



Fair Trading Commission

Consultation Paper

REVIEW OF THE PRICE CAP MECHANISM

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This Consultation Paper is not a legal document and does not constitute legal, commercial or technical advice. The Commission is not bound by this document. The consultation is without prejudice to the legal position of the Commission or its rights and duties to regulate the telecommunications market generally.

REVIEW OF THE TELECOMMUNICATIONS PRICE CAP MECHANISM

PURPOSE OF CONSULTATION

1. The Fair Trading Commission “the Commission” is about to review the Price Cap Mechanism which started on April 15, 2005. The Commission established price cap to replace rate of return as the tool for the economic regulation of Cable & Wireless (Barbados) Ltd.’s “the Company” regulated services¹. The current Price Cap Plan is agreed for three and a third years duration and will conclude on July 31, 2008. The decision included provisions for a review of the Price Cap Mechanism prior to its conclusion. The purpose of this consultation is to obtain public input which will help the Commission in ascertaining:
 - whether the Price Cap Mechanism has achieved the objectives for which it was originally designed; and whether
 - there is a need to make changes in view of the performance of the Company and developments in the telecommunications sector.
2. This review will enable the Commission to determine whether there is a need
 - to modify the principles, indices, or rules of the Price Cap Plan; or
 - to consider an alternative form of incentive regulation.
3. Accordingly, the Commission through this document, is embarking on a process of consultation with all stakeholders in order to provide them with an opportunity to inform the Commission of their views on the functionality and applicability of the Price Cap Mechanism. The Commission encourages the widest possible participation in this consultation process. In addition to

¹ Information on the Legislative Framework is provided in Appendix 1

making this document available at its offices, the Commission will post the document on its website.

4. This public consultation is one of two elements of the review. The other element will involve the Commission engaging the services of consultants to review the Price Cap Mechanism and assess the Company's operating and financial performance. The responses to this consultation will be shared with the consultants and will inform the Commission's decision on the future design and/or application of the Price Cap Mechanism.
5. The price cap review will require a comprehensive analysis of financial information sourced from the Company. It should be recognised that detailed financial information made available to the Commission must remain confidential, however the Commission will keep the industry and the public as informed as possible.

STRUCTURE OF CONSULTATION PAPER

6. This Paper is divided into four sections.

Section 1

7. This section provides information and general principles on the Price Cap Plan currently in place.

Section 2

8. In Section 2 the objectives and critical elements of the Price Cap Mechanism are presented for the purpose of inviting comments from interested parties. These issues are :

- The Price Cap Formula
- Service baskets
- The duration of the Price Cap Plan
- The inflation I-factor
- The productivity X-Factor
- The exogenous Z-factor
- Carry over Headroom.

Section 3

9. In section 3 the public is invited to comment on the parameters, methodologies and assumptions that are being used in the Price Cap Model.

Section 4

10. In section 4 the Commission invites interested parties to share their views on the price cap administration and procedural rules that will facilitate the Commission's monitoring of the Price Cap Plan in order to ensure compliance by the company.

Section 5

11. In section 5 details are provided on the consultative process which will begin on **September 19th** and end on **October 19th 2007**.

SECTION 1 – EXISTING PRICE CAP MECHANISM

12. The general principle of price cap regulation is to allow flexibility in pricing, provided that the average change in prices charged by the Company and measured by the Actual Price Index (API), does not exceed the Price Cap Index (PCI). The PCI is expressed as Inflation (I) minus Productivity (X).
13. The main price cap formula that governs the Price Cap Plan is expressed in the equation below. The formula, through the API, accommodates a degree of pricing flexibility. The Company is permitted to increase and decrease its prices during the specified period without excessive regulatory intervention. These price increases and decreases by the Company are measured as the API. That pricing flexibility represented by the API is however constrained or limited to the PCI.

$$API_t^k = API_{t-1}^k \alpha \leq PCI_{t-1}^k (1 + I_t - X_t^k) = PCI_t^k$$

where

$PCI_{k, t-1}$ Price cap Index for basket k in year t-1

I_t Computed Inflation rate for year t (expressed in decimal form)

X_t^k X-factor for basket k, in year t (expressed in decimal form)

α : the ratio of the price charged by the Company in the current year to last year's price, weighted by that service's relative proportion of the total revenue for the corresponding basket of services. See Appendix 3

