



CABLE & WIRELESS

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31 May, 2007

Mr. David Archbold,
Managing Director,
Information, Communication Technology Authority,
P.O. Box 2502GT,
3rd Floor Alissta Towers,
Grand Cayman.

Dear Mr. Archbold:

Re: Cable & Wireless Virtual Office Service

Pursuant to paragraph 29 of Annex 5 of the Licence issued on 10 July 2003 to Cable and Wireless (Cayman Islands) Limited (“**C&W**”), C&W is applying to the Authority for authorization to provide a new fixed-network business service, **Virtual Office Service**. Virtual Office Service will provide business customers with an intercommunicating service between stations in their offices without having a PABX on premises, as well as access to the PSTN (at standard rates for PSTN calling).

1. Description of the Service

C&W will offer its business customers a service that provides all of the features and benefits of a PABX with the security and reliability of an Internet Protocol platform hosted by C&W at its premises. As in a regular PABX, calls between “stations” will be free of charge, while calls to other telephones or mobiles will be charged at the regular rates for such calls. C&W will also offer an upgraded #### that will give subscribers packages of additional business productivity tools. Finally, customers will be given free-of-charge access to a web-based utility that will allow them to manage their service themselves.

Access to the platform will be via a customer-provided high-speed Internet access service, which will be sized to accommodate their voice (and data, if any) requirements. The customer will also be required to provide the stations and LAN on its premises,

and C&W can provide LAN support services, at an additional charge, for those customers who require it.

The service will be available on a post-paid basis only, and will be subject to a one-, two- or three-year contract. Business customers who terminate their contract before the end of their chosen term will pay an early termination charge. However, customers will be able to terminate up to 10% of their lines at any one time without incurring early termination charges.

2. Service Category

The Authority has provided C&W with a ruling pursuant to paragraph 30 of Annex 5 of its Licence that this service would be considered a Category 4 service, on the basis that it represents a “bundle” of a Category 1 service (PSTN access) with a Category 3 service (PBX functionality).

C&W Virtual Office service is an innovative IP-based service that, to the best of C&W’s knowledge, is first being introduced into the Cayman Islands by C&W. The experience of other countries suggests that innovation and the spread and adoption of IP-based services and technologies are best fostered when regulators adopt a light-handed regulatory approach. Unfortunately, Category 4 regulation cannot be described as “light-handed”.

Nevertheless, C&W’s primary objective is to provide services to its customers that those customers want. For that reason, C&W will conform to the Authority’s classification of Virtual Office Service as a Category 4 service.

3. Rates and Charges / Imputation Test

The rates and charges for C&W Virtual Office Service are set out below.

PACKAGE \ TERM	1 YEAR (PER LINE)	2 YEAR (PER LINE)	3 YEAR (PER LINE)
###	###	###	###
###	###	###	###
###	###	###	###

Other charges apply for optional features and services, as set out in the proposed tariff pages.

The results of the imputation test for the Virtual Office service are summarized in the attachment to this letter. As is evident, the rates comfortably pass the relevant imputation test.

4. Tariff Pages

Proposed General Tariff pages are attached.

5. Effective Date

C&W plans to begin offering **Virtual Office** Service beginning ###.

6. Confidentiality Claim

C&W is filing this application, including the attached imputation test description and proposed tariff pages, in confidence with the Authority. The marketing and pricing plans of C&W are information that is of a commercial nature and is consistently treated in a confidential manner by C&W until they are implemented. C&W's competitors and potential competitors would gain advance knowledge of C&W's marketing and pricing plans, even before the information could be made available to C&W's customers or to the general public. Disclosure of this information would enable them to develop competitive and targeted marketing and pricing responses, even before C&W would be able to implement its own plans. In addition, the cost information set out in this letter and attachment, if disclosed to the public at any time, would cause C&W specific and direct harm.

An abridged version of this letter will be filed. All confidential information has been replaced by "###". C&W proposes not to provide an abridged version of the attached proposed tariff pages, as abridged versions of these documents would be meaningless, unless the Authority directs C&W otherwise.

Please contact me regarding any questions you may have.

Yours faithfully,
Cable & Wireless (Cayman Islands) Ltd.



for Rudy B. Ebanks
Chief Regulatory and Carrier Relations Officer

c.c. Timothy Adam, Chief Executive C&W
Ian Tibbetts, Chief Operating Officer C&W
Frans Vandendries, VP Legal and Regulatory C&W

Encl.

