21st June 2004

Mr. David Archbold
Managing Director
Information & Communications Technology Authority
PO Box 2502 GT
Cayman Islands

Dear Mr. Archbold,

Consultation on Forward-Looking Long Run Incremental Costing (FLLRIC)

Thank you for the opportunity to reply to the above consultation. Digicel Cayman Limited ("Digicel") has a number of questions for Cable and Wireless (Cayman Islands) Limited ("C&W") in respect of its FFLRIC model. These are without prejudice and Digicel reserves the right to ask further questions later. Our current questions are as follows:

Principles

1. *Section 2, footnote 3:* C&W suggests that the principles stated are consistent with the costing principles in most of the advanced regulatory jurisdictions. In establishing this view has C&W also ascertained whether in these jurisdictions: Separate models are used for separate entities? Are the models developed by the Regulator or the regulated entity? Apart from the UK, what other EU regulatory has put in place rates for mobile termination based on LRIC models?

2. *Paragraph 2.1(a):* Will C&W provide explain more precisely what it understands by the word "prudent" where it talks about service providers being able to determine the costs of "prudent investment". What factors does C&W think should be taken into account in order to determine whether an investment is prudent?

3. *Paragraph 2.1(b):* Do C&W's retail prices seek to recover costs in the same way as proposed for interconnect charges e.g. is there a separation of per call and per minute charges in accordance with underlying cost structures? As far as Digicel are aware C&W FTM call service does not follow this approach. How does C&W propose to deal with this apparent anomaly?

4. *Paragraph 2.1(d):* Digicel note that C&W believes that information needs to be checked against credible evidence. While we agree that a verbal quote may not be reliable, does C&W accept that an actual quotation from a major international supplier is verifiable? Would C&W agree that current prices are more relevant to a new entrant than 'historic' prices?

Key Parameters and Attributes

5. *Paragraph 3.1:* Does C&W agree that companies have costs of capital unique to that company?

6. *Paragraph 3.5:* C&W states that rigorous engineering or statistical studies must be undertaken to establish CVRs. Can C&W provide further explanation? What exactly is involved here? Who does C&W propose should carry out these studies/tests? Where does this fit into the timetable?

7. *Paragraph 3.6:* Can C&W explain what is meant by "dimensioning". How does C&W propose that "routing factors" are calculated?

Treatment of Shared Fixed and Common Costs

8. *Paragraph 3.24:* Given its recognition of the superiority of using Ramsey pricing has C&W attempted to calculate elasticities?

9. *Paragraph 3.26:* C&W argue that it will show in its detailed methodology that its approach will generate enough comprehensive information to capture an accurate level of economically justified fixed shared and common costs. Is C&W not presenting every detail of the proposed methodology now because C&W is not clear itself of the methodology it is proposing? If this is not the case, can we please see the full proposal so as to be able to comment more usefully. As with any modeling exercise, the devil is in the detail and reference to other jurisdictions is not sufficient to make comments on unless C&W is proposing to exactly following one of the references listed? For instance FAC Modeling follows established international principles but misapplication of principles can lead to widely incorrect results.

Design Issues with the "bottom up"

10. *Paragraph 2.9, Scorched Earth:* Under the scorched earth assumption how does C&W deal with the issue of having switch sites outside Cayman? If the model is supposed to represent efficient market entry in Cayman would using the scorched node approach in the case of C&W not also require an assumption that a new entrant would also have to have purchase a licence to operate in another jurisdiction?

Activity Based Approach for Operating Costs

11. *Paragraph 3.41:* Can C&W please provide details of how it determines that particular costs should be assigned to particular activities. In turn how will it determine that these particular activities to represent cost are associated with fixed or mobile networks, and in the case of the latter how these relate to mobile termination.

12. *Paragraph 3.42, Demonstrable inefficiencies:* As part of its attempt to remove demonstrable inefficiencies does C&W propose to exclude inefficiencies where lower costs can be exploited due to economies of scope as a fixed and mobile operator? If so, how do they propose to reconcile this with the fact that the model is supposed to reflect efficient entry prices for a mobile operator as opposed to a dual operator?