14. The PCI is reset by the Commission on August 1st of each year of the Price Cap Plan.

SERVICES COVERED²

15. The services regulated under the Price Cap Plan are divided into four baskets. The baskets have been established as follows:
16. Basket 1 – Domestic Residential Access – This basket is confined to basic residential access line rental service. A price control allowing an escalator of a maximum of 7% increase annually was applied from August 1st 2005. This increase is not influenced by the rate of inflation.
17. Basket 2 – Domestic Voice Telecommunications Services – This basket includes domestic retail services not included in basket 1 or basket 4. These services include business access, business installation, payphone access and some value added services. The Productivity Factor (X) set for this basket is 4.19%.
18. Basket 3 – International Telecommunications Services – This basket consists of all international retail services. These services include fixed international outgoing, payphone international, international operator assistance and international leased circuits. The Productivity Factor (X) for this basket is set at 11.57%.
19. Basket 4 – Other Retail Telecommunications Services – This basket includes all other regulated retail services not accounted for in the other three baskets. These services include domestic leased circuits and voicemail. No constraint on average price change was placed on this basket. The Commission only required notification of adjustment in the prices of these services, consistent with the principles outlined in the Decision.

² See Appendix 4 for the list of regulated services.

REVIEW

20. The Price Cap Decision states that nine months before the end of the Price Cap Plan (October 2007), the Company should file documents to facilitate the Commission's review of the Plan. This review is expected to be completed within three months or by the end of January 2008.

STATUS OF LIBERALISATION

21. It is generally accepted that price cap, which is an incentive form of regulation, encourages behaviour which is more conducive to a liberalised, competitive environment. The final phase of the liberalisation of the telecommunications sector started in 2005 and this has opened the door to new entrants. There are currently five service providers licensed to provide domestic landline and/or fixed wireless service. Five service providers have also been granted international licenses. Cable & Wireless is currently the dominant provider in both of these categories while the other service providers are at varying stages of operation. Until the new service providers make more progress rolling out their services it is expected that price cap regulation will remain.
22. The importance of access to telecommunications infrastructure for facilitating the deployment of information and communication technologies was highlighted in the 2005 Draft Barbados National ICT Strategic Plan.
23. Additionally, a critical component of the National Strategic Plan of Barbados 2006 - 2025 relates to facilitating greater competition, development and innovation in telecommunications to expand the range of services. It also highlights the need to balance affordable access to telecommunications services against the ability of operators to recover costs of their investments.

24. The objectives of the Price Cap Mechanism align closely with the strategies described above and the Commission's review through this consultation will examine if the objectives are being achieved and whether modification or revision is required.

SECTION 2 - OBJECTIVES AND ELEMENTS

OBJECTIVES

25. The objectives and principles of price cap regulation are to:
- (a) provide the Company with the economic incentive to reduce its operating costs;
 - (b) provide the Company with the incentive to be innovative and replace plant in an efficient and prudent manner;
 - (c) provide the Company with reasonable opportunity to earn a fair return;
 - (d) allow efficiency gains to be passed onto customers through reduced prices of telecommunications services;
 - (e) foster competition in the Barbados' telecommunications market;
 - (f) streamline regulatory procedures relating to rate changes; and
 - (h) facilitate pricing flexibility and responsiveness to evolving technological, legal and market conditions.
26. The Commission considers that the above objectives are still applicable.

The Commission invites comment on any revision of the objectives of the Price Cap Mechanism.

27. The price cap formula expresses mathematically the primary rule that defines the price cap regulatory system. It depicts a ceiling or cap index of the maximum allowable average price increases that may be charged by the regulated operator over a specified period.

$$API_t^k = API_{t-1}^k \alpha \leq PCI_{t-1}^k (1 + I_t - X_t^k) = PCI_t^k$$

Where

$PCI_{k, t-1}$ Price cap Index for basket k in year t-1

I_t Computed Inflation rate for year t (expressed in decimal form)

X_t^k X-factor for basket k, in year t (expressed in decimal form)

α : the ratio of the price charged by the Company in the current year to last year's price, weighted by that service's relative proportion of the total revenue for the corresponding basket of services. See Appendix 3

28. The table below shows the price cap index that was applied at the start of the four periods of the price cap.

BASKET 2 Domestic Services X = 0.0419				
Period	1	2	3	4
Inflation I	0.014	0.029	0.07	0.062
PCI	0.9907	0.9779	1.0054	1.0256

BASKET 3 International Services X = 0.1157				
Period	1	2	3	4
Inflation I	0.014	0.029	0.07	0.062
PCI	0.9661	0.8823	0.8420	0.7968

29. This indicates that on average the prices over the term of the plan has increased for basket 2 and decreased for basket 3. Inflation as measured by I has also increased.

