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Information & Communications Technology Authority

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30 April 2008

Mr. Rudy Ebanks
Chief Regulatory and Carrier Relations Officer
Cable and Wireless (Cayman Islands) Limited
PO Box 293 GT
Grand Cayman KY1-1104
CAYMAN ISLANDS

Dear Mr. Ebanks,

Re: Simplicity National Service Filing

In a letter dated 28 February 2008, Cable & Wireless (Cayman Islands) Limited ("C&W") applied for the authorization of the Information and Communications Technology Authority ("ICTA" or "Authority") to provide a new fixed-network service called "Simplicity National".

In support of its service filing, C&W provided a description of how it conducted its proposed imputation test, the results of that imputation test, and the results of imputation tests conducted under various scenarios.

In a series of emails sent between 7 March 2008 and 16 April 2008, the Authority requested additional information and clarification from C&W on the information it supplied. C&W replied in a number of emails between 13 March 2008 and 22 April 2008.

The Authority has reviewed the service filing and the related information submitted by C&W and whilst the Authority does identify a number of issues with the filing and C&W's proposed imputation test, it is satisfied that the service will pass a correctly conducted imputation test and hereby approves the service filing subject to the correction to the tariff page identified below.

Tariff Page

C&W's proposed tariff page 2.12 has two clauses numbers "4)" in Item 204.3. As this may create unnecessary confusion in any future references to the appropriate clause, C&W is directed to correctly re-number the second clause "4)" to "5)" and to adjust the numbering of the remaining three clauses in Item 204.3 to account for this change.

Imputation Test - Demand Estimation

In its proposed imputation test, C&W divided the 2007 total relevant annual calling for Simplicity customers by the end-of-year number of Simplicity accounts in service. In addition, for its imputation test, C&W assumed that customers would not change their calling in response to the price change from \$0.27 to \$0.20 per minute for domestic Fixed-to-Mobile calling.

The Authority has reviewed the calling history for Simplicity customers, other business customers, and residential customers that was provided by C&W, and whilst the Authority is satisfied that the use of the calling history of the Simplicity customer base is an appropriate base on which to estimate calling under this service, the Authority determines that there are several trends in the calling history that should be reflected in an imputation test for the service. The data show that the average local calling per account is decreasing over the sample period and that the proportion of the local calling that is Fixed-to-Mobile calling is increasing. Therefore, for this service filing, the Authority has used the fourth quarter 2007 data as an appropriate base for estimating Simplicity National calling patterns.

In addition, the Authority considers that Fixed-to-Mobile calling would likely increase under the proposed service in response to the significant price change. Therefore, the Authority, in its imputation test, has increased the assumed Fixed-to-Mobile usage by 10% to reflect this.

The Authority also considers that the imputation test should use the average in-service number of lines and accounts for the relevant periods rather than end-of-period values as doing so would provide a better estimate of average usage.

Imputation Test - Use of network minutes for cost estimates

In its proposed imputation test, C&W has used two different bases of minutes: billed minutes for revenue estimation, and network minutes for cost calculations. For billing purposes, C&W rounds up any fractions of minutes in the call duration time to the next highest minute. For example if a call had a network duration of 2 minutes and 15 seconds, C&W would round that call to 3 minutes for billing purposes. C&W proposed

that revenues for such a call would be calculated on a base of 3 billed minutes and costs would be calculated on a base of 2.25 network minutes.

The Authority notes that C&W has not distinguished between billed and network minutes in other recent service filings and instead has used billed minutes for both revenue and costs calculations. To assess the use of network minutes for costs calculations, the Authority has reviewed how these costs were developed and applied in the imputation test.

For the cost calculations in the imputation test, network minute counts are used for the application of network costs for the origination part of a call and the application of imputed interconnection charges for the termination part of a call.

In response to Authority requests, C&W has provided information to the Authority that demonstrates that the minute base used in the development of the network costs were network minutes rather than billed minutes. As these costs were developed on a network minute base, the Authority considers it appropriate that they be applied on a network minute base. However, the Authority notes that the supporting information provided by C&W does show some unrealistic billed to network minute ratios for certain categories of calling. Whilst the Authority is satisfied that correcting or explaining these anomalies is not required for this service filing because there is sufficient margin at the proposed rates for this service, the Authority may require further clarification of these ratios in other future service filings depending on the level of margin between revenue and costs.

In terms of interconnection charges, the Authority notes that the Interconnection Agreements require that the call duration be measured to an accuracy of one tenth of a second and that the call duration charges will be the sum of the month's measurements rounded to the nearest minute. Therefore, as the interconnection charges are applied on a near actual network minute bases for interconnection billing purposes, the Authority considers it appropriate that they be applied on a network minute basis in the imputation test.

