Wholesale Fixed and Mobile Termination Rates for SMP Licensees

Submitted to the

Utilities Regulation and Competition Authority

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Filed by

Cable Bahamas Ltd.

INTRODUCTION

Cable Bahamas Ltd. (CBL) is pleased to submit its response and positon to this Preliminary Determination on Wholesale Fixed and Mobile Termination Rates for SMP licensees, an exercise which CBL is of the view is overdue for the sector.

In this submission, CBL agrees that pure LYRIC is the appropriate basis of setting termination costs particular because it is important that the consumer receives the benefit of lower termination rates sooner rather than later. CBL also supports benchmarking rather that developing country specific models which will be more time consuming. CBL is satisfied that benchmarking is sufficiently accurate for the purpose and will promote cost savings.

CBL strongly disagrees with a glide path especially of three years and CBL is of the view that a glide path should be no more than one year and finds interim rates acceptable given that the current termination rates are grossly outdated.

CBL now responds to URCA's specific questions:

Question 1: Do you agree with URCA's preliminary view that forward-looking, incremental cost is the appropriate basis for setting termination charges?

CBL agrees with URCA that forward-looking, incremental cost (hereinafter "FL-LRIC" or "pure LRIC") is the appropriate basis for setting termination charges.

CBL agrees with URCA's rationale for cost-based rates as a good basis for termination rates because they avoid over-recovery of cost whilst guaranteeing operators adequate returns on efficient network investment and operations.

CBL also agrees with URCA's preliminary view that pure LRIC is preferable to LRAIC+:

- Under pure LRIC, fixed and common costs would not be recovered from the regulated termination service but would instead be recovered from retail services that are subject to competitive pressures.
- Termination rates based on pure LRIC are substantially below LRAIC+ rates. CBL believes that lower termination rates will lead to lower prices for consumers. This is because termination rates are a key cost component of all calls terminating on other operators' networks[1].
- High (LRAIC+) termination rates constrain retail pricing which typically needs to ensure recovery of at least direct variable cost including call termination charges. Lower, FL-LRIC based termination rates will allow all operators in the Bahamas a greater degree of flexibility in their retail pricing. In turn, this could result in higher usage and consumer welfare.

Pure LRIC is currently considered best practice by some ITU experts[2]. The pure LRIC cost standard has been implemented to inform setting of termination rates in more than 20 jurisdictions. It is a tried, tested and well understood approach.

[1] Research (see Ofcom March 2007 MCT Statement) suggests that lower call termination revenue does not necessarily lead compensating price increases for other services, i.e. the so-called Waterbed Effect is incomplete

[2] https://www.itu.int/en/ITU-D/Projects/ITU-EC-ACP/HIPSSA/Documents/In-country%20support%20documents/Banjul_Presentation_Session_5.pdf, p33

Question 2: Do you agree with URCA's preliminary view that developing Bahamas-specific BU LRIC models should be used as a base for setting forward-looking LRIC-based termination rates in The Bahamas?

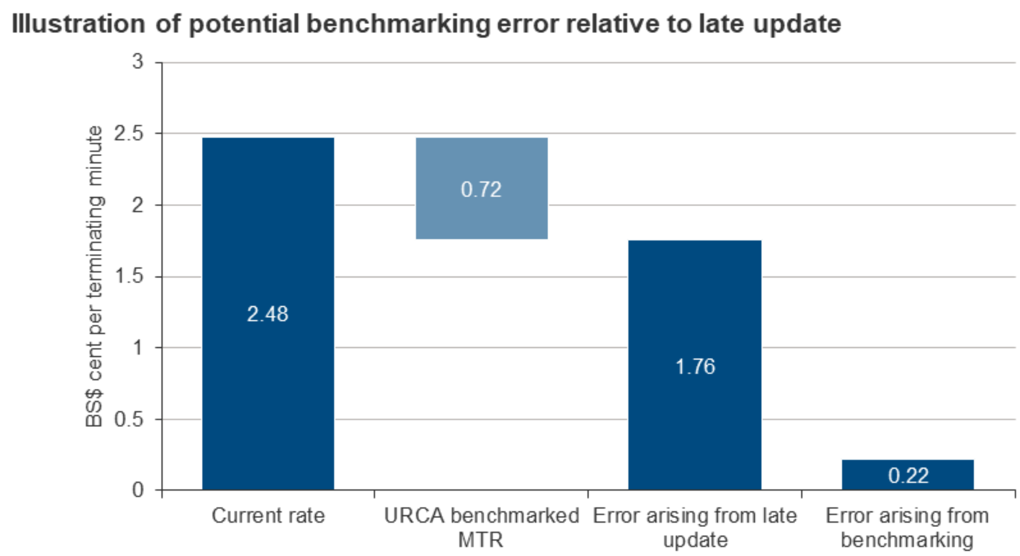
CBL disagrees because URCA has not conducted a cost-benefit assessment and because there are more efficient ways to ensure termination rates are cost-based.

