



# Fair Trading Commission

Second Decision

---

**PRICE CAP PLAN 2008**

Document No. FTC/UR/2008-02

Date: June 23, 2008

## TABLE OF CONTENTS

---

---

SUMMARY ...	3
<b>SECTION 1 BACKGROUND</b> .....	<b>8</b>
INTRODUCTION.....	8
LEGISLATIVE FRAMEWORK.....	10
Duty to Consult.....	11
REVIEW PROCESS .....	12
<b>SECTION 2 PRINCIPLES OF THE PRICE CAP PLAN 2008</b> .....	<b>14</b>
Objectives .....	14
Duration of Price Cap.....	15
Baskets .....	16
Inflation Factor .....	25
Determination of Productivity X-Factor .....	26
Exogenous (Z) -Factor.....	27
<b>SECTION 3 PRICE CAP MODEL</b> .....	<b>28</b>
DESIGN OF PRICE CAP MODEL .....	28
Framework.....	29
RoMCE Targets .....	30
TOTAL FACTOR PRODUCTIVITY STUDY.....	30
REVIEW OF C&W FINANCIALS .....	31
Findings .....	32
Cost Allocation .....	33
REVIEW OF TELECOMMUNICATIONS MARKET.....	33
Prices.....	34
POLICY AND COMPETITION.....	36
<b>SECTION 4 - PRICE CAP ADMINISTRATION</b> .....	<b>38</b>
COMPLIANCE FILING.....	38
NOTIFICATION .....	38
Rate Increases .....	38
Rate Reductions .....	39
REGULATORY REPORTING .....	39

## **SUMMARY**

*The Fair Trading Commission has determined that the current structure of the price cap mechanism which was implemented in April 2005 will be modified. A new Price Cap Plan 2008 (PCP2008) as detailed within this Decision will govern the adjustments of rates of regulated telecommunications services of Cable & Wireless (Barbados) Limited from **August 1, 2008 to March 31, 2012.***

*The Commission has reduced the number of baskets to three and some services have been reallocated to a different basket as described below.*

### ***Basket 1- Residential Access***

*This basket will include domestic residential line access and the residential installation service. Pricing in Basket 1 will be implemented in two phases:*

- ***Phase I – first 17 months of second price cap plan (August 1, 2008 to December 31, 2009)***

*There will be a rate freeze from August 1, 2008 until December 31, 2009 for the productivity X-factor will be set to equal the Inflation I- factor . This will effectively mean that prices for residential line rental would have been unchanged since August 2007.*

- ***Phase II – for the remaining 27 months of the second price cap plan (January 1, 2010 to March 31, 2012)***

*The Company will be allowed to adjust rates in line with the Inflation factor up to a maximum of 4.5%. This means that when the I-factor is less than 4.5%, the X-factor will equal 0% but if the I-factor is greater than or equal to 4.5%, the rate increase is capped at 4.5% and thus the rate can only be increased to a maximum of 4.5%.*

*Inflation I-Factor - The Commission has determined that the Retail Price Index (RPI) will continue to be used as a measure of the inflation I – factor for the price cap formula.*

### ***Basket 2 - Domestic Voice Telecommunication Services***

*The Commission has determined that the productivity X-factor for Basket 2 is 7.12% which is an increase over the last price cap plan.*

*The Commission has determined that Domestic Private Leased Circuits (DPLC) and Voicemail will be added to this basket. The other services include business access, business installation, payphone access, domestic private leased circuits and value added services. The reason for moving DPLC is that there appears to be insufficient competition to constrain the pricing of these services at this time. With regard to Voicemail the Commission considers that this product should be treated similarly to other value added services such as call waiting and call forwarding.*

*The PCP2008 therefore now applies a common but not necessarily similar price cap index (PCI) constraint to all price-capped service baskets to allow flexibility in pricing. However the value of the constraint in Basket 1 is different to that in Basket 2. The constraint is such that the average change in prices charged by the Company, measured by the Actual Price Index (API), does not exceed the Price Cap Index (PCI).*

*The price cap formula is given by the equation:*

$$API \leq PCI$$

$$PCI = I - X$$

*The PCI for this basket will be reset by the Commission on February 1<sup>st</sup> of each year of the Price Cap Plan.*

### ***Basket 3 - International Telecommunications Services and Other Retail Telecommunications Services***

*The Commission has determined that international services will be placed in the same basket as those services which were previously uncapped. International private leased circuits ("IPLCs") will also be included in the "uncapped" services basket. So this basket now includes fixed international outgoing, international calling cards, payphone international,*

*international operator assistance and international leased circuits and all other retail domestic services not accounted for in the other two baskets.*

*The Commission will only require notification of adjustment in the prices of these services, consistent with the principles outlined in the Decision. The Company will not be allowed to increase the prices of any of the uncapped services in Basket 3 during the price cap term beyond their October 2007 price.*

***Residential International Direct Dialling (IDD)*** -Additionally it has been recognised that residential IDD rates are higher than Business IDD rates and the Company shall reduce these rates over the term of this price cap plan as follows:

- (i) An initial 20% reduction on residential IDD to be implemented on or before August 1, 2008. Any residential IDD reductions made in excess of the requirement for API compliance in the final period of the Price Cap Mechanism 2005 shall count towards compliance of the requirement. The Company shall verify this by submitting to the Commission the Annual Compliance filing for Basket 3 (under the Price Cap Mechanism 2005) on or before the date of making this reduction.*
- (ii) An additional 5% reduction in residential IDD to be implemented on or before March 31, 2009.*
- (iii) An additional 5% reduction in residential IDD to be implemented on or before March 31, 2010*
- (iv) A final 5% reduction in residential IDD to be implemented on or before March 31, 2011.*

***Exogenous Z-factor*** -The Commission has determined that an Exogenous Z-factor adjustment for an event outside the control of the Company that negatively affects its net income will be considered for inclusion in the price cap formula where any one of the following conditions is satisfied:

- a. The event is a legislative, judicial or administrative action which is beyond the control of the company; or*
- b. The event relates specifically to the telecommunications industry; or*

- c. *The event has a material impact on the regulated segment of the Company which is subject to the price cap Mechanism.*

### **Notification**

**Rate Increases** - *During the Price Cap Plan 2008, the Company is required to inform the Commission in writing at least 25 business days and the general public through the printed media at least 20 business days before the effective date of any proposed rate increase of a regulated service.*

**Rate Reductions** - *The Company is required to advise the Commission at least 3 business days and the public at least 1 business day before the effective date of a decrease.*

### **Compliance Filing**

**Annual Compliance Filing** -*The Company is required to file by July 1<sup>st</sup> of each year of the PCP2008, information showing that they have complied with the rules of the Plan by maintaining API at or below the PCI.*

**Rate Increase Compliance Filing**-*For each proposed rate increase the Company is required to make a rate increase compliance filing that demonstrates that the API will not exceed the PCI.*

### **Price Cap Model**

*The PCP2008 utilises a price cap financial model which has been designed to take into account the Company's forecasted year-over-year earnings as well as an earnings constraint on price capped services. The price cap model was designed with the assistance of the Commission's consultants and input from the Company and is designed to provide the Company with a reasonable opportunity to achieve a fair rate of return on its price-capped services over the course of the second price cap period. The model also takes into account actual Company data and the forecast of market developments. The model aims to capture all*