PRICE CAP MODEL

30. In the development of the Price Cap Plan, the Commission utilised a Price Cap Model which was designed with the assistance of the Commission's consultants. The Company was given the opportunity to provide input into and comment on the design of the model.
31. The Price Cap Model generated an escalator for Basket 1 and the X factors that are applied to Basket 2 and Basket 3, based on actual company data, forecasts of the telecommunications market development, and the earnings capacity of the Company.

SERVICE BASKETS

32. The Price Cap Mechanism divided the regulated services of Cable & Wireless into four baskets namely
- Basket 1 - Domestic Residential Access Service
 - Basket 2 - Domestic Voice Telecommunications
 - Basket 3 - International Telecommunications Services
 - Basket 4 - Other Retail Telecommunications Services

Baskets 1

33. In determining that Residential access service should be placed in a basket on its own, the Commission took into consideration the following
- Restricting the flexibility of the company so that they could not arbitrarily apply increases to this essential service.
 - Allowing the company to earn a reasonable rate of return.
 - Providing certainty to consumers with respect to timing and maximum level of increases of this service.

Baskets 2 and Basket 3

34. Domestic and international retail services are all placed in separate baskets with individual X-factors cognisant of the move towards a competitive market. The Company was allowed flexibility in the pricing of these services with the only constraint being the Price Cap Index. (PCI)

Basket 4

35. The Commission did not place any constraints on the average price changes in this basket and only notification of the adjustment was required. The services in this basket are generally those for which there is already substantive competitive pressure, or where there is decreasing demand due to advances in technology (e.g. telegraph).
36. Example of the price changes are provided in Appendix 2 and in this review the Commission will consider the structure of the baskets and pricing constraints. Consideration may be given to
- a) revising the 7% escalator applied to basket 1;
 - b) including residential access service into the basket of Domestic Voice Telecommunications Services – the adjustment in price of the domestic residential services would then be constrained by the price cap index and would be at the discretion of the company;
 - c) combining both baskets 1, 2 and 3 into one basket; or
 - d) whether further restrictions/constraints will be placed on the price movements within the baskets. The additional constraints may be upper or lower limits to price changes for services within the basket.
37. Additionally, the Commission will be considering the current level of competition in the telecommunications sector to determine if there needs to be a revision of the services assigned to Basket 4.

38. An indication of price changes that have occurred are provided in the Appendix 1.

The Commission invites your comment on the revision of the structure of the service baskets and whether any constraints should be placed on the price changes allowed for any particular service.

DURATION OF PRICE CAP PLAN

39. The duration of the current Price Cap Plan was three years and four months. This timeframe took into consideration the availability of audited data and the rapid changes in the telecommunications market. The Commission currently receives annual and half yearly reports from the Company and will be reviewing the financial performance of the Company. However, the telecommunications sector continues to evolve and new policies are being established, for example the Voice over Internet Protocol Policy. Consideration must also be given to providing the company with incentives to improve productivity and efficiency. While the Commission applied a three and a third year duration for the first plan, consideration may be given to lengthening or shortening the period. This may depend on whether this review shows that the objectives of the Price Cap Mechanism have or have not been met.

The Commission invites comments on the proposed duration of the Price Cap Plan.

INFLATION, I FACTOR

40. 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.

41. The Commission determined that the rate of inflation as derived from the national Retail Price Index (RPI) would be the Inflation Factor used as a measure of the input costs of the Company. The national RPI is computed on a monthly basis by the Barbados Statistical Service. It is calculated for the changes in the prices of the goods and services most commonly purchased by Barbadian consumers. It is generally used in national wage/salary negotiations.
42. The Company supported the use of the RPI, suggesting that local inflationary pressures have a major impact on the Company's operating expenses. They suggested that a significant proportion of its costs are Barbados specific input costs which are driven by changes in the domestic RPI, such as staff costs. It argued that regulators worldwide accept the RPI as an appropriate inflation standard for price cap purposes, and that it is an index with which the public is familiar.