It is questionable that benefits of a Bahamas-specific cost model would exceed its costs given the relatively low rates and the small service volumes of a small jurisdiction like the Bahamas. In contrast to the benefits, the cost of producing such a suite of "specific BU LRIC models" is largely unrelated to the size of the jurisdiction they are applied in.

In CBL's view, benchmarking pure LRIC based fixed and mobile termination rates is likely to lead to sufficiently accurate pure LRIC cost estimates at a fraction of the expenditure of both public and private funds URCA's preferred option is likely to require.

Benchmarking the cost of call termination is a valid option because there are many jurisdictions to obtain relevant cost benchmarks from for both cost standards suggested by URCA.

Of the 25 countries we have looked at using pure LRIC to set MTRs, the first quartile ranked by rate level had a pure LRIC of $ 0.0047 per minute, the third quartile $ 0.0081 per minute, the mean $ 0.0060. The bottom quartile deviated by $ 0.0023 per minute from the median, whereas the third quartile deviated by $ 0.0021 per minute. The likely deviation of country specific pure LRIC compared to a benchmark (mean) is less than $ 0.0021-0.0023 per minute. This likely maximum benchmarking error resulting from non-Bahamas specific benchmarking is just a fraction of the error arising from late updates to regulated MTRs as illustrated below.



As pure LRIC benchmarks continue to fall, the benchmarking-related error potential will be even smaller by the time a Bahamas specific pure LRIC model could be completed.

The likely error attributable to benchmarking multiplied by the relevant net interconnect volumes could inform the benefit estimate in a cost-benefit analysis. The full cost of developing and implementing any pure LRIC model suite should be well below the benefits attributable to it. Given current service volumes, it is possible for costs to substantially exceed benefits. Furthermore, developing a LRIC model should yield a superior cost benefit ratio to both benchmarking and URCA's "Option 2: Targeted costing exercise based on network components".

URCA's analysis stated in Figures 1 and 2[3] supports that there is relatively little accuracy to be gained from country-specific costing compared to timely and periodic updates of rates based on benchmarks: the difference between the average pure LRIC benchmark and the extremes (highest and lowest) is just a fraction of the difference between the current rates and cost-based benchmarks.

Furthermore, CBL believes that the process towards a Bahamian pure LRIC model is long and delays are not uncommon in LRIC study processes. URCA should ensure that such delays are not adversely affecting consumer welfare via the application of outdated, excessive rates.

For the reasons stated above, CBL believes that the current benchmarking approach is superior to URCA's proposal of Bahamas specific fixed and mobile BU LRIC models.

CBL believes that even a targeted costing exercise based on network components, i.e. Option 2 would be better than URCA's proposed method, i.e. Option 1. Option 2 is more efficient in achieving the primary objective, namely informing the setting of termination rates.

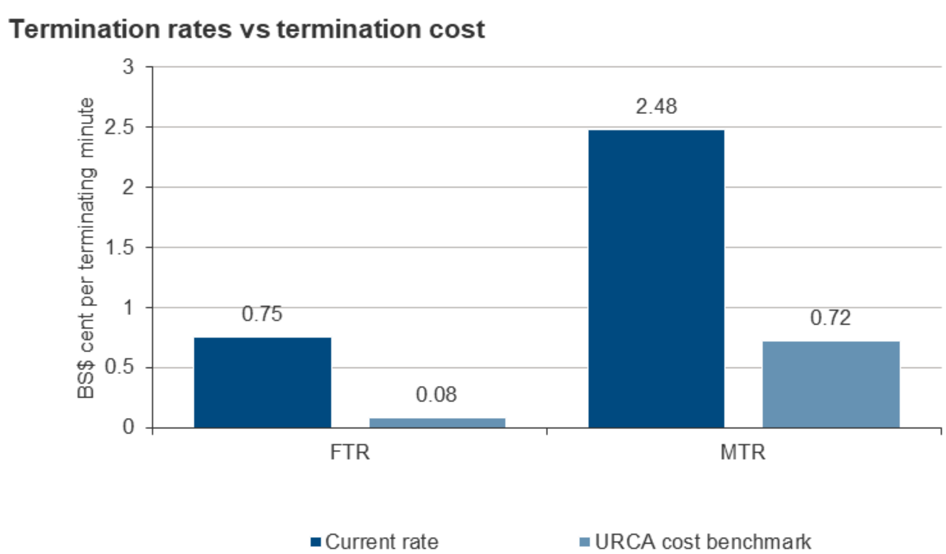
[3] ECS 67/2019

Question 3: Do you agree with URCA's view that interim rates for intra-island fixed termination and mobile termination services should be set?

