

Hello.

www.time4lime.com

Landline | Internet | Mobile | Entertainment

Cable and Wireless
(Cayman Islands) Limited
P.O. Box 293
Grand Cayman KY1-1104
Cayman Islands

Telephone +1 (345) 949-7800
Fax +1 (345) 949 7962

LIME

Our ref: GRCR/GR 15.19
27 January 2010

Mr. David Archbold,
Managing Director,
Information and Communication Technology Authority,
3rd Floor Alissta Towers,
P.O. Box 2502GT,
Grand Cayman. KY1-1104

Dear Mr. Archbold,

Re: CD 2009-1 – FLLRIC Implementation; and ICT Decision 2008-2 – Decision for the Costing Manual Consultation – Responses to Interrogatories

Cable and Wireless (Cayman Islands) Limited, t/a LIME (“**LIME**”) is submitting the attached responses to the following Authority 19 August 2009 interrogatories on the revised forward-looking long-run incremental cost (“**FLLRIC**”) models:

- MTR Study & Cost Recovery Module (Questions 128- 138)

Some of these responses are being submitted in confidence, for the reasons set out in the applicable response, and redacted versions will be provided for the public record.

We apologize for the delay in filing these documents.

Please do not hesitate to contact the undersigned if you should have any questions.

Sincerely yours,

Cable & Wireless (Cayman Islands) Ltd. d.b.a LIME

‘Signed’

Frans Vandendries
VP , Legal Regulatory and Corporate Affairs (Central)

A fresh approach from Cable & Wireless

c.c. Anthony Ritch, Country Manager, LIME
Donald Austin, EVP Legal Regulatory and Corporate Affairs, LIME
Camille Facey, VP Legal Regulatory and Corporate Affairs (Jamaica & OFC), LIME
Pete Smith, Regulatory Finance Advisor, LIME
Interested Parties in CD (2009-1)/(2008-2)

Cable & Wireless (Cayman Islands) Limited, d.b.a. "LIME"
Interrogatory Responses
Implementation of FLLRIC Model
27 January 2010

128. Confirm the base year to which the model relates and whether growth has been built into the inputs shown in the 'Volume input for TD' sheet cells V1:AA18 and provide detailed documentation for the forecasts and growth assumptions used.

RESPONSE

The MTR Cost Study model is based on the corresponding FLLRIC mobile model. The "base year" therefore would be the same. No changes were made to the cells referenced in the interrogatory. The only changes were made to cells L9:S44 in the 'Volume input for TD' sheet in order to reflect the assumptions set out in LIME's 21 May 2009 letter:

- Given the size of the country, there would be at most three sustainable mobile operators in the market. In none of the markets in the Caribbean where LIME's affiliates operate have more than three competitors been sustainable (and it is arguable whether many of those markets could in fact sustain more than two).
- Each operator would have the same market share. In essence, it is assumed each of the operators has comparable network coverage, service quality and marketing skills.
- The overall market would not grow, beyond the growth assumptions already built into the 2G and 3G Models. Given the saturation of the existing market, it is unlikely that the presence of a third strong operator would result in any significant growth in subscribers or in minutes of use. It is far more likely that existing subscribers will either leave one of the two existing market leaders (namely, LIME and Digicel), or else join the third operator's network in addition to their existing subscriptions to LIME and/or Digicel services. In either case, that subscriber will not be generating additional traffic simply because they have subscribed to an additional operator's services.

Cable & Wireless (Cayman Islands) Limited, d.b.a. "LIME"
Interrogatory Responses
Implementation of FLLRIC Model
27 January 2010

129. The MTR Cost study indicates volumes are derived by firstly determining total market demand by grossing up LIME's demand volume based on existing market share, then dividing by three (representing three operators equal market share). Explain in detail:
- a. Why no adjustments are made to the following services: 900-MOBILE DATA, 900-MOBILE VOICEMAIL RETAIL, 900-SMS, 900-MMS, 900-VIDEO CALLING, 900-MMS TERMINATION, 900-VIDEO CALL TERMINATION and 900-INBOUND DATA ROAMING.
 - b. The basis for the assumption that LIME's total market share will decrease to one-third of the market.