The Commission invites your views on the use of this RPI and suggestions for any alternative inflation factor.

PRODUCTIVITY, X FACTOR

43. The productivity or efficiency factor (X) within the price cap index, is intended to replicate the extent to which the regulated industry is deemed capable of achieving more rapid productivity growth, and faces a lower input price growth than the wider economy³. It is a measure of the operator's expected productivity increases over a relevant period. The productivity factor specifies what productivity gains should be achievable by the company. If the company

³ Handbook of Telecommunication Economics Volume 1, edited by Martin Cave, S. Majumdar and Ingo Volgelsang; Chapter 7, by D.E.M. Sappington

is able to achieve a greater level of productivity, the company can retain the benefits of the efficiency within the term of the Price Cap Plan.

44. The Commission adopted a forward-looking approach to the determination of the efficiency factor X. This approach utilised a financial spreadsheet model which incorporated a series of pricing constraints designed to allow the firm to earn a level of return on its regulated services equal to its cost of capital.
45. The Commission notes that applying a productivity offset to revenues from retail services may result in mandated rate reduction. It is considered that mandated rate reductions through the application of an X-factor, may interfere with the natural development of the market forces. The Commission notes that where claims are made that specific services are below cost, the Commission may consider that applying an X-factor to the revenues associated with these services may not be appropriate.
46. While price cap regulation focuses on the price of services, the Commission's review of the financial operation of the Company will determine if the X factor should be increased (if the company is earning an unreasonable rate of return) or decreased (if the rate of return is below the Company's cost of capital).

The Commission invites your views on

- a) how the productivity factor has been calculated; and*
- b) how the productivity factor is applied in the Price Cap Model.*

EXOGENOUS Z FACTOR

47. The Commission has determined that a Z-factor adjustment will be considered for inclusion in the PCI for events which satisfy the following:

- The event is a legislative, judicial or administrative action which is beyond the control of the Company;
- The event relates specifically to the telecommunications industry; and
- The event has a material impact on the regulated segment of the Company which is subject to the Price Cap Mechanism.

48. The Commission will consider filings during the period only for wholly exogenous factors, such as regulatory actions by the Commission or the Government of Barbados, or other unforeseen circumstances which materially affect the Company's profitability.

The Commission invites comments on whether any other considerations should be given to the exogenous factor or any current provisions should be removed.

CARRY OVER HEADROOM

49. The Commission allows the Company carry-over of headroom to subsequent periods in Basket 2 and Basket 3. Headroom is created if the Company chooses not to raise its prices to the maximum allowable level within a given period. The Company therefore has the opportunity in the subsequent period to implement price increases that exceed the relevant difference between inflation and the X-factor.

50. The Commission notes that even with carry over headroom the Company can only increase prices up to the legitimate level allowed and that the real advantage is the flexibility and timing of introduction of such prices.

The Commission invites your comments on whether the Price Cap Plan should continue to allow headroom for baskets with specific PCI constraints.

SECTION 3 - PARAMETERS, METHODOLOGIES AND ASSUMPTIONS

PRICE CAP MODEL

51. The Commission developed a financial spreadsheet model to be used in the regulation of prices under the Price Cap Mechanism. This model projected the Company's prices, volumes and costs, and provided a basis for the determination of the X- factor to be used in the price cap formula.
52. In designing the Price Cap Plan, the Commission chose to employ an incremental profit model, which focused on the maintenance of marginal profit throughout the price cap period. The model incorporated two major constraints a) the profit-equality constraint and b) the zero-headroom constraint. The X-factor is determined while bringing *both* constraints into equality.
53. The profit-equality constraint may be described by noting that it equates base year profit with profit earned during the term. The base profit figure attained is re-calculated for each year of the term—adjusting the base profit for inflation and discounting to present value. The sum of these base profits (for each year in the term) must equal the sum of the discounted present value of profits for each year of the plan calculated using each year's prices, quantities, and costs.
54. The zero headroom constraint stipulated that previous year's revenue adjusted for both inflation and the x-factor must equal the revenue created by previous year's quantities multiplied by this year's prices.
55. The model also sought to capture all the factors that will impact on the Company's earning capacity during the price cap period. This included 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.

The Commission invites interested parties to comment on the constraints that were applied in the model. Persons are also invited to suggest any consideration that should be incorporated into a revision of such a model.

