



The Bigger, Better Network.

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August 10, 2009

**VIA E-MAIL & COURIER**

Mr. David Archbold  
Managing Director  
Information, Communication & Technology Authority  
P.O. Box 2502, 3<sup>rd</sup> Floor Alissta Towers  
Grand Cayman KY1-1104  
Cayman Islands

Dear Mr. Archbold,

**Re: Public Consultation on FLLRIC Implementation (Ref: CD 2009-1):  
Submission related to any proposed annual adjustments to a FLLRIC  
based MTR**

This letter and the accompanying report by WIK-Consult, represents Digicel's submission related to any proposed annual adjustments to a FLLRIC based MTR. This submission is due today following the grant of an extension by ICTA to the original date which was 7 July 2009.

In order to complete this submission Digicel engaged the services of WIK-Consult which is the consulting arm of the respected German research organisation Wissenschaftliches Institut fuer Kommunikationsdienste (WIK). WIK is one of the World's leading telecommunications and postal cost modelling organisation. They are also highly respected economic consultants whose employees have been long standing advisers to several governments and well known international institutions.

The ICTA will note that some compromises were required in regard to the data inputs as Digicel's system does not provide all the inputs required in the form needed to be inserted in the model. Moreover, while we can obtain a register of prices for 2G equipment Digicel cannot provide this for a 3G network and in the time available WIK could not either. WIK presently has a 2G but not a 3G assets base. The prices for 3G equipment are apparently not yet stable. On WIK's advice we thus accepted the values that were in the model provided to us.

Digicel realises this is not an entirely satisfactory situation but we believe C&W is likely in a similar situation. Perhaps one solution would be to ask Telcordia to assemble a 3G assets price list and allow the parties and their consultants to comment on it.

Digicel notes that values and methods for calculating the values that were ruled upon by ICTA were not changed.

**Directors: Denis O'Brien (Chairman), Michael Alberga, Leslie Buckley, Conor O'Dea**

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Mr. David Archbold

Re: Public Consultation on FLLRIC Implementation (Ref: CD 2009-1):

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**Digicel**

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Using the model the MTR obtained by WIK-Consult for a hypothetical Digicel 3G network was CI\$ 0.0929 per minute.

Yours truly,

**Digicel (Cayman) Limited**

A handwritten signature in black ink, appearing to read "Victor Corcoran", followed by a long horizontal line extending to the right.

Victor Corcoran

Chief Executive Officer

**Directors:** Denis O'Brien (Chairman), Michael Alberga, Leslie Buckley, Conor O'Dea

6 August 2009

### **Comments on the calculation of the cost of termination with the 3G cost model for Digicel Cayman**

Digicel Cayman asked the German consulting firm WIK-Consult to review the model and to adapt it to the situation of Digicel so that it would be able to generate an estimate of Digicel's termination rate.

Concerning the structure of the model and its population with network elements, given the lack of available time, it was not possible to carry out a full review that involved the structure of the network. It appears, however, that in light of Digicel's current 2G network structure, the modeled 3G network would reasonably approximate a 3G network that could be built by Digicel. Similarly, it is difficult for Digicel to gather information on the prices for the facilities and the cost of the equipment which would be required were it to build a 3G network. The review of the prices implemented in the model, however, appear with only a few exceptions reasonable and have thus mostly been retained. This also holds for the lengths of economic life stated for the different types of facilities and equipment. The derivation for annualized capital expenditure (Capex), based on these inputs and the value of the WACC as determined by ICTA have also been left as stated in the model.

The focus of the adaptation lies, on the one hand, on determining Digicel's operating expenditures (Opex) and expenditures for overhead and, on the other hand, on determining the volumes of Digicel's services. Besides Capex, these are the other important inputs into the model to arrive at the per-unit cost of services.

Following the approach that is generally used in WIK-Consult's bottom-up cost models, Opex was calculated as a percentage of the gross investment value of facilities and equipment that, according to the network model, make up the 3G network. The appropriate percentage was determined using information provided by Digicel. Similarly, overhead cost was determined as a mark-up on the total network cost (Capex plus Opex, as derived above). This same approach was accepted by other regulators, in particular the Australian Competition and Consumer Commission. The two main advantages are that: (i) it is based on the performance of several mobile operators and does not suffer from the accusation that existing costs may not be efficient costs, and (ii) no redaction is necessary.

As regards volumes, Digicel's starting point is based on the ICTA's announcement that it is its policy to have three operators providing 3G mobile services on Cayman Islands. Thus, in a forward-looking bottom-up costing exercises, the volume per operator for a three-operator market situation is used to derive the per-minute costs of the various services. These volumes were determined based on Digicel's current annual volumes by scaling them up to reflect total market volumes and by dividing the results by three.

Given the above adaptation, the model calculates a per-minute cost of terminating a call on Digicel's 3G network of CI\$ 0.0929.