially available services from the fixed network. Tower sharing is another example. These issues will be assessed as part of the exercise, therefore it is not possible to provide full details of the modeling methodology during this phase of the consultation.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** Digicel, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** DIG-CW 1-13

**QUESTION:** Paragraph 3.42, Phase II methodology Canada: Can C&W please distinguish between what is involved in phase I in comparison to phase II in Canada? In referencing the Canadian situation can C&W identify similarities with the Cayman regime which mean that it is a useful comparison to draw?

**REPLY:** Paragraph 3.42 does not reference “Phase II methodology” as that term is used in Canada. However, in an effort to be responsive, C&W provides the following response:

It is C&W’s understanding that Canada’s Phase I addressed accounting and financial issues including depreciation practices, criteria for capitalization versus expensing, and the appropriate rate base calculation for regulatory purposes. Canada’s Phase II considered the procedures for estimating anticipated streams of revenues and costs associated with a specific service. The similarities between Canada and the Cayman Islands are that the regulator in Canada has used Phase II as a methodology for estimating forward-looking costs, which is the focus of the current proceeding.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** Digicel, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** DIG-CW 1-14

**QUESTION:** Paragraph 3.52: Can Cable & Wireless please provide details and assumptions behind the assumed risk free rate, gearing ratios and equity risk premium, cost of debt and the beta which led to it to a calculation for the WACC of 13.5%?

**REPLY:** See response to ICTA-CW 1-33.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** Digicel, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** DIG-CW 1-15

**QUESTION:** Paragraph 3.54: Can C&W please indicate what link there is between Universal Service and Access Deficit? Digicel views these as two very distinct issues. If there is an access deficit this implies that C&W believe that they are pricing for their access service below cost. If so are C&W being forced to do so or is it by choice that they price below cost for access? How would C&W propose that new entrants in the fixed market should deal with fact that C&W is pricing for access services below cost in the event that there is an access deficit?

**REPLY:** The link between Universal Service and Access Deficit is that an Access Deficit can be the result of Universal Service obligations imposed as a public policy objective. There is a long-standing regulatory agenda in many jurisdictions to maintain prices for access to the network low, even below cost, in order to maintain higher levels of penetration than might otherwise occur. C&W's prices are constrained by the Authority and by the terms of its license to remain where they are.

We do concur that to seek external contribution to the recovery of an access deficit, a firm must have its access earnings *regulated* below cost. A commercial decision to price access below cost is something entirely different and is not a regulatory issue. However, the policy issues surrounding the recovery of an access deficit are not at issue in this proceeding.

In its proposal C&W raised the issue of the access deficit with respect to cost modeling. In that respect, we suggested that the access modeling be set aside for the time being. However, given the prolongation of the FLLRIC proceeding implied by the Authority's published timeline, we believe that the access network can and should be costed contemporaneously with the fixed conveyance and mobile networks.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

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**ITEM:** DIG-CW 1-16

**QUESTION:** Paragraph 4.5, dimensioning the network: Again we ask for clarification on the meaning of dimensioning e.g. one interpretation of this might be that partial components can be purchased?

**REPLY:** Please see response to DIG-CW 1-7

ICTA FLLRIC Public Consultation  
Response to Interrogatories

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**ITEM:** DIG-CW 1-17

**QUESTION:** Paragraph 4.6, limit reconciliation to asset values: C&W suggest that the bulk of the costs of interconnection are driven by asset lives – what evidence does C&W have in this regard (presumably its own FAC model)?

**REPLY:** C&W does not suggest that the bulk of costs of interconnection are driven by asset lives. Interconnection costs are primarily capital costs, driven by the *value* of the assets used to provide the service.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** Digicel, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** DIG-CW 1-18

**QUESTION:** Paragraph 4.12, Existing allocation Tool: Please provide comprehensive details of the 'pre-existing allocation tool'. Would C&W agree that merely applying equiproportional mark-up to the costs discussed in this section is liable to be more objective and less open to debate than the manner currently proposed by C&W?

**REPLY:** The pre-existing allocation tool is the company's current accounting allocation of operating expenses. The tool is designed to extract operating expenditure:

\* from each individual cost centre broken down into staff related costs (such as, salaries, training, pension, insurance, etc.), operating costs (ongoing costs driven by the core activities of the cost centre), specific opex (any costs within a cost centre that may be attributed to retail services on a basis other than the core activities of the cost centre); and

\* from other centrally-held non-capital costs such as outpayments to other telecommunications operators, bad debt and interest.

Cost allocations are carried out on the basis of cost drivers associated with activities. The approach represents an Activity Based Costing (ABC) exercise. The basic thrust of ABC is as follows. An organisation has a level of resources and undertakes a series of processes in serving its customers. When activities within a process are undertaken, resources are consumed and costs are incurred. The cost driver can be defined as the root cause or reason why a series of activities is undertaken or a process exists to achieve a specific outcome. In other words, a cost driver drives activities and hence the costs associated with any given activity.