*the factors that will impact the company's earning capacity during its term. These include output price trends, quantity trends, own price elasticity, costs efficiency, input price trends, and the RPI.*

### **Consultation Process**

*The Commission utilised the public consultative process as the means of ensuring full participation in the development of the Price Cap Plan. This involved written and oral consultations with interested parties as well as extensive discussion of the various issues with the Company.*

## **SECTION 1 BACKGROUND**

---

### **INTRODUCTION**

1. Effective August 01, 2008, the Fair Trading Commission (the Commission) shall implement a new Price Cap Plan 2008 (hereinafter referred to as PCP2008) to govern the tariff adjustments of regulated telecommunications services provided by Cable & Wireless (Barbados) Limited (hereinafter referred to as the Company).
2. The price cap regime is designed to ensure that customers continue to have access to telecommunications services at just and reasonable rates while at the same time providing the Company with incentives to operate more efficiently and to be more innovative in the provision of services. Price cap regulation also allows flexibility in pricing, provided that the average change in prices charged by the Company does not exceed the Price Cap Index.
3. In April 2005 the Commission, in its Decision FTC/UR/2005/01, established a Price Cap Mechanism (herein after referred to as PCM2005) which detailed the principles of the price cap plan including the duration, number of service baskets, productivity factors, inflation factors, exogenous factors and related administrative procedures.
4. In accordance with that Decision and the Price Cap Mechanism Compliance Rules and Procedures FTC/UR/2005-02, the Commission is mandated to review the current Price Cap Mechanism no later than nine months before its expiry on July 31, 2008. The Commission commenced a review of the said mechanism on October 22, 2007.



5. The Price Cap Compliance Rules issued in May 2005, required that the Commission issue two decisions relating to the review of the price cap mechanism.
6. First, the Commission was required to make a decision as to whether it will continue with price cap regulation or adopt another method of incentive regulation for regulating the Company.
7. On February 1, 2008, the Commission issued the First Decision FTC/UR/2008-1 which stated that:

*“The Fair Trading Commission has decided that it will continue to regulate Cable & Wireless using Price Cap Regulation.*

*The Commission believes that a price cap mechanism still remains the best regulatory approach to satisfy the regulatory objectives and principles which were set out in the 2005 Price Cap Decision and which are still valid today. The Commission has also determined that the current structure of the price cap mechanism will be modified.”*

8. The First Decision was issued in accordance with the Price Cap Compliance Rules Section 13.7 which states:

*“The Commission shall publish its determination at least 6 months before the end of the initial Price Cap Plan.”*

9. The Compliance Rules also state that in the event the Commission concludes that the Price Cap Mechanism is not the appropriate form of regulation, the Commission shall announce that the initial Price Cap Plan shall end on July

31, 2008 and give notice of the form of incentive regulation that should be applied.

10. This Second Decision as presented in this document provides detailed information on the new price cap plan to be used to govern the adjustment of prices of the regulated services of the Company from August 01, 2008, the rationale for revising the current structure and the associated rules and administration of the plan.

## LEGISLATIVE FRAMEWORK

11. The Commission is responsible for, inter alia, establishing rate-setting principles, setting the maximum rates to be charged, monitoring these rates, determining and monitoring standards of service and conducting periodic reviews of the rates charged by service providers by virtue of Section 3(1) of the Utilities Regulation Act CAP. 282., the Fair Trading Commission Act CAP. 326B, and the Telecommunications Act CAP. 282B.
12. When establishing the principles to regulate service providers, the Commission must in accordance with section 3(2) of the Utilities Regulation Act have regard to:
  - "(a) the promotion of efficiency on the" part of service providers;*
  - (b) ensuring that an efficient service provider will be able to finance its functions by earning a reasonable return on capital; and*
  - (c) such other matters as the Commission may consider appropriate."*

13. Under section 3(3) of the Utilities Regulation Act, the Commission is specifically charged with the protection of the interests of consumers. Section 3(3) (a) states:

(a) *“The Commission shall protect the interests of consumers by ensuring that service providers supply to the public, service that is safe, adequate, efficient and reasonable.”*

14. Additional responsibility is conferred upon the Commission through the Telecommunications Act CAP. 282B. In particular, Section 6 (1) states that:

6 (1) *“The Commission shall*

*c) be responsible for the regulation of competition between all carriers and service providers in accordance with this Act to ensure that the interests of consumers are protected; and*

*d) establish and administer mechanisms for the regulation of prices in accordance with this Act, the Fair Trading Commission Act and the Utilities Regulation Act.”*

15. Section 39 of the Telecommunications Act also assigns to the Commission the duty to establish an incentive based rate setting mechanism and to facilitate market liberalisation and competitive pricing.

### **Duty to Consult**

16. The Commission has an obligation to consult with interested parties in making determinations of rates and standards of service in accordance with Section 4(4) of the Fair Trading Act CAP. 326B specifically with regard to the following:

- a. Establishing of principles for arriving at the rates to be charged;
- b. Setting of maximum rates;
- c. Determining the standards of service applicable to service providers; and
- d. Carrying out periodic reviews of the rates and principles for setting rates and standards of service.

## **REVIEW PROCESS**

17. The Price Cap Review process included public consultation and an assessment of the Company's financial and regulatory reports. This assessment was carried out with the assistance of external consultants.
18. The Commission issued its public consultation paper on the revised price cap regime (FTC/CON2007/01) on September 19, 2007. The Commission received a total of eight (8) responses from:
  - a. Barbados Association of Non-Governmental Organisations (BANGO)
  - b. Barbados Consumers Research Organisation (BARCRO)
  - c. Caritel
  - d. Cable & Wireless (Barbados) Ltd.
  - e. Digicel
  - f. Blue Communications Ltd.
  - g. Ideas 4 Lease (Barbados) Ltd.
  - h. The Office of Public Counsel
19. An Information Paper was subsequently issued on January 4, 2008. The object of the paper was to respond to issues raised during the public consultation and to inform respondents, interested parties and the general public about the nature of the review process. The paper also included a summary of the responses to the Price Cap Review Consultation Paper and non-confidential

information submitted by the Company on its financial and regulatory performance during the period of the PCM2005. Two (2) persons submitted responses to the Information Paper namely, Caritel and the Office of Public Counsel.

20. The review process also included an assessment of the Company's regulatory and financial performance, its productivity achievements, and the overall market developments that have impacted and would continue to impact its performance.
21. An assessment was made of the Company's performance and market developments which involved the examination and evaluation of financial information, productivity studies and market reports.
22. The review also included the Company's responses to extensive information requests. Meetings were also held with parties who responded to the consultation paper.
23. The First Decision on the Review of the Price Cap Mechanism was issued on February 01, 2008.
24. One party, Caritel, submitted comments on that Decision. The Commission held consultation meetings with the Company in respect of modification of the structure of the PCM2005 in order for the Company to respond to queries and concerns raised during the review process.
25. The Commission has carefully reviewed and considered all submissions although not all the positions of parties have been summarised in this Decision.
26. The Commission thanks all parties who submitted responses.