Imputation test - setting call-related network costs to zero

C&W indicated that it had used the same methodology to develop call-related network costs as had been accepted by the Authority for the Home Plans service filings. However, in one of the imputation test scenarios provided by C&W, it set call related costs to zero because it was of the view that such costs seemed to have been included twice in the calculation. C&W requested the Authority's view on this approach.

The Authority notes that to estimate the call-related network costs for the Home Plans service filing, C&W divided the average per-minute network costs by two to estimate the portion of the costs associated with call origination. Therefore, for the imputation

test, the origination portion was estimated at one half of the per-minute network cost and the termination portion was set at the per-minute interconnection charges. The Authority is of the view that the approach used by C&W for the Home Plans remains a reasonable approach and therefore does not view C&W's suggested approach of setting call-related network costs to zero as appropriate.

Imputation test - average network costs per minute

In the imputation test for this service, the average network costs per minute are calculated from three numbers: the average call duration, call related costs that are incurred once per call, and minute related costs that are incurred for each minute of duration. C&W converts the call related costs to a cost per minute number by dividing the call related costs by the call duration. This number is then added to the minute related cost to get the total network cost per minute.

For example, assuming a call related cost of 4 cents per call and a minute related cost of 2 cents per minute, the cost of a 4 minute call would be 12 cents (4 cents + (4 minutes * 2 cents/minute)) and on a per minutes basis 3 cents per minute (12 cents / 4 minutes). Had the length of the call instead been 2 minutes, the total cost of the call would have been 8 cents (4 cents + (2 minutes * 2 cents/minute)) and on a per minutes basis 4 cents per minute (8 cents / 2 minutes). The shorter the call the higher the average cost.

In one of the scenarios provided by C&W, it has used the origination cost that was approved in the Home Plans. However, this cost was derived using the longer call duration in those plans and hence is inappropriate as an estimate of the FTF origination cost for National Simplicity.

As a final comment to the use of average call lengths in imputation testing, the Authority notes that transparency would be increased if C&W in future imputation tests applied call set-up costs and per minute costs directly to the demand data used, i.e. multiplied the call set-up costs with the total number of calls to derive the total cost of call set-up and similarly for the per minute costs. If an imputation test uses the cost inputs developed in previous filings that are a combination of a call set-up cost and per-minute costs, then the resulting total per-minute costs need to be re-calculated to reflect any differences in call durations. It is only the direct cost inputs, i.e. the call set-up costs and per minute costs that may be reused where appropriate.

Imputation test - non-network costs

Regarding the non-network cost for voice calls used as input in the C&W filling, the Authority identified two issues during its review, one relating to the development of the estimate and the other relating to its application.

In response to Authority requests, C&W provided information on the development of the non-network cost estimate for voice calls. C&W stated that, from the FAC model, it had summed total non-network direct costs and allocated overhead costs for domestic calling and then subtracted out-payments. C&W also stated that they then divided this annual cost by the number of customers and then divided by 12 to get the average non-network cost per month per customer.

The Authority reviewed the relevant information and requested clarification from C&W on certain aspects of the calculation. In particular, why C&W had subtracted out-payments from the non-network costs of voice calls.

C&W responded that out-payments were excluded since including them would result in double counting. According to C&W the non-network costs included out-payments for mobile termination that should be subtracted. In addition, C&W replied that Royalty payments should also be subtracted from the non-network costs, because they were identified separately in the National Simplicity imputation test.

The Authority responded to C&W with a detailed breakdown of the relevant costs in an attempt to seek additional clarification. The Authority was unable to identify where the inclusion of out-payments or Royalty payments might occur and requested C&W to provide further clarification. In response to this request, C&W acknowledged that out-payments and Royalty fee should in fact not be deducted and the original C&W calculations had been in error.

Accordingly, the Authority has adjusted the non-network cost estimate for voice services to exclude the deductions.

The Authority's review of the data underlying the non-network costs also suggested that, whilst C&W had applied these cost on a per account basis, the source non-network cost estimates were developed on a per-line basis and not a per-account basis.

In a response to the Authority's inquiries, C&W confirmed that the monthly non-network costs were developed based on the fixed access lines and not the number of accounts. A correction was therefore needed to apply the non-network cost estimate on a per account basis. Based on the number of Simplicity customer accounts by month (averaged across Q4 2007) included in the C&W filling and information received on the monthly number of Simplicity lines (averaged across Q4 2007), the Authority has estimated the ratio of lines to accounts and applied this ratio to the estimate of non-network cost per line to yield an estimate on a per-account basis.

