



**CABLE & WIRELESS**

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Our ref: GRRCR/GR 15.19  
30 November 2007

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

Dear Mr. Archbold:

**Re: Public Consultation on Costing Manual – CD 2005-1**

Further to the Public Consultation on Costing Manual issued 27 October 2005 (“**CD 2005-1**”) and to the procedures set out in the Authority’s 8 November 2007 letter regarding “FLLRIC (CD 2005-1) – C&W redactions in the 7 August 2007 interrogatory responses”, Cable and Wireless (Cayman Islands) Limited (“**C&W**”) is pleased to submit these comments on the FLLRIC Costing Manual. In these comments, we show that the record contains a manual and model that complies with Authority’s directives, and that this consultation can and should now reach its conclusion.

A Long Road

The proceeding established by CD 2005-1 represents the second phase of a three-phase process to establish a new forward-looking long-run incremental costing model for use by the Authority for establishing interconnection charges for all operators in the Cayman Islands, running imputation tests on C&W retail services, and determining whether there is an access deficit. As the Authority described it at paragraph 5 of ICT Decision 2005-4, “Decision For The Forward-Looking Long-Run Incremental Costing Consultation (CD (2004) 1)”, issued 22 July 2005:

In this, the first of three phases, the Authority establishes the foundation of a FLLRIC model by setting out its preliminary determinations on the economic and best practice regulatory costing principles to be adopted by C&W in developing a FLLRIC model. In phase two, C&W will file a draft costing manual, proposed key assumptions and preliminary cost study results. Following the Authority's final determinations on the FLLRIC principles, parameters, assumptions and model implementation C&W will implement the FLLRIC model in phase three. [emphasis added]

In CD 2005-1, the Authority directed C&W to file a proposed costing manual and supporting information, with particular focus on allocation of common costs, determination and level of expense factors and economic asset lives:

- a) its proposed costing manual along with any supporting rationale and explanations and the example costing studies developed using that manual. Among other things, C&W's proposed costing manual should include its proposal on how to allocate common costs, its proposed determination and level of expense factors, and its proposed economic asset lives;
- b) pursuant to paragraph 104 of ICT Decision 2005-4, any information from other jurisdictions where competition exists regarding the determination and level of expense factors as well as any information supporting the applicability of such factors to the Cayman Islands;
- c) pursuant to paragraph 114 of ICT Decision 2005-4, the supporting asset life studies used in developing its proposed economic asset lives;

The record of the proceeding established by CD 2005-1 was to be closed with the filing of reply comments on 26 April 2006. Immediately after C&W filed its proposed manual on 14 December 2005, Digicel Cayman Limited ("**Digicel**") demanded to see the full draft costing model, that is, not just the costing manual, rather than to wait for the conclusion of the proceeding as CD 2005-1 had suggested.

The Authority decided to alter the CD 2005-1 proceeding to include the production of a draft costing model, which C&W did, on 11 January 2006. However, following a request by Digicel for a two-week extension of the time to file comments, the Authority further revised the process to require the production of a set of final costing manuals and costing models by 10 March 2006. Under this new schedule, which included a round of interrogatories, the record was to be closed with the filing of reply comments on 21 July 2006.

As directed, C&W filed its costing manuals, costing models and supporting materials on 10 March 2006, Digicel filed its proposals and responses to interrogatories on 21 April 2006 and 02 June 2006 respectively. However, for reasons unknown to C&W, no parties other than C&W filed comments on 7 July 2006. As a result, no parties filed reply comments on 21 July 2006, and the record was effectively closed on 7 July 2006.

The Authority responded some six months later by advising interested parties on 26 January 2007 that it had contracted the services of an external consultant (Telcordia) and was addressing additional interrogatories to C&W. As directed, C&W filed its responses to the “First Round” of Telcordia interrogatories on 23 February 2007. Digicel responded with its first request for disclosure of C&W confidential information.

The Authority then issued the “Second Round” of Telcordia interrogatories, consisting of some 70 interrogatories. Because of the sheer number of them and of the size of the responses, C&W responded to them in five separate submissions between 17 May 2007 and 22 June 2007.

Shortly thereafter, the Authority issued on 10 July 2007 its “Third Round” of Telcordia interrogatories, with more than 30 questions or information requests. At the same time, the Authority set new deadlines for another set of comments and reply comments (21 August 2007 and 4 September 2007, respectively).

Before C&W responded to the Third Round of Telcordia interrogatories, which we did on 8 August 2007, Digicel made its second request for disclosure of C&W confidential information, this time in relation to C&W’s responses to the Second Round of Telcordia interrogatories. When the Authority denied Digicel’s request, Digicel applied for a reconsideration of that determination. Immediately after the Authority issued ICT Decision 2007-2 denying Digicel’s reconsideration application, Digicel filed a third request for disclosure of confidential information, this time in relation to C&W’s responses to the Third Round of Telcordia interrogatories.

