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Information & Communications Technology Authority

ICTA/80/105-08

25 June 2004

Mr. Rudy Ebanks  
Vice-President, Regulatory and Carrier Relations  
Cable & Wireless (Cayman Islands) Ltd.  
P.O. Box 293 GT  
Grand Cayman

**FLLRIC Public Consultation (CD (2004) 1) - Interrogatories**

Dear Mr. Ebanks,

Please find attached interrogatories with regards to C&W's Follow-up LRIC Proposal, submitted to the Authority 07 November 2003, and attached to the Authority's FLLRIC Public Consultation document, dated 24 May 2004.

When filing responses to the attached interrogatories, the company is requested to repeat the relevant interrogatory just prior to the response.

The company is requested to file its interrogatory responses no later than Friday, 19 July 2004.

Yours sincerely,

"Signed"

David Burnstein  
Senior Economist

Attachment

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FLLRIC Public Consultation – Interrogatories

**General**

1. Has C&W implemented an incremental cost-based model – such as a FLLRIC, LRIC, or TSLRIC model – in any other jurisdiction where it operates? If so, please provide all such models, including the models' user manuals and user documentation.
2. Confirm or deny the following statement:  
C&W believes that the burden of proof resides with C&W to demonstrate that its cost studies comport with FLLRIC principles and guidelines.
3. Provide documentation for all engineering rules C&W plans to use for the FLLRIC analysis.
4. What adjustments does C&W propose to make in order to account for inflationary and deflationary pricing trends for capital equipment and labor?

**Paragraph 1.3**

5. Paragraph 1.3 states that the “cost modeling should therefore be structured in such a way that the cost of a sufficient set of network elements can be estimated.” Provide a complete list of every network element and every network component for which the company proposes a cost element be estimated.

**Paragraph 2.1c**

6. Define and provide examples of both directly attributable operational expenditures and indirectly attributable operational expenditures.” Does C&W believe both types of expenditures are relevant for determining price floors? If so, please explain why. If not, please explain why not?

**Paragraph 2.1d**

7. What specific processes and practices does C&W envision establishing to ensure that the transparency principles are satisfied?
8. Will C&W provide the model, user manuals, and user documentation to other parties, subject to an agreed upon non-disclosure agreement?
9. Does C&W accept that an actual quotation from a major international supplier is verifiable?

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10. Would C&W agree that current and future prices are more relevant to a new entrant than “historic” prices?

**Paragraph 2.9**

11. Under the scorched node assumption how does C&W deal with the issue of having switch sites outside the Cayman Islands?
12. If the model is supposed to represent efficient market entry in Cayman, would using the scorched node approach, in the case of C&W, require an assumption that a new entrant purchase a license to operate in another jurisdiction?

**Paragraph 3.1**

13. Consistent with C&W's proposal that the FLLRIC model incorporate a forward-looking view of costs, what planning horizon(s) does C&W propose be adopted (1 year, 3 years, other)? Please explain the rationale for the planning horizon(s) selected.

**Paragraph 3.3**

14. Does C&W have any formal or informal guidelines, practices, or methodologies for “bringing forward historic costs”? If yes, please provide all documentation related to those guidelines, practices, or methodologies.

**Paragraph 3.4**

15. Explain in detail the “indexation” method referred to in this paragraph.
16. Explain in detail the “MEA” methodology referred to in this paragraph.

**Paragraph 3.5**

17. Provide any “engineering or statistical studies” undertaken, past or present, to estimate the cost volume relationship.
18. What specific statistical techniques does C&W plan to use in performing the “engineering or statistical studies” required to compute the cost-volume relationship?

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**Paragraph 3.6**

19. Define and explain what is meant by “dimensioning.”
20. How does C&W propose “routing factors” be calculated?

**Paragraph 3.8**

21. Provide any support that C&W relied on for the statement “In most countries where bottoms-up models are implemented for interconnection services, top-down analysis is carried out in tandem or parallel for interconnection services.”

**Paragraph 3.10**

22. Define and explain the concept “‘organic’ nature of network growth.”

**Paragraph 3.12**

23. Explain the purpose of the proposed reconciliation of network capital costs with current asset values of existing plant. Explain why the proposed reconciliation is necessary in forward-looking cost analyses.

**Paragraph 3.18 to 3.27**

24. How does C&W propose to model efficiently incurred shared and common costs? What steps will be taken to ensure that these costs are forward-looking and representative of an efficient carrier?
25. Confirm or deny that the mark-up for fixed and common costs will be based on forward-looking, efficiently incurred, fixed and common costs. If confirmed, please explain in detail how forward-looking fixed and common costs are to be identified. If denied, please explain in detail the rationale for the denial.

**Paragraph 3.34**

26. Define “relevant planning horizon.”
27. What assumptions does C&W propose making in the FLLRIC model to account for spare capacity?

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28. Does the company propose there be instances where the FLLRIC model assumes spare capacity sufficient to handle growth over the relevant planning horizon?
29. Does the company propose there be instances where the FLLRIC model assumes spare capacity sufficient to accommodate all possible future demand for the life of the plant?

**Paragraph 3.39**

30. Provide all supporting documentation for the statement that “current demand provides a reasonable estimate for volume over the long term.”

**Paragraph 3.41**

31. Provide all supporting documentation for the statement that “Activity-Based-Costing is widely accepted as the best way to assign costs to products and services and minimize the share of common and fixed costs.”
32. Provide all documentation compiled by the company that endorse the ABC approach, in the context of forward-looking costing.

**Paragraph 3.52**

33. Provide all relevant documentation and analysis relied upon in calculating the WACC of 13.5%.
34. If not already provided in interrogatory #33, provide all relevant documentation and analysis relied upon in arriving at the assumed risk free rate, gearing ratios and equity risk premium, cost of debt, and the beta.
35. With respect to the WACC of 13.5%, please provide the following:
  - i. Any comparative analysis performed by C&W regarding WACC for other telecommunications companies;
  - ii. Any data gathered by C&W on the WACC for other telecommunications companies;
  - iii. A listing of all telecommunications companies of which C&W is aware that have a WACC capital equal to or higher than 13.5%; and
  - iv. Any further analysis performed by C&W since the 2003 determination referenced in Section 3.52, regarding its WACC.

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**Paragraph 4.10**

36. Specifically identify the sources C&W will use to determine the unit investment costs of various network components.

**Paragraph 4.12**

37. Provide comprehensive details of the “pre-existing allocation tool.” Would C&W agree that merely applying equiproportional mark-up to the costs discussed in this section is liable to be more objective and less open to debate than the manner currently proposed by C&W?

**Paragraph 4.13**

38. Can C&W please provide a comprehensive list of the asset lives that it is proposing? What is the basis for setting these asset lives?

**Paragraph 4.43**

39. Provide the major categories of assets which it deems to be of low value or short life. How long is “short”?
40. Provide a listing of “relatively short” lived assets for which C&W plans not to adjust capital prices.

**Paragraph 5.6**

41. Describe in detail the “measures” that “may be necessary to adjust for demonstrable inefficiency.”
42. Define what constitutes a “demonstrable inefficiency.”

**Paragraph 5.9**

43. With what firms does C&W intend to compare its efficiency ratios in an effort to detect “demonstrable inefficiencies”?