## SECTION 2 PRINCIPLES OF THE PRICE CAP PLAN 2008

---

27. **The Commission has determined that the current structure of the price cap mechanism will be modified. A new Price Cap Plan 2008, as detailed within this Decision, will govern the regulated services of Cable & Wireless (Barbados) Limited from August 1, 2008.**
28. A price cap plan is defined by a specific set of principles that are designed to fit the particular market and regulatory environment. These principles include the number of service baskets, productivity factors, inflation factors, exogenous factors and carry over capability.
29. This section sets out a description of each of the principles that will define the Price Cap Plan 2008 (PCP2008) and the reasons for the Commission's Decision.

### **Objectives**

30. The Fair Trading Commission considers that regulating prices through a price cap mechanism is the most efficient and effective incentive-based form of regulation for the Company's regulated services. Additionally, price cap regulation continues to be the most common form of regulation used internationally where there is transition to competition.
31. The First Decision of February 2008 determined that the objectives of the PCM 2005 continue to be relevant. These objectives are to:
- a. Provide the company with the economic incentive to reduce operating costs;

- b. Provide the company with an incentive to be innovative and replace plant in an efficient and prudent manner;
- c. Provide the company with a reasonable opportunity to earn a fair return on its investment;
- d. Allow efficiency gains to be passed onto consumers through reduced prices of telecommunications services;
- e. Foster competition within the telecommunications market;
- f. Streamline regulatory procedures relating to rates;
- g. Facilitate pricing flexibility and responsiveness to evolving technological, legal and market conditions.

#### **Duration of Price Cap Plan 2008**

- 32. Respondents to the public consultation generally indicated that they had no objections to the length of the price cap period, although a few suggested a longer period. The Company suggested a period not exceeding three years.
- 33. The Commission is however of the opinion that there is a need to align the reporting period for the new price cap plan with that of the financial reporting period for the company. This situation arises because the financial reporting period (August - July) of the PCM2005 did not coincide with the financial statutory reporting period of the Company which is April - March.
- 34. The Commission has therefore determined that an initial 8-month Bridge Period (August 1, 2008 to March 31, 2009) would be required at the outset of the second price cap period. From April 2009, the annual price cap periods would be synchronised with the Company's financial year (April - March). As a consequence, the X-Factor for the bridge period would be determined by prorating the annual X-factor adopted for the next price cap period.

35. The PCP2008 will therefore have a duration of 3 years and 8 months and in summary the periods are:

Period 1: August 1, 2008 through March 31, 2009

Period 2: April 1, 2009 through March 31, 2010

Period 3: April 1, 2010 through March 31, 2011

Period 4: April 1, 2011 through March 31, 2012

### **Baskets**

36. In its 2005 Decision, the Commission, after careful analysis of all concerns determined that the price cap plan would consist of four baskets. However respondents to the recent public consultation which reviewed that decision indicated a general dissatisfaction with the number of service baskets.
37. Most respondents (including the Company) were of the opinion that there were too many baskets and there was a suggestion that it should be reduced to two. Others believed that components within each basket were not correctly allocated. The Company indicated that all prices were subject to the constraints of market conditions as a result of which they had considerable unused headroom since the average price was below the price cap index for all baskets except Basket 1. Headroom is created when the Company in one period chooses not to raise its prices to the maximum allowable level and that difference is then added to the allowable price increases for the next period.
38. The Commission in its review took a number of factors into consideration in determining how to group services. These included:



- a. the overall degree of price control warranted;
- b. additional restrictions/constraints placed on the price movements of specific services;
- c. the competitiveness of particular services;
- d. the degree of pricing flexibility to be accommodated;
- e. homogeneity of services within a basket;
- f. regulatory and governmental policy and
- g. the need to maintain simplicity of design.

39. **The Commission has determined that the service baskets will be reduced to three and some services have been reallocated among the groups as outlined in the following paragraphs.**

40. Telex, enhanced fax and telegraph have been removed from the list as these services are obsolete and are no longer provided by the Company.

41. **The three baskets shall be:**

<b>Basket 1</b>
<b>Residential Access</b>
Residential Access Line Rental
Residential Installation

<b>Basket 2</b>
<b>Domestic Voice Telecommunications Services</b>
Business Access and Other exchange lines
Business Installation and other one off services
Value Added Services (VAS)
Payphone Local
Residential One-off services
Trunk/Local/Tandem Fixed Calling

<b>Basket 2 Con't</b>
Domestic Operator Assistance
Domestic Leased Circuits
Voicemail

<b>Basket 3</b>
<b>International Telecommunications Services</b>
<b>Other Retail Telecommunications Services</b>
<b>(Minimal constraints on price changes )</b>
Fixed International Direct Dialling Outgoing
Payphone International
International Operator Assistance
International Leased Circuits
Centrex

*Basket 1(Residential Fixed access)*

42. Respondents to the price cap review indicated difficulty with Basket 1 and were especially critical of the 7% escalator. The majority of respondents were of the opinion that it was set at too high a level and by inference allowed the Company to realise a significant revenue increase from its fixed line residential customers. Most respondents were of the opinion that domestic residential rates should not have been allowed to rise by 22.5% over the 3 years and 4 months of the PCM2005. A few such as BANGO felt that there should be consideration of rate decreases when the Company's "profit levels shoot over and above the statutory provision".
43. In contrast, the Company indicated that inflation had wiped out any nominal gains they derived from the escalator in Basket 1. The Company stated that "the price of residential access has only increased by 3.5% in real terms". The

Company also claimed that “C&W has a significant amount of headroom. The one service that is the exception to this is residential fixed access which C&W still believes is priced below cost<sup>1</sup>”. It went on to state that “Until such time as C&W is allowed to implement domestic calling charges and/or higher rentals for residential customers it is unrealistic to expect there to be any interest by a competitor in providing a competing fixed residential domestic service...<sup>2</sup>”. The Company also suggested that all other baskets (except Basket 1) should be eliminated, and that the existing rates of those other services should be used as the maximum rates going forward, so consumers would not be subject to any higher rates than those currently existing.

44. **The Commission has determined that the 7% escalator will be eliminated from the PCP2008. The Commission is of the opinion that the circumstances that warranted the use of the escalator are no longer applicable. However the need to maintain the financial viability of the Company must be balanced against the provision of a basic telephone service that is affordable to the general public.**
45. The Commission is of the view that the Company has to date, not met the burden of proof that for regulatory rate-making purposes there is a continuing need for price increases for residential access beyond that which may be related to inflation. One of the Commission’s objectives is to protect consumers from disproportionate increases in the price of telecommunications services.
46. The Commission is also of the view that there has been no evidence to date to suggest that from a regulatory perspective there is a need for residential access prices to decrease as suggested by some respondents.

---

<sup>1</sup> Paragraph 10 Cable & Wireless Non Confidential Consultation Paper Response

<sup>2</sup> Paragraph 32 Cable & Wireless Non Confidential Report on Market and Economic Developments

47. **The Commission has determined that in order to maintain homogeneity of services, the installation service for residential access will be transferred to Basket 1 from Basket 2.**
48. The Commission has determined that Basket 1 will be subject to the “PCI = I - X” type price cap control for residential access service and residential installation. “I” represents the inflation factor and “X” represents the productivity factor and “PCI” represents the price cap index constraint.
49. The I-factor will be the inflation rate as measured by the Retail Price Index (RPI) for Barbados and the X-factor will be based on a guiding principle of minimising price increases of residential telephone service.
50. The price control for this basket will have two phases :

*Phase I - the first 17 months (August 1, 2008 to December 31, 2009)*

51. The X-factor will be set to equal the I-factor so there will be a rate freeze from August 1, 2008 until December 31, 2009.