The C&W estimate of the non-network cost for data services contained similar problems to the estimate related to voice services. C&W has deducted the cost of sales and Royalty fees from their estimate of non-network cost for data services. The Authority considers this to be inappropriate as the cost of sales does not appear to be included in the non-network cost estimate. Likewise, royalty fees do not appear to be included in the non-network cost estimate and should therefore not be deducted.

As was done with the non-network costs for voice services, C&W proposed to divide the non-network costs for data services by the number of lines and apply it once per account. The Authority is of the view that as the costs were developed on a per-line basis they should be applied on a per-line basis and hence adjusted to reflect the ratio of number of accounts to the number of lines.

C&W also proposed to adjust downwards the non-network costs for data services to reflect the smaller portion of customers who use the data services. For this imputation test, the Authority agrees that the non-network costs for data services should be adjusted to reflect the smaller portion of customers that use those services but are included in the Simplicity National usage data. However, the Authority does not agree with how C&W has made that adjustment. C&W developed the cost per line based on the number of lines that used data services for the period when the costs were developed but then applied that per line cost to the much smaller line base in the imputation test. The Authority considers that the best estimate would be to divide that annual costs by the total lines that use data services today and to apply that per-line cost to the portion of the Simplicity base that uses data services. However, C&W has not provided the necessary information for that calculation. Therefore, the Authority considers that a better approach than the one used by C&W is to apply the monthly non-network cost per data customer by the ratio of data customers to voice customers using data from when the costs estimates where developed.

Approved Imputation Test

The Authority has adjusted the imputation test submitted by C&W to correct for the items identified above and provides the resulting imputation test in the Attachment.

Yours sincerely,

[signed by]

David A. Archbold
Managing Director

REDACTED

Simplicity National Imputation Test

	<u>Fixed to Fixed</u>	<u>Fixed to Mobile</u>	<u>Fixed Data</u>	<u>Total</u>
Number of calls:	#	#	#	
Billed minutes				
Initial:	#	0	0	
Additional:	#	#	#	
Rate per billed minute				
Initial:	\$0.09	\$0.00	\$0.00	
Additional:	\$0.02	\$0.20	\$0.05	
Revenue:	#	#	#	#
Ratio of billed to network minutes:	#	#	#	
Network minutes:	#	#	#	
Costs				
per call - network costs origination:	#	#	#	
per min - network costs origination:	#	#	#	
Interconnection terminating charges				
per call - call set-up:	0.0125	0.0000	0.0125	
per min - call duration:	0.0091	0.1845	0.0091	
per min - interconnect specific	0.00086	0.00000	0.00086	
Total network and termination charges:	#	#	#	#
Average number of lines per account:				#
Non-network costs per line for voice traffic				#
Non-network costs per line for data traffic				#
Non-network costs per account for voice traffic:				#
Non-network costs per account for data traffic:				#
Royalty and Regulatory Fee (6.7% of revenue):				#
Total costs and interconnection charges:				#
Revenue less costs and interconnection charges:				#

Note: # indicates provided in confidence

REDACTED**Simplicity Business Customer Data**

	Sep 2007	Oct 2007	Nov 2007	Dec 2007	Q4 Avg	Mnthly Avg/Acct
Fixed to Fixed (3rd party & C&W)						
sum of calls		#	#	#	#	#
sum of network mins		#	#	#	#	#
sum of billed mins		#	#	#	#	#
billed / network ratio						#
Fixed to Mobile (3rd party & C&W)						
sum of calls		#	#	#	#	#
sum of network mins		#	#	#	#	#
sum of billed mins		#	#	#	#	#
billed / network ratio						#
Fixed to Internet						
sum of calls		#	#	#	#	#
sum of network mins		#	#	#	#	#
sum of billed mins		#	#	#	#	#
billed / network ratio						#
Number of Accounts	#	#	#	#		
Average monthly accounts - estimated (EOM_BOM)/2		#	#	#	#	
Number of Lines (from 2008 03 18 xls)	#	#	#	#	#	
Average monthly lines - estimated (EOM_BOM)/2		#	#	#	#	
Average number of lines per account		#	#	#	#	
Non-network costs and line counts from FAC data:						
Number of voice lines	#					
Number of data lines	#					
Data / Voice ratio	#					
Non-network costs (voice)	#					
Non-network costs (data)	#					

Note: # indicates provided in confidence