Wholesale Fixed and Mobile Termination Rates for SMP Licensees – Preliminary Determination (ECS67/2019)

COMMENTS ON FIRST ROUND RESPONSE

Submitted to the

Utilities Regulation and Competition Authority

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Filed by

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INTRODUCTION

On 15TH October 2019, CBL submitted its first response to the two round consultation process on Wholesale Fixed Termination Rates for SMP Licensees – Preliminary Determination (ECS67/2019). The response essentially advocated for expedition of the introduction of long overdue termination rates as soon as possible minus cumbersome modelling and glide paths. The Utilities Regulation and Competition Authority (URCA) published the responses of CBL and The Bahamas Telecommunications Company Limited (BTC) and has afforded CBL and BTC a further opportunity to respond and to, in particular, provide alternate points of view where there is a divergence in positions. CBL now responds to the BTC first response.

1.1 General comments

BTC supports a Bahamas-specific cost modelling exercise which should start immediately. BTC believes that setting rates on an interim basis for another three years is "unreasonable and unnecessary".
In CBL's view, a Bahamas-specific cost modelling exercise is unreasonable and unnecessary and benchmarking is the preferred alternative. As a result of sticking to the benchmark-based approach to termination rate setting, the current basis for setting rates would no longer be an interim one.

BTC believes URCA's benchmarking exercise to be flawed, resulting in a risk of setting termination rates at below cost.

CBL is of the view that URCA's analysis may not be perfect, but it is certainly within acceptable margins of error. BTC's preferred alternative, a Bahamas-specific costing exercise, would not necessarily be flawless or less flawed. On the contrary, it is likely to be flawed: LRIC models are so complex that they often contain potentially large errors, especially in the early years of a model's life. These errors tend to be corrected over the years and decades as the models mature in reviews and public consultations.

2.2 BTC response (to questions 1 and 2)

BTC rightly states that Aliv supported a LRIC approach in its response to ECS 16/2016. It is worth adding that Aliv supported a pure LRIC approach and not a LRAIC+ approach. It is also worth noting that it was not a Bahamas-specific LRIC model which Aliv was asking for. It is our understanding that Aliv's preference -like CBL's- is a pure LRIC-based rate obtained via benchmarking as opposed to a Bahamas-specific one calculated by a necessarily complex and thus error-prone, costly and resource-consuming Bahamas-specific model. In CBL's view, a Bahamian LRIC model or suite of models -fixed and mobile networks need to be costed- is likely to yield similar results to existing pure LRIC models.

BTC interprets URCA's statement that a comprehensive review of termination rates "will seek to determine both the appropriate approach for determining cost based termination rates in the context of the Bahamian communications sector and the required process for implementing these"[1] as URCA seeking "to determine the appropriate approach for and means of implementing

[1] ECS 19/2016, p.17

Bahamas-specific cost-oriented termination rates." In CBL's understanding, URCA did not announce a Bahamas-specific LRIC model, but the rather evaluation of an adequate approach in the Bahamian context, which could well be sticking to benchmarking of pure LRIC-based rates.

BTC sees no reason why a "preliminary LRIC model could not be developed by URCA in the coming months". CBL can see several reasons why such a model cannot be developed by URCA in the circumstances:

- Before model development can start, a cost-benefit analysis should inform if it is worth developing a Bahamian LRIC model when several dozen jurisdictions already have one, ready to be benchmarked[2]. Only once it has been determined that The Bahamas needs its own (large, complex and expensive to build and maintain) cost model is it justifiable spending resources to embark on developing such a model.
- If URCA ultimately determines the need for a Bahamas-specific cost model, many methodological choices will have to be made with regards to the model specifications, including the most appropriate cost standard, e.g. pure LRIC, LRIC+ or LRAIC+. The most significant choices are typically consulted on in this type of exercise, which takes time.
- Only once the need for a Bahamas-specific model has been established and the model has been specified in possibly several consultations can the model development start in parallel with stakeholder engagement, including extensive information requests to operators to feed the models (probably two: one for the fixed and another for the mobile network with several clarification requests).
- Several reviews of the models by stakeholders will be needed before they can be used for rate setting.

The process described above often takes more than a year, possibly two or three years from the moment a request for proposal is issued to consulting firms capable of carrying out the modelling work.

3.2.1 Benchmarking sample

BTC names three key criteria to determine inclusion in the benchmarking sample: "size of network", "physical geography" and "environmental/regional factors". CBL believes that the significance of these factors varies depending on the cost standard used, i.e. LRAIC+ or pure LRIC. CBL believes that the most important factor is to have up-to date cost figures. This is supported by the data URCA has gathered on termination costs: Rates based on old costing studies such as Barbados and Cayman Islands which were carried out at least four years ago are three to six times higher than those resulting from more recent studies in e.g. the ECTEL countries.

BTC's critique of the benchmarking sample and the countries included therein is not supported by the LRIC costing studies URCA has included in its benchmark: E.g. mobile termination costs per minute in Jamaica are almost identical to those in Spain or the average EU country. Therefore, CBL disagrees with BTC's proposal to exclude the countries it feels are not similar enough to The Bahamas when it comes to interconnect service unit costs.

[2] Smaller countries frequently use benchmarking of existing LRIC model results to set either FTRs, MTRs or both. Examples include Iceland, Estonia, Lithuania, Latvia and Albania.

3.2.2 Benchmarking costing standard

BTC suggests that a mix of pure LRIC and LRIC+ countries would reduce the risk of below cost rates in The Bahamas compared to a sample of pure LRIC countries only. LRIC+ is higher than pure LRIC. Hence, adding LRIC+ countries would result in a higher rate and increase the risk of over recovery in the same measure as it reduces the risk of under-recovery of costs from termination services.

CBL's preference is for the pure LRIC over LRIC+ as the appropriate cost standard for reasons outlined in its response to URCA.

3.2.3 Benchmarking rates

BTC agrees with the proposed glide path citing that "such a transition period is common in the Caribbean" and allows "operators to adjust their commercial operations to avoid any sudden financial shocks".

In CBL's view, a glide path only delays the implementation of cost based rates and extends the period of cost over-recovery. As such, BTC's endorsement of it appears to be in contrast with its stated urgency to review a preliminary LRIC model.

URCA's announcement of a review is tantamount to the announcement of a significant rate reduction because all termination rate reviews lead to such reductions. Therefore, operators should be prepared for a reduction. CBL is well prepared to adapt rapidly to the rate changes and certainly does not require a two year period to do so.

3.2.4 BTC alternative benchmarking proposals

CBL disagrees with BTC's alternative rate proposals. They all lead to a substantial and unnecessary delay in implementing cost-based rates.

CONCLUSION

Essentially the two operators have differing views on modelling versus benchmarking and glide paths. The result is that whilst CBL strongly advocates a speedy revision and implementation of termination rates, BTC conversely appears to have no difficulty with an extended and lengthy path to the introduction of lower termination rates, a path which surely disadvantages consumers and creates a tedious and inefficient path. It is CBL's recommendation that the revised rates are introduced as soon as possible.

Respectfully submitted

On behalf of CBL