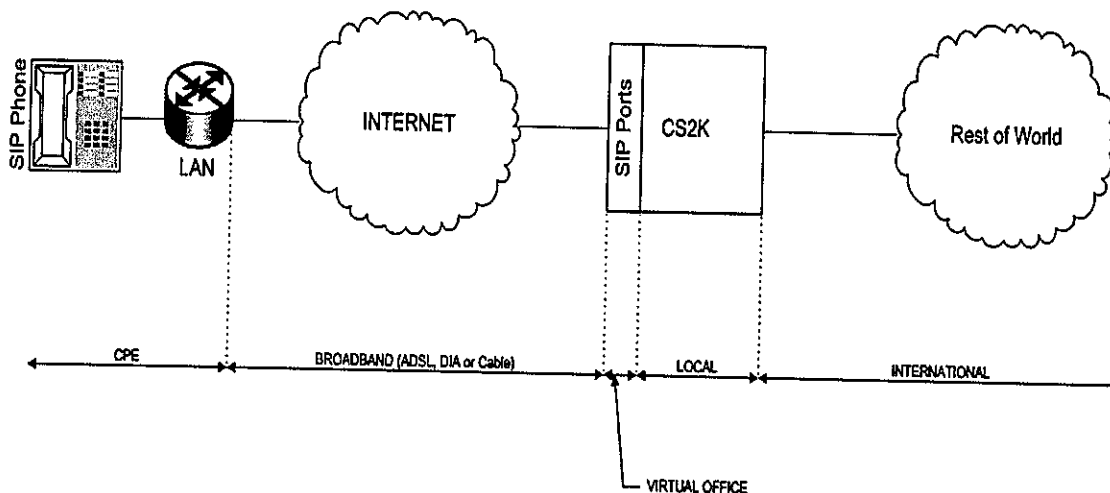
Imputation Test for Virtual Office Service

Based on the determination of the Authority that this product represents a Category 4 bundle containing a Category 1 service, in particular access to the PSTN, it is subject to an *ex ante* imputation test according to Part 3 of Annex 5 of C&W's Licence.

We note that, beyond the intercommunicating service between stations within the Virtual Office and the access service to the C&W PSTN, the customer will buy associated services such as ADSL or DIA access, local calling and international calling. These associated services, however, are charged at prices set out under existing and separate tariffs for those services and therefore need not be a part of the imputation test.

The imputation test for Virtual Office service, therefore, needs to address whether the pricing for the Virtual Office product itself covers the cost of both the Virtual Office platform and the cost of the access to the C&W PSTN. We note that in both cases the adjusted FAC model does not contain information that could be used for much of this analysis, as the Virtual Office product and the equipment used for access from the Virtual Office platform to the C&W PSTN did not exist at the time of the FAC modeling. We therefore use current vendor pricing for the equipment (network cost) for the Virtual Office platform itself and the access to the PSTN separately. We use the adjusted FAC model results for retail and common cost estimates.

In the diagram below we show how a Virtual Office customer is provisioned. We note that the Virtual Office platform includes the cost of the "SIP ports" shown below. The access costs are the costs of those facilities that join the SIP ports to the C&W PSTN (in the form of the CS2000 ("CS2K") softswitch).



SIP Port Equipment

The SIP Port costs include the SIP Line Hardware, Strata software and server. We also add the installation and engineering costs that the vendor charges. We treat these vendor charges as a capitalized value. The total associated capital expenditure is US\$ ####, the breakdown of which is included in Table I below. We take a simple annuity approach to capital cost assuming a five-year life for these assets and the cost of capital figure of 13.5% from the adjusted FAC model. The annualized capital cost is US\$ ####, or a monthly cost of US\$ ####, Using the expense factor analysis that has come out of the on-going FLLRIC proceeding, we have assumed annual maintenance and repair costs of 3.27% (“Provide and Maintain Other Service Platforms” at row 45 of the Expense Factor Sheet of the Fixed Network model) of capex. This is an annual cost of US\$ #### *3.27%, or a monthly cost of US\$ ####.

We expect to achieve #### customers with a total demand of around #### SIP lines within three years of the launch. However, assuming a ramp-up from #### customers and #### lines in year 1 and #### customers with #### lines in year 2, we have an in-service average over a five-year period of #### customers at #### lines. This results in a cost for Virtual Office equipment, on a per-line-per-month basis, of US\$ #### or CI\$ ####.

Table I. Virtual Office Equipment Costs

<i>Equipment(including duties and freight)</i>	US\$	CI\$	
###	###	###	A
###	###	###	B
###	###	###	C
###	###	###	D
<i>Installation (Capitalized)</i>	###	###	E
Total	###	###	F = A+B+C+D+E
Annualized Capital Cost	###	###	G= $PMT(13.5\%,5,F)$
Monthly Capital Cost	###	###	H=G/12
Monthly Maintenance and Repair	###	###	I= $F*3.27\%/12$
Per Line	###	###	J = (H+I)/###

Please note that this platform comprises all the functionality of the #### packages. There are no costs specific to the #### packages.