DISCOUNTS AND PROMOTIONAL OFFERS

56. The Commission recognises the need for the Company to retain some degree of flexibility in respect to the use of discounts and promotional offers. The Commission however does not consider that discounts which apply only to a specific set of consumers should be included in the calculation of the API which determines compliance. Allowing such discounts to count towards compliance could motivate the Company to introduce subjective patterns of price discrimination.
57. The Commission allows only discounts, temporary reductions and promotional offers to count towards compliance on the condition that such discounts or promotions for an individual service are offered to all customers.

BUNDLED OFFERINGS

58. Telecommunications customers have a strong preference for bundled offerings and one-stop shopping. Bundled offerings may either include a combination of all regulated services or include a combination of regulated and unregulated services. Where bundled offers include a regulated service, it would be difficult for the Commission to determine the implicit price for that service that ought to be accounted for in the price control. Accordingly, the Commission considers

that discounts inherent in bundled offerings shall not count towards compliance.

59. Wherever the Company introduces bundled offerings the individual rate elements of the bundled offering should continue to be offered separately and will continue to count towards compliance of the API.
60. The Commission requires that the Company provide at least 2 business days notice for the introduction of any bundled offerings that include a regulated service.

NEW SERVICES

61. A new service is defined for the purposes of this Price Cap Plan as a service or combination of services not provided or offered at the start of the Price Cap Plan.
62. The Ministry will determine if such a service is to be classified as a regulated service.
63. Where a new service is classified as a regulated service, the Commission has determined that it shall not in the period of introduction be subject to price control regulation. These services will be placed in Basket 4 (i.e. Other Retail Telecommunications Services), and be subject to the rules associated with this basket. In a subsequent period they may be made subject to price control.
64. One new service that was introduced was Business International Voice Service and consideration will be given to include this service in Basket 3.

The Commission invites your comment on the current approach regarding discounts and promotional offers, bundled offerings and new service.

ALTERNATIVE REGULATION

65. The Commission's choice of a price cap regulation system as an incentive based rate setting mechanism was based on extensive research of the industry and a review of alternative methods of incentive regulation.

The Commission invites general comments and discussion on the price cap system. Respondents who would like to propose any alternative incentive regulatory systems should submit their proposal describing in detail the benefits to be derived and any potential disadvantages of their proposed system of regulation.

SECTION 4 - PRICE CAP ADMINISTRATION

66. The efficient implementation and operation of the Price Cap Plan required the application of a set of procedural rules that will inform and guide the overall process during the specified period. The Commission's determination with regard to these rules was as follows.

NOTIFICATION

67. A service provider subject to price cap regulation must provide the regulator and the general public with adequate notice of proposed rate changes.
68. Rate Increases - The key considerations with respect to the notification period for a rate increase compliance filing was that it should:
- (a) allow the Commission adequate time to consider the compliance filing and assess the Company's adherence to the price cap rule of maintaining the API within the limits of the PCI; and
 - (b) allow consumers to prepare their personal budgets for the increase

The Commission therefore required that for every rate increase for regulated services during the price cap period, the Company advise at least twenty (20) business days in advance of the effective date of the price increase;

- (i) the Commission in writing; and
- (ii) the public by way of newspaper advertisements published in at least two editions of both daily newspapers.

69. Rate Reductions - The Commission required that the Company advise the Commission and the public at least two business days in advance of the effective date of any price decrease. If a rate reduction is presumed to be anti-competitive the appropriate action would be taken under the Fair Competition Act.
70. The timing of notification to the Commission is a concern for, in some cases, the notice was published in the newspaper prior to correspondence reaching the Commission. The Commission is of the view that as regulator it should have information on price decreases prior to notification in the newspaper so that it can properly respond to any queries made. **It is proposed that notification should be revised so as to provide for the Commission to be notified at least two business days prior to the notification the public of price decreases.**

The Commission invites your comment on the notice period that ought to be provided to the Commission and consumers.

COMPLIANCE FILING

71. Compliance filing refers to the process whereby the Company is asked to provide statistical proof that its price adjustments have not caused its actual price index (calculated consistent with the formulae provided) to exceed the price cap index.
72. The Commission determined that a compliance filing must be made for every proposed rate increase for a service included in baskets 1 through 3 of the Price Cap Plan.