RESPONSE

- A. The services in question were assumed to be less material to the calculation of the MTR, although LIME acknowledges that 900-MOBILE VOICEMAIL RETAIL should have been adjusted like the other services.

When LIME adjusted the volumes of the services mentioned above, using the traffic-related factor for all services (except those using already using the subscriber-related factor) in the 21 May 2009 confidential versions of the 2G MTR Study and of the 3G MTR Study, the result was to change the MTR from ### to ###, and from ### to ###, respectively.

LIME requests confidential treatment of the information highlighted above, as it related to the information contained in the 2G and 3G "MTR Cost Study" mobile cost models submitted on 21 May 2009, for the reasons set out in LIME's cover letter. LIME also notes that the May 2009 MTR Cost Studies were based on the April and May versions of the underlying 2G and 3G FLLRIC modules, which have since been changed, and which are currently the subject of a disclosure proceeding. LIME submits that little would be served by disclosing the above information, as it has been rendered moot by the subsequent revisions of the FLLRIC modules.

LIME will prepare a public version of this response to interrogatory for the public record.

Cable & Wireless (Cayman Islands) Limited, d.b.a. "LIME"
Interrogatory Responses
Implementation of FLLRIC Model
27 January 2010

- B. LIME simply assumed that, in a competitive market, the market shares of all equally effective competitors' would tend to be the same in the long run (i.e. three operators would each have 1/3 of the market, four operators would each have 1/4 of the market, etc.). The entry of a third effective competitor in the mobile market in the Cayman Islands, which today includes two operators, would tend to reduce the market shares of both of those existing operators down to 1/3 of the market.

Cable & Wireless (Cayman Islands) Limited, d.b.a. "LIME"
Interrogatory Responses
Implementation of FLLRIC Model
27 January 2010

130. In the MTR Cost study the 900-INBOUND VOICE ROAMING is subject to an increase of 4% compared to the hypothetical volumes. Provide a detailed justification for the increase in this inbound voice roaming.

RESPONSE

The 4% is a growth factor left over from the 07 April 2009 version of the underlying 2G FLLRIC model and from the 15 May 2009 version of the underlying 3G FLLRIC model. The other growth assumptions in cells N2:P13 were effectively "written over" by the factors inserted to adjust for the assumption of three operators in the market rather than the current two. Please refer to the response to interrogatory 129 for the impact of replacing that positive growth assumption. All growth assumptions in the 2G and 3G FLLRIC models were based on the expectations of the marketing team at the time.

Cable & Wireless (Cayman Islands) Limited, d.b.a. "LIME"
Interrogatory Responses
Implementation of FLLRIC Model
27 January 2010

131. In the MTR Cost study LIME assumes that the introduction of 3G services would not affect the size of the market demand, nor would a third operator entering a 3G market competitively induce more demand than is already being experienced in a two operator 2G market. In LIME's letter dated May 21 2009 it noted that (p.2): *"[T]he overall market would not grow, beyond the growth assumptions already built into the 2G and 3G Models. Given the saturation of the existing market, it is unlikely that the presence of a third strong operator would result in any significant growth in subscribers or in minutes of use."*
- a. Explain where the growth assumptions already built into the 2G and 3G models are documented and shown in each model.
 - b. Explain whether a substitution effect of landline customers moving to wireless only has been taken in account and if not why this is a reasonable assumption.
 - c. Explain how the benchmarks used to generate the demand for the following services: 900-MMS, 900-VIDEO CALLING, 900-MMS TERMINATION, 900-VIDEO CALL TERMINATION have been derived and where the resultant demand places the 3G operator in its growth cycle.

RESPONSE

- A. Growth assumptions have been built into the 2G and 3G models in columns N to R in the "Volume Input for TD" tab (that is, the section labeled "Input Service Growth Factors").

With respect to the 3G model, the demand figures from the 2G model services were not changed. The 3G service volumes differ from the 2G service volumes only where there are new services delivered by the 3G network.

