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14 December 2010

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: Public Consultation on FLLRIC Implementation – CD 2009-1

Further to the procedures set forth in the Authority's 23 November 2010 email regarding "Final steps in the record of the FLLIRC Phase 3 proceeding," Cable and Wireless (Cayman Islands) Limited, trading as "LIME" ("**LIME**") is pleased to submit these closing comments on implementation of the FLLRIC model.

It is time to conclude the FLLRIC public consultation

The first phase of the process to develop a forward-looking long-run incremental costing model was initiated on 24 May 2004, and concluded on 22 July 2005 with the publication of ICT Decision 2005-4, *Decision for the Forward-looking Long-run Incremental Costing Consultation (CD(2004) 1)*. The second phase commenced on 25 October 2005 and concluded on 31 July 2008 with the publication of ICT Decision 2008-2, *Decision for the Costing Manual Consultation (CD (2005) 1)*. The present proceeding established by CD 2009-1 on 15 January 2009 represents the third and final phase of the FLLRIC public consultation.

Over six and one-half years after initiating the FLLRIC public consultation, interjected by formative events such as Hurricane Ivan, a worldwide economic recession, and actions by Digicel that prolonged and complicated the proceeding—including disclosure requests, reconsideration requests, and Digicel's most recent plea for the Authority to

consider the cost of direct mobile-to-mobile (“M2M”) interconnection, which contributed to the submission of four separate sets of interrogatory responses in this phase of the proceeding alone—we have finally arrived at the final stage of the process, the submission of closing comments. There should be no doubt that the Authority has given interested parties every opportunity to comment on, critique, and have input into the development of the FLLRIC models. The Authority has an exhaustive and extensive record on which to base its decision. It is now incumbent upon the Authority to conclude the process and reach a final determination.

LIME anticipates resolution of four fundamental issues in this final phase of the FLLRIC consultation

In these closing comments, LIME articulates its position with regard to the following four fundamental issues to be resolved in the current implementation phase of the FLLRIC consultation:

1. The appropriate application of an MTR
 - LIME believes the welfare of Caymanian consumers is best served by the adoption and maintenance of a cost-based MTR.
 - LIME believes the MTR must reflect the cost of a forward-looking efficient provider, not a specific provider, and be sufficiently grounded in the reality of providers’ actual or anticipated future operations in the Cayman marketplace.
 - LIME believes that the mobile 2G and 3G FLLRIC modules developed and revised in this proceeding produce an appropriate range of MTRs.
2. Application of annual adjustments to the MTR
 - LIME opposes annual adjustments to the MTR on the grounds that such adjustments would be burdensome and introduce unnecessary regulatory uncertainty.
3. Cost recovery for LIME’s development of the 3G FLLRIC module
 - LIME believes reimbursement is warranted for the costs incurred to develop a 3G FLLRIC module, as mandated by the Authority, on the grounds that such costs were incurred prudently, and the benefit from applying the FLLRIC model will accrue equally to all telecommunications licensees.
4. The inclusion of inter-operator M2M billing functionality and costs in the FLRRIC models
 - LIME believes the time and effort necessary to reconstruct the FLLRIC modules to accommodate inter-operator M2M billing functionality and costs complicated and prolonged unnecessarily the duration of this proceeding.
 - LIME believes the MTRs produced by the mobile 2G and 3G models with direct M2M interconnect are reasonable and produce rates sufficiently comparable to those produced by mobile 2G and 3G models without direct M2M interconnection.

Consumer welfare is served by reducing interconnection rates toward cost

LIME has stated clearly and unequivocally in this proceeding and previous proceedings that the MTR should reflect the costs of a forward-looking efficient operator. In its 7 August 2009 letter to the Authority, LIME concluded that:

“Operators in the Cayman Islands have been laboring for too long under the burden of an excessive MTR which was determined without reference to costs, and LIME looks forward to that situation finally being rectified. For that reason, LIME would not favour a rigid regime that could allow operators to slip back into a situation where the MTR being charged bears no relation to the costs of a forward-looking efficient operator.”

It is acknowledged and understood by regulatory agencies worldwide that reducing interconnection rates toward cost leads to reduced retail prices that produce significant consumer benefits. LIME shares this understanding and hopes the Authority will finally allow consumers to reap the benefits of the Authority's efforts over the past six and one-half years and adopt a cost-based MTR.

There were two separate mobile modules under consideration at the beginning of this proceeding:

1. a module based on the costs of a 2G mobile operator; and
2. a module based on the costs of a 3G mobile operator.