73. Rate Increase Compliance Filing (RICF) - Subject to price cap rules the Company was allowed to increase or decrease its rates for regulated services at any time during the Price Cap Plan.
74. For any price increase of services in baskets 2 and 3, the Company must file a Rate Increase Compliance Filing ("RICF") with the Commission. A RICF must contain details of the proposed rate changes, a recalculation of each basket's API reflecting any proposed rate changes, and a demonstration that each new API is less than its corresponding PCI. For a price increase in basket 1 the Company must demonstrate that the increase is less than or equal to 7%.
75. Supporting documentation for API calculations in an RICF must include all service price elements by Basket, and the associated revenues established in the most recent Annual Compliance Filing. The Company must also provide documentation in a RICF for pricing changes involving special treatment, including, but not limited to, the introduction of volume or contract term discounts.
76. Annual Compliance Filing (ACF) - The Company shall file with the Commission the API for the relevant service baskets on July 1st each year, that is, one month before the start of each new price cap year. This filing will be considered as the Annual Compliance Filing (ACF).
77. Annual compliance filing allows the Commission to determine the level of compliance adhered to by the Company during the past year. The Commission will reset the price cap index at the start of each year (August 1st), and will use the annual filing to determine the extent to which the Company has accumulated a measure of headroom. The Commission is therefore able from the annual filing to determine the extent to which the Company could adjust its prices in the next year.

The Commission invites your comment on the above approach adopted for monitoring and ensuring compliance with the Price Cap Mechanism throughout the year.

APPLICATION FOR EXOGENOUS FACTOR

78. Where the Company is of the opinion that an event has occurred which would have a material effect on its net income, the Company may file for the exogenous Z-factor to be included in the price cap formula. This filing will be subject to public consultation to allow other stakeholders to comment on the request.
79. Where the Commission accepts the Company's filing that a proposed Z-Factor be included in the determination of the PCI, it shall be applied in the following price cap period. Such filing should be made at least three months before the end of a price cap period.
80. There have been no filings for an exogenous Z- factor to date.

REGULATORY MONITORING

81. Under section 35 of the Utilities Regulation Act, CAP. 282, *"the Commission may by order require every service provider to keep books, proper accounts and adequate financial and other records in relation to the conduct of its business."*
82. One of the objectives of price cap regulation is to limit the level of regulatory burden. A streamlined regulatory framework benefits both the regulated entity and the regulator.

83. The focus of the Commission's monitoring and review will be on prices, Company performance and the overall impact of the Company's performance on the sector. In this regard, the Commission required that the Company implement a system of accounting separation to provide the Commission with accounting, economic and statistical data, relating to services regulated under the Price Cap Plan. This separation is specifically required since the Company offers regulated and unregulated telecommunications services, in addition to non-telecommunications services.
84. The accounting separation must allow the Commission to verify the costs, revenues, profits, and return on capital for the following categories of service.
- i) The services regulated under price cap;
 - ii) The services regulated outside of price cap; and
 - iii) The unregulated services
85. The total of these categories must reconcile to the Company's regulatory and statutory accounts.
86. Regulatory Financial Statements - For the duration of the Plan the Commission considers it necessary to effectively monitor the Company's overall regulatory financial performance. In view of this, the Company was required to provide the following:
- Semi-annual regulatory financial statements;
 - Annual regulatory financial statements; and
 - Annual updated versions of the Enhanced Allocation Model (EAM) or any other costing model approved by the Commission.

87. Filing of Financial Statements - The Commission required that the Company file regulatory and statutory financial statements as follows:

- Semi-Annual Statements for Period April 01, to September 30 - by November 15 of each year
- Annual Statements for Period April 01, to March 31 - by July 01 of each year

88. The EAM was to be submitted by July 01 of each year.

89. The formats of these statements are specified in the Compliance Rules and Procedures.

The Commission invites your comment on the current approach regarding regulatory monitoring.

SECTION 5 – CONSULTATION PROCESS

90. The Commission is specifically charged under the Fair Trading Commission Act CAP. 326B to consult with interested persons when it is discharging certain functions.
91. Section 4(4) of the *Fair Trading Commission Act, CAP. 326B* states:
- “The Commission shall, in performing its functions under subsection (3)(a), (b), (d) and (f)⁴, consult with the service providers, representatives of consumer interest groups and other parties that have an interest in the matter before it.”
92. This generally involves the Commission issuing a consultative document, such as this , in which the Commission:
- (a) brings to public attention important issues relating to utility regulation to promote public understanding and debate;
 - (b) puts forward options and/or proposals as to the approach to adopt in dealing with these issues, to seek to resolve them in the best interests of the consumer, the service provider and the society at large; and
 - (c) invites comments from interested parties, such as consumers, service providers, businesses, professionals and academics.