The result of Digicel’s various disclosure requests (in particular the unexplained 18 day gap between the filing of the third disclosure request with the Authority and its service on C&W) was that the Authority’s timetable for comments and reply comments issued on 10 July 2007 had been missed by a couple of months. When the Authority granted Digicel’s third disclosure request in part, the Authority set the latest and current timetable for comments and reply comments.

When the proceeding initiated by CD 2005-1 is finally complete, parties will have made several submissions, there will have been two rounds of comments, and C&W will have answered four extensive sets of interrogatories. There is no doubt that the Authority has given interested parties every opportunity to comment on and have input into the development of the model, and that the Authority now has an exhaustive and extensive record on which to base its determination.



## Robust and Compliant Model

The FLLRIC costing model that has resulted from this public consultation is now a robust model that is fully compliant with the Authority's determinations in ICT Decision 2005-4. The background section of the FLLRIC manual describes how the model is compliant with the principles and guidelines of that ICT Decision.

Digicel raised questions about several aspects of that compliance during the proceeding in April to June 2006. In our comments filed in July 2006, however, we took up each of its concerns and demonstrated that

- the FLLRIC model applied least-cost technology and efficient network design;
- the adopted approach of self-standing networks was reasonable and fair;
- the asset lives were reasonable and that we were open to a variety of reasonable specifications for economic depreciation;
- the expense factors employed in the model could be expressed in a manner comparable with other cost studies;
- the absolute and relative level the mobile WACC applied were justified;
- the cell site assumptions employed in the model were justified, but that we were open to a reasonable alternative specification; and
- our technical and demand assumptions were also justified, but that there were some on which we could agree to a reasonable compromise.

Subsequent to those July 2006 comments, the Authority's consultants put to C&W three set of extensive interrogatories, as detailed above. As a result of these interrogatories, among other things, C&W provided:

- Definitions and justification of the use and application of the various concepts of common, fixed common and joint costs in the model;
- Justification of the choice of technology in the model;
- Justification of asset lives used in the model;
- Revised approach to economic depreciation to meet the concerns of the Authority, its consultants and interested parties;
- Justification for recharges and other specific expense categories;
- Description of how expense factors were implemented;
- Fuller explanation of the retail aspects of the model, including cost categories and application of CVRs;
- Sources of data and clarification of calculations used in the estimates of weighted average cost of capital;

- Further description of the network components modeled and related dimensioning rules;
- Explanation and justification of technical assumptions;
- Justification of cost assumptions;
- Evaluations of potential cost savings between PSTN technology and NGN;
- Explanations of the derivation of routing factors; consistency between those routing factors and allocation of costs and the reporting of cost allocations;
- Justification of asset lives;
- Descriptions of how the reporting tables can be used to dissect cost components for services and network elements;
- Proposed and implemented revisions addressing a wide variety of concerns expressed by the Authority and its consultants in the comment rounds and interrogatories
- Corrections to any problems with macros or formulas within the model.

Furthermore, where requested, C&W provided updated and revised costing manuals and costing models.

Following these interrogatories, we believe the Authority is now not only in a position to adequately judge the reasonableness and correctness of the FLLRIC costing models, but also that the models are reasonable, correct and compliant with the principles set out by the Authority at the outset of this CD 2005-I proceeding.

#### Next Steps

What remains to be done then is for the Authority to make its final determinations as to assumptions and model implementation. We also believe that the final determination should contain clear instructions from the Authority as to how the interconnection charges will be determined and transposed from the output of the final model into interconnection agreements. Finally, in this determination, the Authority should specify the timeframe and process for the third phase of this FLLRIC model development process. In sum, the determination should leave no doubt how and when the models are to be completed and the results practically implemented into the interconnection agreements between licensees in the Cayman Islands.

We emphasise that the timeframe and process for the third phase of the FLLRIC model development process should obviously be long enough to allow C&W to implement the model and give all parties the adequate opportunity for comment. However, the timeframe should also reflect the need to conclude this process as fast as possible, which has now dragged on past its originally-anticipated completion date by more than two years and counting. We believe that the model could reasonably be fully implemented, and useful MTR outputs available to licensees, by April 2008.

All of which is respectfully submitted,



Yours faithfully,  
Cable & Wireless (Cayman Islands) Ltd.



Rudy B. Ebanks  
Chief Regulatory and Carrier Relations Officer

cc: Timothy Adam, Chief Executive C&W  
Ian Tibbetts, Chief Operating Officer C&W  
Frans Vandendries, Vice President Regulatory Affairs C&W  
Erik Whitlock, Regional Vice President Regulatory Finance C&W  
Interested Parties in CD (2005) - I