In order to preserve the underlying principle of cost causality (ABC methodology), three types of cost drivers are considered, which may be categorised as:

- 1) Distributed
- 2) Direct
- 3) Reallocated

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** Digicel, 21 June 2004

**DATED:** 30 July 2004

A distributed cost driver is one that allocates costs across two or more network elements and/or retail services. This type of cost driver is derived either from an engineering analysis of the components of costs to be distributed, e.g. 'cable km' that is used to spread Outside Plant Cable Costs, or some other causal driver such as the 'number of customers' or 'revenue'.

A direct cost driver is one that, as the name suggests, allocates costs directly, 100%, to any one network element or retail service. An example could be computer server costs directly related to providing internet service, which is allocated 100% to the 'internet service'.

A reallocated cost driver is one whose allocations are determined on the basis of the sum-product of the cost driver allocation across cost centres and the collective distribution of all other cost drivers within the cost centre. There are five such cost drivers used in the tool, they are:

- 1) Number of (stores) issues
- 2) Floor space
- 3) Number of vehicles
- 4) Number of computers (PCs)
- 5) Headcount

These cost drivers, are used to allocate the centralised support costs, Procurement, Occupancy Costs, Transport Costs, IT Costs, and Staff Costs.

As discussed in our November proposal, we believe that there will undoubtedly be a need to make this opex costing tool more sophisticated. However, that we believe is an issue for Phase 2 of this proceeding.

C&W does not agree that merely applying an equiproportional mark-up would be more objective and less open to debate. Furthermore, an equiproportional mark-up is not the appropriate method when disaggregate data is available as it is in the Cayman Islands.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** Digicel, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** DIG-CW 1-19

**QUESTION:** Paragraph 4.13, existing asset lives: Can C&W please provide a comprehensive list of the asset lives that it is proposing? What is the basis for setting these asset lives?

**REPLY:** C&W's position is that an asset's depreciation life should be based on the economic life of the asset, and that the asset lives C&W uses for its audited financial reports serve that purpose. This is in contrast to "regulatory" lives, which is often argued by proponents of longer asset lives. We expect to rely on statutory assets when possible; however, when the model includes new assets not present in the current network we may have to rely on vendor statements. A comprehensive list of asset lives will not be possible, therefore, until we understand what assets are involved, which is in turn, a function of the time horizon of the networks modeled. Thus, again, we feel this is a Phase 2 question.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** Digicel, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** DIG-CW 1-20

**QUESTION:** Paragraph 4.43, Low Value/Short Life: Could C&W provide the major categories of assets which it deems to be of low value or short life. How long is “short”?

**REPLY:** C&W considers it appropriate to value the forward-looking cost of an asset at its historical cost if the asset has an economic life of three years or less.

Where assets have a relatively low value the asset is accounted for at its historical cost and is not revalued. Similarly where the life of an asset is relatively short, such that there is unlikely to be a significant difference between the cost of the asset at the date of acquisition and its gross replacement cost, the asset is not revalued but retained at its historical cost value.

Examples of assets may include: IT projects, computers, consumables, network spares, and office furniture.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** Digicel, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** DIG-CW 1-21

**QUESTION:** Paragraph 5.3: If in the UK retail costs are treated as directly proportional to volumes, what does C&W see as the flaws in following this approach? Can C&W please provide an indicative list of the type of costs they believe should be associated with retail costs e.g. marketing?

**REPLY:** In the UK the majority of retail costs are defined as being "directly proportional to volumes". So sales and marketing cost is directly proportional to the number of new customers. In this case, we assume that the CVR is straight line through the origin with the sales and marketing cost varying proportionately with the number of new customers. Assuming that the driver in our activity based tool is also new customers, the result is the same.

In the UK the modelers were really only interested in calculating the LRIC for network / wholesale services, and the retail costs went into the rest increment. We believe that this will not be adequate for a model that needs to cost retail services for imputation purposes. However, we anticipate that we will analyse each retail cost type and where fully proportional they will be treated as such but where there is a directly proportional relationship then it will be necessary to derive a CVR.

An indicative list of the costs associated with retail include all costs associated with:

- Advertising
- Collecting call data and revenue
- Development of products
- Managing products
- Managing sales and revenue
- Establishment and support billing systems
- Establishment and supporting business support systems
- Preparing quotes/selling services and products
- Responding customer queries
- Establishment and support of call centres and stores

ICTA FLLRIC Public Consultation  
Response to Interrogatories

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**ITEM:** DIG-CW 1-22

**QUESTION:** Paragraph 5.9: In suggesting that any inefficiencies in C&W should be removed through a cost adjustment to the model how are C&W proposing this be done. Is C&W suggesting that the LRIC cost should be reflected instantaneously or that C&W should remove inefficiencies through a LRIC based price cap as in the UK? Does C&W accept that moving instantly to the ‘new cost’ would effectively amount to them selling the service below cost until the inefficiency was removed?