⁴ Section 4(3) of the Act states:

The Commission shall, in the performance of its functions and in pursuance of the objectives set out in subsections (1) and (2):

- (a) *establish the principles for arriving at the rates to be charged by service providers;*
- (b) *set the maximum rates to be charged by service providers;. . .*
- (d) *determine the standards of service applicable to service providers;. . .*
- (f) *carry out periodic review of the rates and principles for setting rates and standards of service of service providers.*

93. The views and analysis set out by the Commission in a consultative document are intended to invite comments which may cause the Commission to revise its position.
94. If consider appropriate, respondents may wish to address other aspects of the document for which the Commission has not prepared specific questions. Failure to respond to all identified issues will in no way reduce the consideration given to the entire response.

CONFIDENTIALITY

95. The Commission is of the view that this consultation is largely of a general nature. The Commission expects to receive views from a wide cross section of stakeholders and believes that views and comments received should be shared as far as possible with all respondents.
96. Respondents should therefore ensure that they indicate clearly to the Commission any response or part of a response that they consider to contain confidential commercially sensitive or proprietary information.

RESPONDING TO THIS CONSULTATION PAPER

97. The Commission invites and encourages written responses in the form of views or comments on the matters discussed in the Paper from all interested parties, regulated utilities, other licensed operators, government ministries, non-governmental organisations (NGO'S), consumer representatives, residential consumers, business of all sizes and their representatives, the academic community and all other stakeholders.

98. The Consultation period will begin on **September 19, 2007** and end on **October 10, 2007**. All written submissions should be submitted by this deadline. The Commission is under no obligation to consider comments received after 4:00 p.m. on October 10, 2007.
99. Copies of this Consultation Paper can be collected between the hours of 9.00 a.m. to 4.00 p.m., Mondays to Fridays during the consultation period from the Commission's offices at the following address:
- Fair Trading Commission
Manor Lodge
Lodge Hill
St. Michael
BARBADOS
100. The Consultation Paper can also be downloaded from the Commission's website at <http://www.ftc.gov.bb>
101. Persons may submit their response either in written or electronic format.
102. Mailed or hand delivered responses should be addressed to the Chief Executive Officer at the above mailing address.
103. Responses can be faxed to the Commission using fax number (246) 424-0300.
104. Responses in electronic format may be prepared in either Word or PDF format, attached to an e-mail cover letter and forwarded to info@ftc.gov.bb.

ANALYSIS OF RESPONSES

105. The Commission will seek to explain the basis for its judgments and where it deems appropriate give the reasons why it agrees with certain opinions and disagrees with others. In the interests of transparency and accountability, the reasons for any modifications as a result of the consultation will be set out and, where the Commission disagrees with responses or points that were commonly made, it will in most circumstances, explain why.

APPENDIX 1

LEGISLATIVE FRAMEWORK

Under section 4 (3) of the Fair Trading Commission Act Cap 326B the Commission is charged with responsibility to, *inter alia*, “establish principles for arriving at the rates to be charged by service providers.”

The Commission is also charged with this responsibility under section 3 (1) of the Utilities Regulation Act Cap 282. Further in section 6 (1) (d) of the Telecommunications Act CAP 282B it states that the Commission shall:

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

The Telecommunications Act also states in Section 39 (2) that the rates should facilitate the policy of market liberalisation and competitive pricing.

In changing any principles of rate setting the Commission is obligated to consult with interested parties in accordance with Section 4 (4) of the Fair Trading Commission Act CAP. 326B which states that:

“The Commission shall, in performing its functions under subsection (3) (a), (b), (d) and (f) consult with the service providers, representatives of consumer interest groups and other parties that have an interest in the matter before it.”

SERVICES TO BE REGULATED

Section 39 (5) of the Telecommunications Act, CAP.282B sets out the criteria by which the Commission should determine which services and rates should be subject to regulation by the Commission under the Price Cap.