*Phase II - the remaining 27 months (January 1, 2010 to March 31, 2012)*

52. The Company will be allowed to adjust rates in line with the Inflation Factor up to a maximum of 4.5%. This means that :
- i) when the I-factor is less than 4.5%, the X-factor will equal 0%;  
so  $PCI = I\text{-factor}$
  - ii) but when the I-factor is greater than or equal to 4.5%, the X-factor will equal  $I - 4.5\%$  so the  $PCI = I - (I - 4.5) = 4.5\%$  effectively placing a limit of 4.5% on rate increases .
53. The Commission was faced with several different scenarios with respect to ascertaining what it considered the optimal pricing constraint for this Basket.

As the price cap model is forward looking in its design, the Commission had to take into consideration inflation forecasts over the proposed price cap period.

54. Based on IMF forecast for Barbados and current inflationary trends, the Commission has determined that the figure of 4.5 would be used as the pricing constraint in the Price Cap Index for Basket 1.
55. The Company's ability to increase this tariff up to a maximum of a 4.5% Inflation factor is a means of sharing the risk associated with increases in inflation between the Company and the consumers.
56. The Company is permitted to increase the tariffs once in any 12 month period.

*Basket 2 (Domestic Voice Telecommunications Services)*

57. In the review of the PCM2005 some respondents were of the opinion that the X-factor was too low. The argument being advanced was that it gives the impression that the Company is operating in a market that has to be subsidised. Concern was also expressed about the level of pricing since it would have a negative impact on the small and micro business sector. Caritel also suggested that voicemail which is also a value added service should be regulated.
58. The Company proposed different alternatives to the service basket combinations. Various options were suggested such as: Basket 1 should be eliminated and residential access merged with Basket 2; or alternatively, the escalator in Basket 1 should be revised and Basket 2 retained as it is presently constructed.
59. The Commission is of the opinion that continued application of a standard "PCI = I - X" price cap index constraint for services in this Basket is

warranted. However the modeling of the price cap has been modified to include an earnings constraint on price capped services. Voicemail and Domestic Private Leased Circuits (“DPLC”) have been shifted from Basket 4 which was uncapped under PCM2005 to Basket 2.

60. The reason for moving DPLC is that there appears to be insufficient competition to constrain the pricing of these services at this time. With regard to Voicemail the Commission considers that this product should be treated similarly to other value added services such as call waiting and call forwarding.
61. The average change in prices in this basket will be constrained by the standard price cap index.
62. The X-factor for this basket is set at 7.12% percent. This figure was derived from the price cap model which took into account all factors that would impact the Company’s earning capacity. This is a larger X-factor than was applied in PMC2005. The prices of the services in this basket can therefore be adjusted on average each period by the percentage I-factor minus the X-factor.

*Basket 3 International Telecommunications Services and Other Retail Telecommunications Services;*

63. In the price cap review only one respondent made any comment on the operation of the basket containing international services. They were of the view that since this basket contained international telephone services, rates needed to be reduced at a faster rate.
64. **The Commission has determined that international services will be placed in the same basket as those services which were previously uncapped, given the changes in respect of the existing and emerging competition for**

**International Direct Dialing (IDD) services.** These changes include new policies on Voice over Internet Protocol (VOIP) and Two Stage dialing, which were issued by the Ministry responsible for Telecommunications. It is considered that this will result in increased competition in the IDD market in the near future. As a result, international calling services would be moved into the “uncapped” services basket.

65. The Commission is cognisant that with competition, the rate of return on the IDD services has been decreasing. Setting a price cap constraint for these services would be redundant for it is expected that these prices would be driven primarily by competitive forces. Additionally if these services were included in the modeling of PCP2008 this would decrease the rate of return of the regulated services over the duration of this new price cap term and by extension decrease the X-factor for Basket 2. The pricing of the residential fixed line service in Basket 1 may then also require a commensurate increase.
66. **The Commission has also determined that international private leased circuits (“IPLCs”) should also be included in the “uncapped” services basket.**
67. Other domestic telecommunications services, will remain uncapped, as under the existing PCM2005 whereby the average price changes in this basket will not be constrained by a price cap index. These services will be lightly regulated, to the extent that the Commission will need only the required notification of adjustment in the prices of these services consistent with the periods set in the price cap administrative rules.

*Residential IDD vs Business IDD*

68. The Commission and the Company recognised that residential IDD rates are higher than business IDD rates and the Company shall reduce these rates as set out in the following paragraph.
69. There shall be :
- (i) An initial 20% reduction on residential IDD to be implemented on or before August 1, 2008. Any residential IDD reductions made in excess of the requirement for API compliance in the final period of the initial PCM2005 shall count towards compliance of the requirement under this Rule. The Company shall verify this by submitting to the Commission the Annual Compliance filing for Basket 3 (under PCM2005) on or before the date of implementing this reduction.
  - (ii) An additional 5% reduction in residential IDD to be implemented on or before March 31, 2009.
  - (iii) An additional 5% reduction in residential IDD to be implemented on or before March 31, 2010
  - (iv) A final 5% reduction in residential IDD to be implemented on or before March 31, 2011.
70. The rate reduction shall be calculated using residential IDD average revenue per minute (ARPM). This shall be calculated based on historical volumes (the most recently-available 12 months of data). These same volumes shall be used for the entire price cap period. The prices shall be the currently available standard-listed prices that are generally available to the public without any applied discounts.
71. The Company shall not increase the prices of any of the other uncapped services during the price cap period beyond their “going-in” levels which existed at the start of the price cap review on October 22, 2007.



### **Inflation I-Factor**

72. The inflation factor as included in the price cap formula accounts for changes in the input costs of the operator during the price cap period. The Commission, in choosing the relevant inflation indicator, sought to identify a price index that accurately measures the changes in the input prices experienced by the Company over the period.
73. During the consultation on the review of the price cap, many respondents disagreed with the Barbados Retail Price Index (RPI) as a reflector of the Company's input costs. Some argued that most of the components which account for domestic inflation are not part of the cost of the Company's inputs.
74. Caritel indicated that the main drivers for inflation in Barbados could be attributable to food, transportation and housing. Consequently, linking input price increases to the retail price index offsets the benefits of any productivity gains. Some respondents suggested some form of wholesale price index; others felt that some form of industrial price index would better measure the cost factors which would capture the cost of inputs that the Company uses in the delivery of its services.
75. The Company for its part had no difficulty with the RPI being representative of the change in the Company's input cost.
76. Due consideration was given to the arguments which pertained to the fact that some of the components which account for domestic inflation as measured by the RPI are not part of the cost of the Company's inputs. The major practical difficulty with the suggested alternatives is that there is no publicly available independent forecast for any of the other suggested indicators. In addition, by applying an inflation factor which involved

disaggregating the utility cost into sub-categories e.g. labour cost, interest, taxes etc., one risked increasing the complexity of the I-factor.