CBL agrees because the interim rates are more reflective of cost than current rates and are therefore less likely to harm consumers.

CBL agrees with URCA's view that "Over-recovery of costs would likely lead to higher prices for consumers".

According to URCA's analysis, current termination rates are 3.4 times mobile termination costs and 9.4 times fixed termination cost benchmarks.



The sooner these deltas are eliminated, the less competition is distorted, and the less consumers are harmed.

Question 4: Do you agree with URCA's proposed approach for interim fixed and mobile termination rates (including the proposed used of a glide path)?

CBL agrees with URCA's proposal to set interim fixed and mobile termination rates based on an average of the Pure LRIC rates observed in the benchmark sample.

It is worth ensuring that rates for year 2020 be based on benchmarks that refer to 2020, etc.

CBL disagrees strongly with the glide path. Current rates are obsolete, and a rational operator would have forecast a termination rate reduction and planned for its impact.

CBL proposes a much faster correction of rates to ensure they are cost based. Any time lag results in over-recovery of costs for operators at the expense of consumers as long as service unit costs of production keep falling.

Current rates are at least three years out of date and the implementation of the proposed rates may take another year. Adding a three year glide path towards cost based rates implies at least a seven year delay before the Bahamian market can benefit from cost-based rates. CBL is aware of three-year glide paths in other jurisdictions but notes that in the cases it has looked at the total delay until cost-based rates were ultimately reached was substantially shorter than at least seven years.

For the aforementioned reasons, CBL proposes a glide path reducing termination rates over a period of no more than one year instead of URCA's proposal of three years.

Question 5: Do you agree that the proposed levels of interim termination rates?

The proposed rates are acceptable in CBL's view. However, CBL believes the proposed rates should be updated to show the expected levels of costs in Years 1, 2 and 3, respectively.

Furthermore, Cyprus MTRs should be added. In CBL's understanding they are based on pure LRIC and in the public domain[4]:

Jan 19	COST ACCOUNTING MODEL		
	Model	Rate status	When a tariff adopted by a final decision and meeting the standards of the TR Recommendation has been or will be firstly applied?
AL	Benchmark BU-LRIC	adopted	01.12.2018
AT	Pure BU-LRIC	adopted	
BE	Pure BU-LRIC	adopted	1.1.2013
BG	Pure BU-LRIC	adopted	1.12.2016
CH		not regulated	
CY	Pure BU-LRIC	adopted	

[4] https://berec.europa.eu/eng/document_register/subject_matter/berec/reports/8701-berec-report-on-termination-rates-at-the-european-level

Annex 5 Average MTR per operator as of 1 January 2019

Table 6

Country	Operator (B)	Average effective prices (eurocents)	Mobile Subscribers	Total mobile subscribers[16]	Real Mkt Shares
AL	Telekom Albania	0,9801	1.004.323	2.714.878	36,99%
	Vodafone Albania	0,9801	1.279.480		47,13%
	Albtelecom	0,9801	431.075		15,88%
AT	A1Telekom Austria	0,8049	Confidential	10.812.575	Confidential
	T-Mobile Austria	0,8049	Confidential		Confidential
	Hutchison Drei Austria	0,8049	Confidential		Confidential
BE	Proximus	0,9900	4.706.746	11.724.816	40,14%
	Orange	0,9900	2.997.278		25,56%
	Telenet	0,9900	3.347.354		28,55%
	Full MVNO's (Lycamobile,Vectone,Medialaan)	0,9900	673.438		5,74%
BG	A1 Bulgaria	0,7158	Confidential	Confidential	39,39%
	Telenor Bulgaria	0,7158	Confidential		32,89%
	BTC	0,7158	Confidential		27,71%
CH	Swisscom	2,4637	5.000.000	8.798.646	56,83%
	Sunrise	3,0796	2.034.000		23,12%
	Salt	3,0796	1.764.646		20,06%
CY	CYTA	0,4800	607.425	1.148.053	52,91%
	MTN	0,4800	408.674		35,60%
	PRIMETEL	0,4800	118.955		10,36%
	CABLENET	0,4800	12.999		1,13%

Respectfully submitted

On behalf of CBL

RESERVATION OF RIGHTS

CBL expressly reserves all rights including the right to comment further on any and all matters herein and categorically states that CBL's decision not to respond to any matter raised herein in whole or in part, or any position taken by CBL herein does not constitute a waiver of CBL's rights in any way.