- B. LIME assumes that such substitution will continue to take place, and agrees that this is a reasonable assumption. However, LIME did not model this substitution effect separately from the general growth that was incorporated into the 2G and 3G models.
- C. With respect to the MMS and MMS termination volumes are generated in relation to SMS and SMS termination volumes. Publicly available data indicates that MMS messages are

Cable & Wireless (Cayman Islands) Limited, d.b.a. "LIME"
Interrogatory Responses
Implementation of FLLRIC Model
27 January 2010

somewhat under 1% at present in the UK. See, for example, <http://www.mobilemarketingmagazine.co.uk/2009/02/mda-stats-show-sms-and-mms-increases.html>

However, these data reflect a market with a mix of networks technologies. If, as the model assumes, all mobile services were provided on a 3G basis, it is reasonable to assume that MMS messages would constitute a higher percentage. We could find no publicly available information on a ratio of MMS to SMS messages for a "pure 3G" market (although Frost and Sullivan has recently forecast that by 2014, the ratio could be 3% in the United States. See <http://www.slideshare.net/FrostandSullivan/frost-sullivan-analyst-briefing-us-consumer-mobile-content-markets-opportunities-and-challenges-in-2009>). We believe that 5% is reasonable for a pure 3G environment.

With respect to video calls and video call termination volumes, these were built out based on ratios to the voice calling volumes. Again, publicly available benchmarks are scarce. Ofcom in its 2007 Mobile termination statement¹ assumed a medium scenario of 0.1% of all calls being video among 3G subscribers growing to 2% in 2010/2011 for the UK. We therefore believe that our assumption a ratio of 0.5% to be reasonable for the Cayman Islands.

Finally, please note that there was no attempt to distinguish as different point on the growth cycle than that assumed for the 2G network, i.e., a saturated market with fully built out 3G networks.

¹ http://www.ofcom.org.uk/consult/condocs/mobile_call_term/statement/statement.pdf

Cable & Wireless (Cayman Islands) Limited, d.b.a. "LIME"
Interrogatory Responses
Implementation of FLLRIC Model
27 January 2010

132. In the MTR Study, LIME defines a "sustainable operator".

- a. Explain this definition demonstrating the assertion that Cayman Islands could only support three mobile operators.
- b. If only two mobile carriers could sustainably operate, explain how the demand forecast used in the cost model would be affected.
- c. Indicate with supporting rationale whether the total demand would be higher or lower if three mobile operators were present and whether the potential substitution of subscribers to wireless from wireline would be higher or lower if three mobile operators were present.

RESPONSE

- A. LIME based its assumption on an observation of other markets in the Caribbean where it operates. In no cases are there more than three mobile operators actively vying for customers, and in most cases there are only two.
- B. Instead of dividing the market demand by three, the demand would be divided by two (based on the principle that the market shares of all equally effective competitors' would tend to be the same in the long run).
- C. We have not been able to find decisive evidence that the advent of a third mobile operator in the Cayman Islands would increase total demand beyond the demand that is experienced today with two operators.

Cable & Wireless (Cayman Islands) Limited, d.b.a. "LIME"
Interrogatory Responses
Implementation of FLLRIC Model
27 January 2010

133. In LIME's letter dated May 21 2009 it noted that "[T]he revised input volumes are then carried through the model to result in a revised "MTR" figure at cell E51 of the "Mobile Service Costs" tab." The Authority interprets this to mean that the only input volume changes made to the 3G cost model for the purpose of determining a MTR are found in the 'Volume input for TD' tab of the cost module. Is this a correct interpretation? If not, provide a detailed explanation of any other input volume changes.

RESPONSE

This is correct.

Cable & Wireless (Cayman Islands) Limited, d.b.a. "LIME"
Interrogatory Responses
Implementation of FLLRIC Model
27 January 2010

134. LIME makes no mention of the potential substitution effects of fixed subscribers moving to a 3G only service. Identify any assumptions of fixed line subscribers moving completely to 3G wireless service for voice and how any such assumption has been reflected in the cost model.

RESPONSE

As noted in LIME's response to interrogatory 131(b), this assumption was not separately modeled.