77. **The Commission has therefore determined that the Barbados Retail Price Index (RPI) will continue to be used to measure the inflation factor in the price cap formula.**

#### **Productivity X-Factor**

78. During the review of the price cap respondents were of the view that the Company did not pass on productivity improvements to consumers by lowering prices. Some examined the Company's financial statements and noted its operating cost ratio as a percentage of total assets had declined since 2006. Others indicated that while there were some price reductions in international rates, domestic rates were increased. In addition, they indicated that the fall in international rates would have come about notwithstanding the price cap. This was in reference to the Federal Communications Commission's decision to unilaterally reduce out-payments for overseas calls.
79. A study to determine the Company's productivity improvements over the first price cap period was evaluated by the Commission. Results of the study indicated that there were productivity improvements in both the regulated services and in the Company's total services. The results of these studies were considered in the price cap model and form the basis of determining the X-factors in the new plan, PCP2008.
80. Additional information about the price cap model and the productivity studies is provided in Section 3 of this Decision.

### Exogenous Z -Factor

81. The Company was of the opinion that while the Z-factor was standard practice in price cap calculation, the Commission was unduly limiting the circumstances under which it contemplates the use of the Z-factor. The Company did not agree with the stance taken whereby the Commission would only apply a Z-factor when the event in question related only to the telecommunications industry. The Company indicated that changes to the tax regime and adverse exchange rate movements could also have a significant and disproportionate effect on the Company's profitability.
82. The Commission is of the opinion that types of events specified in the PCM2005 remain the same for the PCP2008. The Commission is also of the view that the exogenous event should be such that it does not otherwise directly affect the I-factor or X-factor. However, the Commission has determined that these events as detailed in the next paragraph may now be applied separately as opposed to collectively.
83. **The Commission has determined that a Z-factor adjustment will be considered for inclusion in the PCI where any of the following conditions are satisfied:**
  - a. The event is a legislative, judicial or administrative action which is beyond the control of the company; or
  - b. The event relates specifically to the telecommunications industry; or
  - c. The event has a material impact on the regulated segment of the Company which is subject to the Price Cap Mechanism.

## SECTION 3 PRICE CAP MODEL

---

### DESIGN OF PRICE CAP MODEL

84. In the development of the PCP2008, the Commission utilised a price cap model which was designed with the assistance of the Commission's consultants and input from the Company.
85. The financial model which uses a forward looking approach was designed to provide the Company with the opportunity to achieve a fair rate of return on the price-capped services over the course of the second price cap period. The model takes into account actual Company data, the forecast of market developments and the Company's forecast year-over-year earnings during the price cap period.
86. The model also seeks to capture all the factors that will impact on the Company's earning capacity during the price cap period. This includes the Company's potential productivity achievements, its cost of capital, the expected rate of inflation, international price and volume decreases driven by competition, expected price elasticity of demand for its services, expected exogenous growth in demand and expected regulatory policy developments.
87. The major output of the price cap model is the X-factor that is applied to Basket 2. One of the parameters used in the model is an earnings constraint whereby the Company's average Return on Mean Capital Employed (RoMCE) over the price cap period is equal to the Commission applied target RoMCE of 17% over the course of the price cap period,
88. In order to determine the target RoMCE, the Commission and consultants reviewed a 2007 Weighted Average Cost of Capital (WACC) Study by Price

Waterhouse Coopers (PWC) LLP which is similar to a study prepared by PWC and utilised by the Commission in the design of PCM2005. The quality and accuracy of the study and its results were carefully considered and compared to the previous estimate allowed by the Commission. The Commission believes that a 17% before tax WACC is a reasonable estimate of the expected return given the Company's capital structure, and the attendant commercial, financial and economic risk of the Barbados economy.

### **Framework**

89. The PCM2005 was based on an incremental profit model, which focused on the maintenance of marginal profit throughout the price cap period, in order to eliminate supernormal profits over the term of the PCP2008. The model for PCP2008 incorporates the RoMCE-based profit constraint, rather than the incremental zero base profit constraint of the first price cap model. This means that the model has to project mean capital employed (MCE) into the future.
90. The model aims to capture all the factors that will impact the company's earning capacity during its term. These include output price trends, quantity trends, own price elasticity, costs efficiency, input price trends, and RPI Inflation.
91. The Test Year period was based on the Company's audited fiscal year 2006/07 financial information (i.e., covering the period: April 1, 2006 to March 31, 2007). The Base Year (August 1 2007 to July 31, 2008) data was then automatically generated using the Test Year information and a series of financial and other parameters.

## RoMCE Targets

92. There are a number of approaches to setting the X-factor in forward-looking price cap regimes. One is to set the X so that the average RoMCE over the price cap period is equal to the target RoMCE ("Average Price Cap Period = 17%"). Another approach is to set X so that the last year of the price cap period is equal to the target RoMCE (End of Price Cap Period = 17%). The latter methodology would likely result in the Company earning above 17% on average over the price cap period. This could be considered unfair for consumers that would have to bear higher-than-necessary resulting prices. The former methodology was applied as it was considered more useful as the Company would be expected on average to earn its fair rate of return over the price cap period.

## **TOTAL FACTOR PRODUCTIVITY STUDY**

93. The Commission undertook a review of the total factor productivity (TFP) study of the Company from 2001 to 2007. This period included the last two years of the initial price cap 2005 to 2007. The output of the TFP study was used as one of the inputs in the price cap model to determine the X-factor to be used in the PCP2008.
94. Total factor productivity can be defined as the growth of real output beyond what can be attributed to increases in the quantities of labour and capital employed.
95. The Company performed an all services study as requested by the Commission. This included both the regulated and unregulated operations of the Company.

96. The Commission also reviewed the Company's regulated services TFP study which may be termed a partial-output productivity study covering the Company's regulated services. While the Company's regulated services (outputs) are readily identifiable, the Company's Enhanced Allocation Model (EAM) must be used to estimate the operating expenses and capital costs (inputs) used in their production.
97. The Commission was advised by its consultants that when attempting to estimate partial-output productivity measures, it is preferable to start with an aggregate or all services TFP estimate for the firm. The all services TFP study therefore served as a benchmark to assess the reasonableness of the partial-output productivity figures that were submitted by the Company.
98. The Commission and its consultants worked with C&W to jointly develop a reasonable set of TFP estimates and other parameters to use in the PCP2008.
99. These TFP estimates were applied as cost efficiency parameters in the Price Cap Model.
100. Overall the total output growth was found to be driven by the growth of unregulated services. In marked contrast regulated services were estimated to have declined over the studied period.

## **REVIEW OF THE COMPANY'S FINANCIALS**

101. The Compliance Rules for PCM 2005 ("The Rules") required the Company to provide the Commission with annual regulatory and statutory financial statements by July 1st of each year, and "semi-annual" financial statements by November 15th of each year. The Rules also required the Company to submit the Enhanced Allocation Model (EAM) by July 1st of each year.

102. Specifically the Company's report was required to include the following financial information for the PCM2005 period:

- Financial results in summary form showing revenues, expenses, net investment in rate base, capital structure and rate of return on utility common equity;
- Quantifiable data, disaggregated into separate services (EAM); and
- Applicable comparisons of the above factors under price cap regulation to the data before price cap regulation.

### **Findings**

103. The process entailed review of the Company's financial results for regulated services for the period March 2004 - March 2007 as well as comparison of factors under price cap regulation to that before price cap regulation. The rate of return the company derived over the term of the price cap period was examined. Additionally issues such as the allocation of expenses between regulated and unregulated services, expense exclusions, RoMCE methodology, and all the various inputs into the price cap model were reviewed.