13. *Paragraph 3.42, Phase II methodology Canada*: Can C&W please distinguish between what is involved in phase I in comparison to phase II in Canada? In referencing the Canadian situation can C&W identify similarities with the Cayman regime which mean that it is a useful comparison to draw?

Cost of Capital

14. *Paragraph 3.52:* Can Cable & Wireless please provide details and assumptions behind the assumed risk free rate, gearing ratios and equity risk premium, cost of debt and the beta which led to it to a calculation for the WACC of 13.5%?

Access Deficit

15. *Paragraph 3.54:* Can C&W please indicate what link there is between Universal Service and Access Deficit? Digicel views these as two very distinct issues. If there is an access deficit this implies that C&W believe that they are pricing for their access service below cost. If so are C&W being forced to do so or is it by choice that they price below cost for access? How would C&W propose that new entrants in the fixed market should deal with fact that C&W is pricing for access services below cost in the event that there is an access deficit?

Bottom Up Approach to Interconnection Services

16. *Paragraph 4.5, dimensioning the network:* Again we ask for clarification on the meaning of dimensioning e.g. one interpretation of this might be that partial components can be purchased?

17. *Paragraph 4.6, limit reconciliation to asset values:* C&W suggest that the bulk of the costs of interconnection are driven by asset lives – what evidence does C&W have in this regard (presumably its own FAC model)?

Estimating the Network Opex and Other Related Costs

18. *Paragraph 4.12, Existing allocation Tool:* Please provide comprehensive details of the 'pre-existing allocation tool'. Would C&W agree that merely applying equi-proportional 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?

19. *Paragraph 4.13, existing asset lives: Can C&W p*lease provide a comprehensive list of the asset lives that it is proposing? What is the basis for setting these asset lives?

20. *Paragraph 4.43, Low Value/Short Life:* Could C&W provide the major categories of assets which it deems to be of low value or short life. How long is "short"?

Top- Down Approach to Retail Costing

21. *Paragraph 5.3:* If in the UK retail costs are treated as directly proportional to volumes, what does C&W see as the flaws in following this approach? Can C&W please provide an indicative list of the type of costs they believe should be associated with retail costs e.g. marketing?

22. *Paragraph 5.9:* In suggesting that any inefficiencies in C&W should be removed through a cost adjustment to the model how are C&W proposing this be done. Is C&W suggesting that the LRIC cost should be reflected instantaneously or that C&W should remove inefficiencies through a LRIC based price cap as in the UK? Does C&W accept that moving instantly to the 'new cost' would effectively amount to them selling the service below cost until the inefficiency was removed?

Implementation Timeframes and Costs

23. *Section 6:* In the interest of transparency can C&W please provide copies of the proposals submitted by the 4 consultants invited to tender? Digicel has no objection to confidential information being redacted from these approaches. Does C&W agree that in the interests of transparency it would be fairer if all interested parties had the chance to be present at any meetings with potential contractors in order to assess which of them is best suited to the task, and if all parties had the chance to comment on which contractors should be invited to tender initially?

24. *Paragraph 6.6:* Digicel believe on a cursory review of the C&W's proposed model at this stage that it is flawed on several levels. In addition Digicel staff that have worked on such models in other jurisdictions have found that several rounds of modifications are necessary to models as issues do not arise all at once but only as the model is being developed. Accordingly we would ask C&W to provide a new estimate of the costs involved using a best and worst case scenario.

25. *Paragraph 6.8*: can C&W please provide an estimate of the costs referred to in this section?

26. *Paragraph 7.4:* As has been the case in other regimes (e.g. UK) has C&W considered whether it might be more prudent to introduce a price cap rather than move to a cost basis and then add to the uncertainty by developing a price cap model?

Conflicting Approaches

27. In paragraph 3.39 C&W says in respect of costing fixed interconnection services that "total current demand provides a reasonable estimate for volume over the long term". This appears to conflict with paragraph 4.6 where in respect of estimating the volume increment C&W states that "anticipated growth and capacity" should be taken into account. Could C&W explain this apparent anomaly?

Yours sincerely,

"SIGNED"

John D Buckley
Chief Executive Officer

Cc: Mr. Rudy Ebanks – Cable and Wireless (Cayman Islands) Ltd
Mr. Raul Nicholson-Coe – Wireless Ventures (Cayman Islands) Limited