**REPLY:** The adjustments, should they prove necessary, would be “instantaneously” introduced to the costs. The forward-looking costs in this modeling exercise should not reflect inefficiency. FLLRIC regulations require this approach.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** Digicel, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** DIG-CW 1-23

**QUESTION:** Section 6: In the interest of transparency can C&W please provide copies of the proposals submitted by the 4 consultants invited to tender? Digicel has no objection to confidential information being redacted from these approaches. Does C&W agree that in the interests of transparency it would be fairer if all interested parties had the chance to be present at any meetings with potential contractors in order to assess which of them is best suited to the task, and if all parties had the chance to comment on which contractors should be invited to tender initially?

**REPLY:** The consultants' submissions were provided on a confidential basis with the understanding that they may only be supplied to the Authority if so requested. The understanding was that the confidentiality extended to the entire proposal, not just particular aspects. That said, as the initial request for an estimate of the cost of the FLLRIC modeling was made some time ago and, in advance of Phase I of the proceeding, it is possible that the Authority will want to consider whether a new request is necessary. Furthermore, we expect, as part of Phase I or Phase II of this proceeding, to receive guidance from the Authority as to the basis on which they make proposals and the role any chosen consultancy plays in the development of the FLLRIC modeling.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

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**ITEM:** DIG-CW 1-24

**QUESTION:** Paragraph 6.6: Digicel believe on a cursory review of the C&W's proposed model at this stage that it is flawed on several levels. In addition Digicel staff that have worked on such models in other jurisdictions have found that several rounds of modifications are necessary to models as issues do not arise all at once but only as the model is being developed. Accordingly we would ask C&W to provide a new estimate of the costs involved using a best and worst case scenario.

**REPLY:** C&W has not proposed a model, and therefore cannot be said to have proposed a flawed model. We have proposed a methodology. C&W is not currently developing a model so a new estimate is not available. C&W has proposed a *methodology* and will not begin developing a model until a final methodology has been chosen upon completion of Phase 1 of this proceeding.

That said, we believe that once the methodology has been agreed, the Authority may well request that C&W provide a new estimate of cost and may request such an estimate be done in terms of a best and worst case scenario.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** Digicel, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** DIG-CW 1-25

**QUESTION:** Paragraph 6.8: can C&W please provide an estimate of the costs referred to in this section?

**REPLY:** We estimate that the total cost for a year of costing work would be between CI\$ 250k and CI\$ 300k. If the implementation period extends beyond a year, then additional cost would be incurred.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** Digicel, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** DIG-CW 1-26

**QUESTION:** Paragraph 7.4: As has been the case in other regimes (e.g. UK) has C&W considered whether it might be more prudent to introduce a price cap rather than move to a cost basis and then add to the uncertainty by developing a price cap model?

**REPLY:** If we understand the question correctly, it asks whether there should be some adjustment period to move current rates for network services agreed between carriers to their LRIC values. C&W does see that a transition period could minimize the potentially disruptive effect of moving immediately to the LRIC values.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

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**ITEM:** DIG-CW 1-27

**QUESTION:** In paragraph 3.39 C&W says in respect of costing fixed interconnection services that “total current demand provides a reasonable estimate for volume over the long term”. This appears to conflict with paragraph 4.6 where in respect of estimating the volume increment C&W states that “anticipated growth and capacity” should be taken into account. Could C&W explain this apparent anomaly?

**REPLY:** Paragraph 3.39 addresses the issue that C&W believes a static model can be used for the fixed network. That is, a three to five year planning horizon for a forward-looking cost fixed network model is appropriate, and C&W believes that the fixed line market is mature enough that a fixed line model can be sized to meet demand over the next three to five years without significant additional capital expenditure. Paragraph 4.6 addresses the issue that the fixed model should therefore reflect the spare capacity (and resilience) necessary for a three to five year planning horizon, reflecting that of an efficient operation of a functioning network. Spare capacity is both planned to ensure that the network functions efficiently and produced by various real-world constraints of an operational network.

We should qualify our statement with respect to demand, however, with a comment on the mobile model. We believe that--given the requirements for reciprocity in interconnection charging and the tendency for market shares to even out over time—the mobile network that is modeled should be scaled to less than 100% of the expected market in two or three years time. For example, we expect to be modeling a dual band GSM network. Assuming there are two or three such operators in the market at that time, equal market shares suggest that the volumes assumed for the modeled network should be 50% or 33% of the future market. We note that the UK’s Competition Commission supported the use of equal market shares in its Mobile termination inquiry (see section 7.34 page 147 and section 7.46 page 151)