104. For consistency with the first price cap plan, it was necessary to review the expense adjustments to ensure that where necessary, similar and other costs related to unusual or "one off" expenses were excluded to reflect normal test year.

105. The Commission also sought to ensure that the ROMCE calculation was consistently applied.

106. The findings of the ROMCE on regulated services indicated that the Company had achieved higher profitability than was estimated throughout the term of PCM2005.



### Cost Allocation

107. The financial results submitted for the period April 2006 - March 2007 applied allocators which were updated to reflect the current business model under which the Company operates. In principle, there is a need to update and otherwise revise the EAM allocators from time to time. The main reasons, identified by the Company, driving the revision in this instance was the deployment of next generation network ("NGN") and changes to the Company's business model.
108. While these financial results were used in the modelling exercise the Commission is cognisant that improvement should be made in the cost allocation methodology.
109. **The Commission plans to undertake a review of the EAM and establish guidelines for the cost allocation methodology to be used by the Company.**

### **REVIEW OF TELECOMMUNICATIONS MARKET**

110. One of the important elements of the review of the PCM2005 was an assessment of the developments within the Barbados telecommunications market which provided the necessary background for the Commission in the implementation of the PCP2008. Additionally the review included an evaluation of the report submitted by the Company on the market and economic developments over the period of the initial price cap and the impact of price cap.
111. This section provides a summary of findings.

## Prices

112. The performance of Barbados with respect to other countries in the region was assessed based on Barbados’s Gross National Income per capita (GNI per capita).
113. Table 1 shows that fixed, mobile and total prices in Barbados are quite close to the regional average. This suggests that, from a regional perspective, Barbados’ fixed, mobile and total price levels are at the level that would be expected given Barbados’ GNI per capita, taking into account the overall regional density/GNI relationship.

Countries	GNI per capita USD\$	Price Baskets (USD/month)		
		Fixed	Mobile	Total
Antigua & Barbuda	\$10,578	\$14.00	\$12.25	\$26.25
Bahamas	\$17,578	\$15.95	\$9.43	\$25.38
Barbados	\$11,863	\$17.83	\$11.27	\$29.08
Belize	\$3,650	\$17.58	\$16.17	\$33.76
Bermuda	\$36,582	\$38.92	\$12.25	\$51.16
Cayman Islands	\$43,800	\$24.88	\$8.23	\$33.11
Dominica	\$3,960	\$13.76	\$12.40	\$26.16
Grenada	\$4,420	\$15.14	\$11.58	\$26.72
Guyana	\$1,130	\$3.03	\$7.52	\$10.55
Jamaica	\$3,480	\$9.14	\$7.50	\$16.64
St. Kitts & Nevis	\$8,840	\$13.47	\$11.95	\$25.41
St. Lucia	\$5,110	\$13.47	\$11.81	\$25.27
St. Vincent & the Grenadines	\$3,930	\$13.17	\$12.91	\$26.08
Trinidad & Tobago	\$13,340	\$6.98	\$6.66	\$13.64
Virgin Islands (U.S.)	\$22,584	\$30.95	\$10.42	\$41.37
Average	\$12,723	\$16.55	\$10.82	\$27.37

Source: World Bank’s World Development Indicators (WDI) 2007 publication via WID Online

114. The findings applied the World Bank methodology which is based on a “lower usage” profile and they appear to contradict some of the claims made in the Company’s report with respect to the level of telephone prices in Barbados compared to other jurisdictions.

115. The conclusions reached in the Company's Report stated that:

*"Indeed it is worth demonstrating that the price of residential access in Barbados is still far below the price of the comparative service in other countries..."*

116. However it must be noted that different usage profiles were used in the World Bank methodology and the Company report. The Company's report methodology is more consistent with a "medium or high user" profile. Hence, a "higher monthly rental prices and zero usage prices" country such as Barbados is likely to show comparatively lower results in "medium or high user" profiles than in "low user" profiles.

117. Further the Company's report includes a fixed to mobile tariff component, while the World Bank methodology does not. The World Bank methodology includes the installation charge; the Company's report methodology does not. Another difference between the two methodologies is that the Company's report includes fewer countries in its global and regional comparison than the World Bank Income group or the English Caribbean comparison.

118. In summary, any conclusion as to the comparative level of residential prices depends on the countries included in the comparison and the specific services and usage patterns included in any analysis. It is probable that for basic low-usage subscribers, and from a global and regional perspective, Barbados' price levels are at or above the level that would be expected given Barbados' GNI/capita. However, for high-usage subscribers, including those that call mobile phones, Barbados' price levels are lower than would be expected given Barbados' GNI/capita.

## POLICY AND COMPETITION

119. The following table provides a summary of the policy documents that have been issued by the Ministry responsible for Telecommunications and their potential impact on competition in the domestic and international telecommunications market and competition within Barbados.

<b>Table 2: Policy Developments Subsequent to Price Cap Decision 2005</b>		
<b>Policy</b>	<b>Date Implemented</b>	<b>Implications</b>
Consultative Document - Universal Service Policy	July 20, 2005	Declared C&W the Universal Service Carrier and established Service Fund Administrator.
Regulated Services Order 2006	February 20, 2006	Repealed the Regulated Services Order of 2003 and lists the services now subject to regulation.
Consultative Document - Local Loop Unbundling (LLU) for C&W	February 14, 2007	Outlines the case for mandatory unbundling. May have no direct impact on the price cap plan. LLU is a wholesale service.
Voice over IP Policy	August 16, 2007	Establishes the competitive framework for the provision of VoIP services for all eligible carriers and service providers. Gives practical effect to Phase III of the liberalization process with respect to outgoing international calling. Has direct impact on second price cap plan.

Two Stage Dialing Policy	November 16, 2007	Introduces competition in the area of international services. Gives practical effect to Phase III of the liberalisation process with respect to outgoing international calling. Has direct impact on second price cap plan.
Equal Access and Indirect Access policy	November 16, 2007	Introduces competition in the area of international services. Gives practical effect to Phase III of the liberalisation process with respect to outgoing international calling. Has direct impact on second price cap plan.

120. One may conclude that the VoIP Policy, the Equal/ Indirect Access and Two-Stage Dialling Policies, when fully implemented, are likely to introduce a significantly increased level of competition for outbound international calling.
121. Based on these findings the Commission is of the view that international services will become more competitive in the near future.
122. **The Commission determined that international services should be placed in the uncapped basket and in this manner price cap compliance would be assessed based on services which are subject to limited or no competition. The Company will continue to advise the Commission of rate changes for international services according to the Price Cap Rules 2008.**

## SECTION 4 - PRICE CAP ADMINISTRATION

---

123. The revision of the price cap plan requires that there be some revisions to the Price Cap Compliance Rules to take into consideration the principles of PCP2008 as described in Section 2. Additionally this section sets out the Commission's determination with regard to administration changes in the Compliance rules which were discussed during the review process.
124. The Price Cap Compliance Rules and Procedures 2008 will be issued on the same date of this Decision.

### COMPLIANCE FILING

125. For any proposed rate increase in Basket 2 the Company is required to make a rate increase compliance filing that demonstrates that the API has not exceed the PCI.
126. The Company is required to file by February 1st of each year of the Price Cap Plan, information showing that they have complied with the rules of the Plan by maintaining the Actual Price Index (API) at or below the Price Cap Index (PCI).