Equipment providing PSTN Access

The PSTN access portion of the service is provided by eight (8) Ethernet cables which connect to four (4) separate cards in the CS2K. That is, two (2) slots are required for each card. These cards are shared by other services on the CS2K, and in fact provide the interface for all services provided by the CS2K Softswitch. We note that actual use at any given time would be four (4) Ethernet cables connecting to two cards, but each



are doubled up for redundancy purposes: should one of the cards fail, the service would switch to another card.

The per-subscriber cost is derived in Table 2. Each card can accommodate thirty-two (32) slots. The actual fill is #### slots. We identify the cost associated with each card, which is US\$ ####. Additional housing costs for these cards are not material. Again, two slots are needed per card for the Virtual Office product. The VO access cost per card is therefore #### of US\$ ####, or US\$ ####. Four cards are required, so the total investment cost associated with the PSTN access element of the Virtual Office service is US\$#### * 4 = US\$####. The landed cost of the Ethernet cables is about US\$ #### per cable. As we use eight cables, the total investment in cabling is US\$ ####. The total investment in equipment necessary to provide the PSTN access element of the Virtual Office service, therefore, is US\$ #### (\$#### + \$####). Assuming a five-year life for these assets at 13.5% cost of capital, the monthly capital cost is US\$ ####. Using the same 3.27% assumption for maintenance and repair, the monthly maintenance is US\$ ####. Using the ####-customer/####-line assumption, the monthly cost of PSTN access per line per month is in the order of US\$ #### or CI\$ ####.

Table 2. PSTN Access Equipment Costs

Per line (handset) Cost Calculation		
Cost per Card	\$####	A
Slots per Card (actual fill)	####	B
VO Slots per Card	2	C
VO Cost per Card	\$####	D = A * C/B
VO Cards	4	E
VO Card Cost	\$####	F = D * E
Unit Ethernet Cable Cost	\$####	G
VO Cables	8	H
VO Cable Cost	\$####	I = G * H
Total Cost	\$####	J = F + I
Monthly Capital Cost	\$####	K = -PMT(13.5%,5,J)
Monthly Maintenance and Repair	\$####	L = J*3.27%/12
Per line in US\$	\$####	L = K / ####
Per line in CI\$	\$####	M = L * 0.83

Common Cost contribution and Retail Cost Calculation

The imputation test regulation requires the inclusion of both a common cost contribution and, of course, a retail mark-up.

Based on the Authority's 11 January 2007 determination on C&W's NetSpeak Residential service, we use the common contribution value of ####.



For direct retail costs we use the methodology that underlies similar submissions made to the Authority in recent years. In particular, we drew on the FAC opex for the following activities for the corresponding service category, in this case CPE.

<i>Retail Activities</i>	<i>FAC Cost</i>
Advertise	###
Collect call data	###
Develop products	###
Generate bill	###
Manage products	###
Manage sales and revenue	###
Prepare quotes/sell services	###
Provide credit control/manage bad debt	###
Provide customer relations	###
Respond to customer queries	###
Schedule installations	###
Schedule repairs	###
Support billing systems	###
Total	###

To obtain a per customer value, we take this annual FAC cost of CI\$ ### and spread it over ### customers, which figure is found on the Drivers sheet, cell A17, of the adjusted FAC model. This averages out at CI\$ ### per customer per year or CI\$ ### per customer per month. Please note that this is a per-customer, not a per-line figure.

Applying that figure to our estimated average ### customers, we expect the Virtual Office retail costs to total CI\$ ###* ### = \$### per month. To convert this into a per-line figure, we take this overall retail cost and divide by the number of average expected lines, i.e., CI\$ ### / ### = CI\$ ### per line per month.

Bringing it all together

To determine whether the Virtual Office service will pass the imputation test, we compare the costs determined above to the lowest per-month rates for a Virtual Office line, that is, the rate for a #### packages line on a three-year contract. As detailed in Table 3 below, the cost of a Virtual Office line is CI\$ #### per month, which is less than the CI\$ #### three-year #### package rate and of course even smaller relative to the #### packages.

Table 3. Virtual Office Profit

3 Year Contract Prices and Costs	
Price per line-####	####
Price per line-####	####
Price per line-####	####
Virtual Office Platform	####
PSTN Access	####
Common Cost	####
Retail Cost	####
Regulatory 6.7%	####
Total Cost per line	####

Thus, the prices for the Virtual Office product comfortably pass the imputation test.