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Our ref: GRCR/GR 15.19
21 May 2009

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: <u>Proposed Mobile Termination Rate – Cost Studies</u>

Pursuant to the directions in ICT Decision 2008-2, *Decision for the Costing Manual Consultation (CD 2005-1)* (the "**Decision**"), published on 31 July 2008, and in Consultation Document 2009-1, *Public Consultation on FLLRIC Implementation*, published on 15 January 2009 ("**CD 2009-1**"), Cable and Wireless (Cayman Islands) Limited, t/a LIME ("**LIME**") is submitting the following mobile termination rate ("**MTR**") filing.

<u>2G and 3G MTR Studies</u>

LIME has conducted the following analysis to determine MTRs based on the 2G and 3G mobile network modules of the Forward-Looking Long-Run Incremental Cost ("**FLLRIC**") model (the "**2G Model**" and "**3G Model**", respectively).

We started with the confidential versions of the 2G Model that was submitted on 9 April 2009 and of the 3G Model that was submitted on 21 May 2009. We then made a number of assumptions regarding a sustainable forward-looking competitive mobile market in the Cayman Islands:

- Given the size of the country, there would be <u>at most three sustainable mobile operators</u> 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.

These assumptions[1] have been incorporated into the 2G and 3G "MTR Cost Study" mobile cost models submitted in confidence with this letter, at cells L37 to M44 of the "Volume Input for TD" tab. These assumptions have the effect of adjusting the "Input Growth Service Factors" in the rows immediately above, resulting in revised input volumes in columns D through G of that tab. The 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. Note that the MTR set out in cell E51 includes an amount for the bad debt calculated in cell E49.

The process is described as follows, in a note inserted in cell L50 of the 2G "MTR Cost Study" mobile cost model:

> The reductions to calculate the "MTR Cost Study" volumes are derived by firstly determining total market demand by grossing up LIME's demand volume based on existing market share, then dividing by 3 (representing 3 operators equal market share) to derive the new volumes. The percentage reduction is then based on the difference between the existing demand volumes and the calculated new volumes.

Other than the changes to input volumes and the addition of the MTR figure described above, no changes were made to the confidential mobile cost models submitted on 9 April and 21 May 2009 respectively. LIME submits that any other changes would likely not have been appropriate, given that the model is supposed to reflect a forward-looking efficient mobile operator.

Negotiated Rate

In its 9 April 2009 letter to the Authority, LIME had noted that "LIME proposed to its interconnected partners in the Cayman Islands, by letter dated 29 January 2009 and copied to the Authority, an MTR of CI$ 0.0864, and the parties have begun their Interconnection Negotiation renewal negotiations on that basis." As the Authority is aware, this MTR was proposed to LIME's interconnected partners well before the FLLRIC models had been finalized.

LIME adopted this proposed MTR by simply harmonizing both the domestic and international MTRs at the level of the current international MTR. LIME is recommending that this particular rate (which is not a below-cost rate) be adopted because #

[1] These same assumptions were applied by the Eastern Caribbean Telecommunications Authority when it determined an MTR based on its LRIC cost model.

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If the Authority were to order a materially lower MTR than that proposed by LIME on 29 January 2009, LIME submits that the Authority would also have to provide for a "glidepath" or transitional mechanism from the rate proposed by LIME to the rate ordered by the Authority, so that operators can adjust to the loss of margins and negative consequences noted above.

<u>One or Two MTRs</u>

Paragraph 436 of the Decision speaks of a single MTR. However, paragraph 77 of the Decision appears to speak to two rates, and CD 2009-1 refers to "MTR studies".

We submit that only one MTR can realistically be implemented in practice in the Cayman Islands. It is LIME's understanding that in an overlay situation, 3G handsets will fall back to a 2G network when a 3G network is not available. This means that at any given time, a 3G handset could be on one network or the other. Another operator that hands traffic over to the 2G/3G operator for termination will have no way of knowing which network is serving a particular handset at any given time. If the rates for 2G and 3G call termination are different, the originating carrier will therefore be unable to determine the cost of the call, and will be unable to validate and reconcile the invoices from the 2G/3G operator at the end of the month. In other words, any arrangement whereby there are two MTRs in the market, for 2G and 3G, separately, is commercially and practically unworkable.

The Authority had stated at paragraph 77 of the Decision that it "does not consider an overlay approach (two networks running in parallel) to be appropriate. The modelling starting point should be that of a hypothetical new operator entering the Cayman market." However, the reality of the market in the Cayman Islands is that there are three operational mobile service providers, two of whom provide services using a 2G GSM mobile network. The most likely scenario, therefore, for the introduction of 3G mobile services into this market is not the installation of a stand-alone 3G network, but rather for one or both of the existing 2G operators to build a 3G overlay network. While assuming a Greenfield 3G network might be reasonable for cost modeling purposes, it is not a reasonable assumption for the practical purposes of determining an MTR for the Cayman Islands.

Assuming the 2G and 3G Models determine different <u>costs</u>, it will be necessary for the Authority to determine a single <u>rate</u>. There are two basic approaches that could be adopted: somehow "blend" the two costs and determine a single rate based on that blended cost, or base the single rate on only one of the two costs. LIME submits that #

the logical consequence of building a "forward-looking" cost model would be to base the rate on the most "forward-looking" of the models, namely the 3G Model. This approach would in particular avoid the controversy associated with the assumptions necessary to "blend" 2G and 3G costs. For the various reasons set out above, LIME submits that the MTR of CI$ 0.0864 proposed on 29 January 2009 is the most appropriate rate.

<u>Confidentiality Claim</u>

LIME requests confidential treatment of the confidential 2G and 3G "MTR Cost Study" mobile cost models submitted with this letter in the Excel workbooks entitled "09_05_21 CYM 2G Mobile Model – MTR Cost Study – confidential.xls" and "09_05_21 CYM 3G Mobile Model – MTR Cost Study – confidential.xls". Those two Excel workbooks contain confidential information about LIME's network design, customers, costs and revenues. LIME also requests confidential treatment of the information in this letter marked as confidential, as it provides details on LIME's current strategy in its negotiations with other operators for the renewal of our interconnection agreements. This information is not made available to the public, and LIME consistent treats it as confidential. Its disclosure to the public, in particular to its competitors, can reasonably be expected to cause LIME financial and competitive harm, as LIME's competitors would be able to prepare targeted and more effective competitive responses to LIME's initiatives, or would harm LIME's position and strategy in ongoing negotiations, which would be to LIME's financial and competitive detriment.

LIME has prepared a public version of the "MTR Cost Studies" based on the public version of the 2G and 3G Models.

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

Sincerely yours,
Cable and Wireless (Cayman Islands) Ltd. t/a LIME

'Signed'

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

c.c. Anthony Ritch, Country Manager, LIME
Donald Austin, EVP Legal Regulatory and Corporate Affairs, LIME
Lawrence McNaughton, EVP Carrier Services, LIME
Camille Facey, VP Legal Regulatory and Corporate Affairs (Jamaica & OFC), LIME
Ed Duke, Regulatory Finance Advisor, LIME
Interested Parties in CD (2009-1)/(2008-2) (Redacted version only)

Encl.