### NOTIFICATION

#### Rate Increases

127. During the Price Cap Plan, the Company is required to inform the Commission in writing 25 business days and the general public through the

printed media at least 20 business days before the effective date of any proposed rate increase of a regulated service.

### **Rate Reductions**

128. The Company is required to advise the Commission at least 3 business days and the public at least 1 business day before the effective date of decrease.

### **REGULATORY REPORTING**

129. For the duration of the PCP2008 the Company shall be required to provide
- a. Audited Statutory Financial Statements;
  - b. Annual Regulatory Statements including a reconciliation to the audited statutory financial statements; and
  - c. Annual updated versions of the Enhanced Allocation Model (EAM) or any other costing model used by the Company and approved by the Commission.
130. The regulatory statements shall be prepared by the Company in accordance with the associated guidelines and manual and will then be subject to a Regulatory Compliance Review by the Commission.
131. In general, regulatory compliance reviews are carried out to provide reasonable assurance that an entity is not in any significant default in complying with provisions such as, but not limited to:
- licencing obligations
  - the regulatory framework to which it is subjected
  - covenants and obligations
  - allocations
  - rate setting

132. With respect to this Price Cap Decision the Regulatory Compliance Review is carried out to provide reasonable assurance that
- The Regulatory Statements reconcile to the audited financial statements
  - The Regulatory Statements are consistent with the guidelines and manual.
  - The Company acts in accordance with this Price Cap Decision, the Price Cap Compliance Rules and Procedures and the Fair Trading Commission Act, Utilities Regulation Act and Telecommunications Act .
133. This Review also entails reconciliation between the information in the regulatory accounts and the EAM.
134. The referenced guidelines and manual will be developed by the Commission in conjunction with the Company. The manual will set out, among other things, the agreed methodology, drivers, allocators and exclusions to be applied to the regulatory financial statements.
135. With effect from the date of implementation of PCP2008 detailed information is no longer required pertaining to volume discount international services (such as the 10 -10-334 service), which are regulated under uncapped Basket 3.



# SCHEDULE 1

## LIST OF SERVICES

<u>Basket</u>	<u>Price Cap Service Name</u>	<u>Detailed Description</u>	<u>Rate Element</u>
1	Residential fixed-line access	Residence Exchange Line	MRC
1	Residential fixed line installation	Installation	NRC

<u>Basket</u>	<u>Price Cap Service Name</u>	<u>Detailed Description</u>	<u>Rate Element</u>
2	Non-residential fixed-line access	Business Exch. Line	MRC
			NRC
2	Non-residential fixed-line access	Business Exch. Only	MRC
			NRC
2	Non-residential fixed-line access	Business Exch. Stepping	MRC
			NRC
2	Non-residential fixed-line access	DEL Line ( Direct Exchange Line )	MRC
			NRC
2	Non-residential fixed-line access	DEL Line ( Direct Exchange Line ) ( Business )	MRC
			NRC
2	Non-residential fixed-line access	Business Automatic Universal Line	MRC
			NRC
2	Non-residential fixed-line access	112 Emergency Lines	MRC
			NRC
2	Non-residential fixed-line access	Smart Ring Line Only-Business	MRC
			NRC
2	Non-residential fixed-line access	Smart Ring Line Only-Residence	MRC
			NRC
2	Non-residential fixed-line access	800 Service Line	MRC
			NRC
2	Non-residential fixed-line access	800 Service Pilot	MRC
			NRC
2	Non-residential fixed-line access	800 Service Stepping	MRC
			NRC
2	Non-residential fixed-line access	Charity Exchange Line	MRC
			NRC
2	Non-residential fixed-line access	Directory Number Hunt Exchange Line	MRC
			NRC
2	Non-residential fixed-line access	Direct Inward Dialing Channel via T1	MRC
			NRC
2	Non-residential fixed-line access	Voice Channel Stepping via T1	MRC
			NRC
2	Non-residential fixed-line access	Voice Channel via T1	MRC
			NRC
2	Non-residential fixed-line access	Line Residence Exchange (Installation)	NRC
2	Non-residential fixed-line access	Line Residence Stepping (Installation)	NRC
2	Non-residential fixed-line access	Public Pay Station (Sub-owned)	MRC
2	Non-residential fixed-line access	Business Extension	MRC
2			NRC
2	Non-residential fixed-line access	Direct Exchange Line Company	MRC
2	Non-residential fixed-line access	Facsimile Line	MRC
2			NRC

<u>Basket</u>	<u>Price Cap Service Name</u>	<u>Detailed Description</u>	<u>Rate Element</u>
2	Non-residential fixed-line access	Facsimile Line Stepping	MRC
2			NRC
	Non-residential fixed-line access	Change Number Advisory (Business)	MRC
2		Change Number Advisory (Business)	NRC
	Non-residential fixed-line access	Change Number Advisory (Residence)	MRC
2		Change Number Advisory (Residence)	NRC
	Non-residential fixed-line access	Additional Directory Listing	MRC
2	Non-residential fixed-line access	Change of Address	MRC
			NRC
2	Non-residential fixed-line access	Unlisted Number	MRC
2	Non-residential fixed-line access	Fixed Call forwarding (Business)	MRC
2			NRC
	Non-residential fixed-line access	Fixed Call forwarding (Residence)	MRC
2			NRC
2	Non-residential fixed-line access	Change Unlisted to Listed	NRC
2	Non-residential fixed-line access	Callback Service Overseas per Line	MRC
			NRC
2	Non-residential fixed-line access	Debar Overseas Calls per Line	MRC
2	Value Added Service	Cancel Call Waiting	NRC
2	Non-residential fixed-line access	Tracing Nuisance Calls	NRC
2	Non-residential fixed line installation	Other Telecoms -Reconnection	NRC
2	Non-residential fixed line installation	Temporary Disconnection	MRC
2	Domestic payphone	Coin Phone Calls	Per minute
2			
2	Domestic payphone	Pay and Card Phones Calls	Per minute
2	Value Added Services	Micro Telemax ( Business )	MRC
			NRC
2	Value Added Services	Micro Telemax ( Residence )	MRC
			NRC
	Value Added Services	Call Name, Number (Business )	MRC
2			NRC
2	Value Added Services	Call Name, Number ( Residence )	MRC
			NRC
	Value Added Services	Magic Touch Silver Max ( Business/Residence )	MRC
			NRC
2	Value Added Services	Magic Touch Platinum Max ( Business/Residence )	MRC
2			NRC
2	Value Added Services	Magic Touch Gold Max ( Business/ Residence )	MRC
2			NRC
2	Value Added Services	Anonymous Call Rejection ( Business )	MRC
2			NRC
2	Value Added Services	Anonymous Call Rejection (Residence)	MRC
2			NRC
2	Value Added Services	Distinctive Ring Call Waiting (Business)	MRC
2			NRC
2	Value Added Services	Distinctive Ring Call Waiting ( Residential )	MRC