Cable & Wireless (Cayman Islands) Limited, d.b.a. "LIME"
Interrogatory Responses
Implementation of FLLRIC Model
27 January 2010

135. In letter dated 20 March 2009 LIME submitted an application for the recovery of the costs of developing the 3G model LIME indicated that it solicited bids from external consultants for the necessary work and selected the lowest bid. Provide the following information:
- a. A description of, and supporting documentation for, the process used by LIME to identify potential bidders.
 - b. A copy of the information that was sent to potential bidders.
 - c. A list of parties to whom the request for bids was sent.
 - d. A list of the parties who made bids and copies of those bids.
 - e. The criteria and documentation used by LIME in its evaluation of the bids.

RESPONSE

LIME identified ### firms with the expertise necessary to develop the 3G model ordered by the Authority. Following a written request for a quotation sent to ###. All firms were provided with a reference to the Authority's decision setting out the requirement to produce a 3G model.

LIME reviewed the proposals in light of (1) the ability of the firm to produce a 3G model for the Cayman Islands and (2) the cost of doing so. While all proposals were strong, the successful firm was selected on the basis that (1) in light of all of the circumstances, it was deemed better able to produce the 3G model required for this market and (2) it had the lowest cost.

Please note that the firms who submitted proposals all indicated the proposals were submitted in confidence, and none have confirmed to LIME that LIME may disclose them.

LIME requests confidential treatment of the information highlighted above. Such information relates to LIME's negotiations with its consultants and potential consultants and, pursuant to Regulation 3(d)(iii) of the *Information and Communications Technology Authority (Confidentiality) Regulations 2003*, its disclosure could reasonably be expected to affect LIME's present and future contractual or other liabilities.

LIME has prepared a public version of this response to interrogatory.

Cable & Wireless (Cayman Islands) Limited, d.b.a. "LIME"
Interrogatory Responses
Implementation of FLLRIC Model
27 January 2010

Cable & Wireless (Cayman Islands) Limited, d.b.a. "LIME"
Interrogatory Responses
Implementation of FLLRIC Model
27 January 2010

136. Explain why LIME did not make use of internal (in-house) resources for the 3G model building, considering that in 2008 LIME was engaged in the roll out of a 3G network in Jamaica.

RESPONSE

Because of personnel changes in 2008, LIME no longer had sufficient internal resources for building the 3G model. The Authority's directive in paragraph 398 of ICT Decision 2008-2, therefore, forced LIME to contract externally to obtain the necessary resources.

LIME notes that the fact that it was engaged in the roll out of a 3G network in Jamaica was not of particular assistance in modeling a 3G network. While LIME's consultants did interview LIME employees involved in the roll out of the 3G network in Jamaica, network vendors do not typically provide the detailed information necessary to build a model from the ground up. Rather, they deliver whole solutions based on the specifications of their customers. In other words, while it is possible to say that a given set of requirements can be satisfied by a given network of a given size at a given cost, it is typically not possible to extrapolate from that what the cost might be of a different network of a different size or designed to satisfy a different set of requirements.

Cable & Wireless (Cayman Islands) Limited, d.b.a. "LIME"
Interrogatory Responses
Implementation of FLLRIC Model
27 January 2010

137. Explain whether and why, in LIME's opinion, the costs of developing the 3G model are "start up costs" under paragraph 51 of Annex 5 of LIME's ICT licence.

RESPONSE

Without prejudice to its views as to what else might be considered "start up costs", LIME submits that the costs of developing the 3G model are clearly "start up costs" associated with that model. Without the activities associated with creating the model, there would be no model. The costs incurred by LIME in connection with those activities are therefore "start up costs".

Cable & Wireless (Cayman Islands) Limited, d.b.a. "LIME"
Interrogatory Responses
Implementation of FLLRIC Model
27 January 2010

138. Identify if LIME will make any further applications for the cost recovery of any FLLRIC model costs other than the US \$127,000 identified in its 20 March 2009 letter.

RESPONSE

LIME expects to make further applications for the recovery of FLLRIC model costs, where the FLLRIC model development process requires LIME to rely on external consultants (for example, in responding to these interrogatories). LIME is also considering the possibility of including in its applications the internal costs it has incurred since the start of the FLLRIC model development process in 2003.