During the course of this proceeding, and in response to a plea from Digicel to modify the mobile modules to account for the costs of direct M2M interconnection between mobile operators,¹ the Authority ordered LIME to construct an additional two mobile modules:

3. a module based on the costs of a 2G mobile operator with direct M2M interconnection capability; and
4. a module based on the costs of a 3G mobile operator with direct M2M interconnection capability.

LIME is of the belief that these four mobile modules produce MTRs that are appropriate to the Cayman Islands marketplace. Furthermore, LIME believes the modules are reasonably consistent with the economic, forward-looking costing principles set forth in the Authority's prior FLLRIC decisions, ICT Decision 2008-2 and ICT Decision 2005-4.

¹ Digicel letter to the Authority, *Re: Inteconnect Billing System and MTR*, November 4, 2009.

An annual adjustment of the FLLRIC-based MTR is not appropriate

LIME's position regarding proposed annual adjustments to the MTR is unchanged from that expounded in the company's 7 August 2009 letter to the Authority. In that letter, LIME indicated an appropriate MTR is one based on the forward-looking costs of an efficient operator, but should not be adjusted on a recurring annual basis. LIME is opposed to an annual revision to the MTR on the grounds that it would impose a significant regulatory burden on the company and introduce unnecessary regulatory uncertainty. As explained in LIME's 7 August 2009 letter:

"[A]nnual updates are, in LIME's view, inappropriate...An annual exercise to revise the inputs to the FLLRIC cost model...based on LIME's experience, would require some considerable effort to accomplish. In addition, interconnected operators need some degree of stability in the MTR in order to properly plan from year to year. This would not be possible if the MTR could change in unpredictable ways from year to year."

LIME deserves reimbursement for the costs to develop a 3G FLLRIC module mandated by the Authority

LIME's position regarding reimbursement for the costs incurred to develop the 3G module is unchanged from that expounded in the company's 20 March 2009 letter to the Authority. In that letter, LIME explained that up until that time the company had assumed the cost of the hundreds of hours of work necessary to develop the FLLRIC model, even though it has had the right under paragraph 51 of Annex 5 of its License to apply for compensation. In the case of the 3G mobile module, LIME had to contract with external consultants to complete the project. As explained in LIME's 20 March 2009 letter:

"In the case of the 3G costing module, this module was required solely by the Authority, and is not a natural requirement of the Cayman Islands marketplace, where no operator currently operates a "3G" network. Further, the work could not be done in-house, unlike the other work performed by LIME to develop the FLLRIC model for the Authority. In order to minimize costs, we solicited bids from external consultants for the necessary work and selected the lowest bid (US\$ 127,000). However, LIME is not prepared to assume this cost, and allow others to benefit from it, without compensation."

The models developed in this proceeding, including the mobile 2G and 3G models with and without direct M2M interconnection, produce MTRs that are reasonable

In spite of the clearly defined, limited scope of this proceeding, Digicel succeeded again in interjecting an additional issue into the proceeding that extended and delayed the

duration of the proceeding. In a letter dated 4 November 2009, Digicel asked that the Authority require LIME to modify and reconstruct a portion of its cost modules to account for the hypothetical cost of establishing a direct mobile-to-mobile interconnection. The Authority accommodated this request, which in turn contributed to the production of four rounds of interrogatories issued to and responded by LIME.

At the end of the day, it turns out that Digicel's concerns were strictly hypothetical—no operator in the Cayman Islands is seeking direct M2M interconnection with LIME. That said, however, LIME is willing to accept the MTRs produced by these new models in that the rates fall within a range LIME believes is reasonable, and they are sufficiently comparable to the rates produced by the existing mobile 2G and 3G models without direct M2M interconnection.

Robust, compliant, implementable FLLRIC models

The FLLRIC costing models that have resulted from this public consultation are now robust models that are fully compliant with the Authority's determinations in this and prior FLLRIC proceedings. Following the four separate sets of interrogatories issued and responded to in this proceeding, we believe the Authority is now in a position to adequately judge the reasonableness and accuracy of the FLLRIC models, and has a set of FLLRIC models that are ready to be implemented.

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

Sincerely yours,

Cable and Wireless (Cayman Islands) Ltd. d.b.a. LIME

'Signed'

Anthony Ritch, Country Manager, LIME

c.c. Donald Austin, EVP Legal Regulatory and Corporate Affairs, LIME
Frans Vandendries, VP Legal Regulatory and Corporate Affairs (Central)
FLLRIC Distribution List