<u>Basket</u>	<u>Price Cap Service Name</u>	<u>Detailed Description</u>	<u>Rate Element</u>
2			NRC
2	Value Added Services	Selective Call Acceptance (Business)	MRC
2	Value added services		NRC
2	Value Added Services	Selective Call Acceptance (Residence)	MRC
			NRC
2	Value Added Services	Selective Call Rejection (Business)	MRC
			NRC
2	Value Added Services	Selective Call Rejection (Residence)	MRC
			NRC
2	Value Added Services	Auto Busy Call Back ( Business )	MRC
2	Value Added Services	Auto Busy Call Back ( Residence )	MRC
			NRC
2	Value Added Services	Auto Recall ( Business )	MRC
			NRC
2	Value Added Services	Auto Recall ( Residence )	MRC
			NRC
2	Value Added Services	Selective Call Forwarding ( Business )	MRC
			NRC
2	Value Added Services	Selective Call Forwarding ( Residential )	MRC
			NRC
2	Value Added Services	Vanity Name ( Business )	MRC
			NRC
2	Value Added Services	Vanity Name ( Residential )	MRC
			NRC
2	Value Added Services	Call Wait,Forward,3way,Speed,3Smart Ring	MRC
			NRC
2	Value Added Services	Call Wait,Forward,3way,Speed,2Smart Ring	MRC
			NRC
2	Value Added Services	Call Wait,Forward,3way,Speed,1Smart Ring	MRC
			NRC
2	Value Added Services	Call Wait, Forward, 3-Way, 3 Smart Ring	MRC
			NRC
2	Value Added Services	Call Wait, Forward, 3-Way, 2 smart Ring	MRC
			NRC
2	Value Added Services	Call Wait, Speed Call, 1 Smart Ring	MRC
			NRC
2	Value Added Services	Call Wait, Forward, 3 Smart Ring	MRC
			NRC
2	Value Added Services	Call Wait, Forward, 2 Smart Ring	MRC
2			NRC
2	Value Added Services	Call Wait, Forward 1 smart Ring	MRC
2			NRC
	Value Added Services	Call Wait, 3-Way, 3 Smart Ring	MRC
2			NRC
	Value Added Services	Call Wait, 3-Way, 2 Smart Ring	MRC

<u>Basket</u>	<u>Price Cap Service Name</u>	<u>Detailed Description</u>	<u>Rate Element</u>
2			NRC
2	Value Added Services	Call Wait, 3-Way, 1 Smart Ring	MRC
2			NRC
2	Value Added Services	Call Forward, 1 Smart Ring	MRC
2			NRC
2	Value Added Services	3-Way Calling, 1 Smart Ring	MRC
2			NRC
2	Value Added Services	Call Wait, 3 Smart Ring	MRC
2			NRC
2	Value Added Services	Call Wait, 2 Smart Ring	MRC
2			NRC
2	Value Added Services	Call Wait, 1 Smart Ring	MRC
2			NRC
2	Value Added Services	Smart Ring 3	MRC
2			NRC
2	Value Added Services	Smart Ring 2	MRC
2			NRC
2	Value Added Services	Smart Ring	MRC
2			NRC
2	Value Added Services	Call Wait, Forward, 3-Way, Speed Call	MRC
2			NRC
2	Value Added Services	Call Wait, Call Forwarding	MRC
2			NRC
2	Value Added Services	Call Wait, Speed Calling	MRC
2			NRC
2	Value Added Services	Speed Call, 2 Smart Ring	MRC
2			NRC
2	Value Added Services	Speed Call	MRC
2			NRC
2	Value Added Services	3-Way Calling	MRC
2			NRC
2	Value Added Services	Call Forward	MRC
2			NRC
2	Value Added Services	Call Waiting	MRC
2			NRC
2	Value Added Services	Speed Call, 2 Smart Ring	MRC
2			NRC
2	Value Added Services	Call Wait, 3-Way Calling	MRC
2			NRC
2	Value Added Services	SmartChoice Plan A	MRC
2			NRC
2	Value Added Services	SmartChoice Plan B	MRC
2			NRC
2	Value Added Services	SmartChoice Plan C	MRC

<u>Basket</u>	<u>Price Cap Service Name</u>	<u>Detailed Description</u>	<u>Rate Element</u>
2			
2	Voicemail	Customer Mail Box	
2	Voicemail	Voice Mail, Call Forward Don't Answer (CFDA), With Number	
2	Voicemail	Voicemail Express Message (Residence)	
2	Voicemail	Voicemail Access Directory Number	
2	Voicemail	Voice Call Forward Busy	
2	Voicemail	Voice Menu	
2	Voicemail	Voice Announcement	
2	Voicemail	Voice Call Forwarding Don't Answer	
2	Domestic private leased circuits	National Leased Circuit (DPLC)	
2	Domestic private leased circuits	All Private Wire	
2	Non-residential and residential fixed line installation	PBX/Key Systems Line Installation	

Uncapped - Basket 3 :

<u>Basket</u>	<u>Price Cap Service Name</u>	<u>Detailed Description</u>	<u>Rate Element</u>
3	Fixed outgoing international	Residential and Business Fixed Line International Direct Dial (IDD) Call Revenue	Day Evening Weekend
3	Fixed outgoing international	Inmarsat	Day Evening Weekend
3	Fixed outgoing international	IDD 1010335	Day Evening Weekend
3	Fixed outgoing international	International Direct Dial (IDD) Credit Card	Set-up 3 Minute Min. Add. Min.,Day Add. Min.,Evening Add. Min., Weekend
3	Fixed outgoing international	International Prepaid Card	
3		Payphone International-Standard Rates	
3		IDD Smart Choice Residence Discount	
3		IDD Talkaway discounts	
3		Call Centre IDD	
3		International 1-800	
3		Corporate Choice	
3		PSTN International Station to Station & Person to Person	

<u>Basket</u>	<u>Price Cap Service Name</u>	<u>Detailed Description</u>
	International Private Leased Lines	International Private Leased Circuits
3	Operator Assistance-Domestic Voice Calling	Operator Service
3	Emergency-Domestic Voice Calling	Emergency Service
3	Business internal voice network service	Comnet Band 1
3	Business internal voice network service	Comnet Band 2
3	Business internal voice network service	Comnet Band 3
3	Business internal voice network service	Comnet Band 4
3	Business internal voice network service	Line - Comnet Band 1 Stepping
3	Business internal voice network service	Line - Comnet Band 2 Stepping
3	Business internal voice network service	Line - Comnet Band 3 Stepping
3	Business internal voice network service	Line - Comnet Band 4 Stepping
3	Business internal voice network service	Centrex
3	Business internal voice network service	Pabx Trunk Line via T1
3	Business internal voice network service	Pabx Ext - Via T1
3	Business internal voice network service	DID PABX Ext
3	Business internal voice network service	Line - Key System Stepping via T1
3	Business internal voice network service	Sub-Owned Trunk Lines
3	Business internal voice network service	Pabx Trunk Line
3	Business internal voice network service	Direct Inward Dialling Trunk (PBX)
3	Business internal voice network service	Business Exchange Line Conn to Pabx
3	Non-residential fixed-line access	Install Authorisation Code
3	Fixed outgoing international	International Operator Assistance

The Price Cap Plan 2008 shall take effect from the first day of August 2008.

Dated this 23<sup>rd</sup> day of June 2008

*Original signed by*

\_\_\_\_\_  
Neville V. Nicholls  
Chairman

*Original signed by*

\_\_\_\_\_  
Andrew Downes  
Deputy Chairman

*Original signed by*

\_\_\_\_\_  
Trevor T. Welch  
Commissioner

*Original signed by*

\_\_\_\_\_  
Floyd Phillips  
Commissioner

*Original signed by*

\_\_\_\_\_  
Gregory Hazzard  
Commissioner