This section states that:

“The Commission shall regulate the rates to be charged by a provider in respect of regulated services only where

- (a) there is one provider providing that service;*
- (b) the Minister finds as a question of fact under subsection (6)*
 - (i) there is a dominant provider, or*
 - (ii) the market is not sufficiently competitive.”*

Under Statutory Instrument (S.I.) No. 108 Telecommunications (Regulated Services) Order 2003, the following categories of telecommunications services were determined to be subject to regulation by the Commission:

- (a) International telecommunications services;
- (b) Domestic voice telecommunications services;
- (c) Services in respect of interconnection charges;
- (d) Leased circuits; and
- (e) International simple resale.

The Unregulated Services Policy of the Ministry of Energy and Public Utilities dated November 11, 2003 specifies that all other telecommunications services will be unregulated. These include but are not limited to:

- (a) Mobile Retail Services;
- (b) Internet Retail Services; and
- (c) Customer Premises Equipment (CPE).

APPENDIX 2

Examples of Price Changes⁵

Basket 1

Residential Fixed Line Access (Includes 15% VAT)

	2004/2005	2005/2006	2006/2007	2007/2008
Tariff	\$32.20	\$34.45	\$36.86	\$39.44

Examples of Basket 2 (Prices Include VAT ?)

	Old price	New Price/\$
Payphone Local	\$0. 25 for 3 minutes	\$0.25 for 5 minutes
Change number advisory (residential)	\$11.23	\$9.99
Line Fax	\$90.56	\$90.00
Line - Business Exchange	\$94.01	\$92.00
Line - PBX Trunk	\$116.44	\$115

Examples of Basket 3 Price Changes 2004-2007

International Direct Dialed Residential Rates (Inclusive 15% VAT)

Country	Old Price Daytime	New Price Daytime	Old Price Evening	New Price Evening	Old Price Evening	New Price Evening
Cuba	\$1.30	\$2.30	\$0.99	\$1.99	\$0.80	\$1.80
Martinique	\$0.80	\$1.30	\$0.45	\$0.99	\$0.30	\$0.80
Suriname	\$1.99	\$0.99	\$1.49	\$0.80	\$0.99	\$0.65
Guyana	\$0.80	\$0.99	\$0.45	\$0.80	\$0.30	\$0.65

⁵ This is a sample and is not a full listing of the price changes that have occurred during the Price Cap Plan.

International Digital Private Leased Circuit (Inclusive 15% VAT)

Speed 128 kbps

Country	Old Price	New Price*
U.S.A	\$10,764	\$2,415*
Canada	\$10,764	\$4,347
Jamaica	\$8, 570	\$3,856

**Prices are for half circuits from Barbados and do not include cost of local loop or installation.*

APPENDIX 3

API Formula

Equation (2) = $API_t^k = API_{t-1}^k \alpha$

α the ratio of the price charged by the Company for service (i) in year (t), to last year's (t-1) price, weighted by that service's relative proportion of the total revenue for the related basket of services

Therefore:

$$\alpha = \left[\sum_{i=1}^n \left(\frac{p_t^i}{p_{t-1}^i} \right) \frac{r_{t-1}^i}{R_{t-1}^k} \right]$$

Therefore:

$$API_t^k = API_{t-1}^k \left[\sum_{i=1}^n \left(\frac{p_t^i}{p_{t-1}^i} \right) \frac{r_{t-1}^i}{R_{t-1}^k} \right]$$

API_{t-1}^k the Actual Price Index for basket k at time t-1

$\left[\sum_{i=1}^n \right]$ Sum over all (n) services in basket k

p_t^i Unit price of service i during time t

p_{t-1}^i Unit price of service i during time t-1

r_{t-1}^i revenue for service i (i.e. price of i times quantity of i) during time t-1

R_{t-1}^k revenue for basket k (sum of prices times quantities for all (n) services in basket k) during time t-1

APPENDIX 4

List of Price Cap Regulated Service and Assigned Baskets

Date April 1, 2005

<u>Basket</u>	<u>Price Cap Service Name</u>	<u>Service Description</u>
<i>Residential Access</i>		
1	Residential fixed-line access	Residence Exchange Line
<i>Domestic Voice Telecommunications</i>		
<u>Basket</u>	<u>Price Cap Service Name</u>	<u>Service Description</u>
2	Non-residential fixed-line access	Business Exch. Line
2	Non-residential fixed-line access	Business Automatic Universal Line
2	Non-residential fixed-line access	112 Emergency Lines
2	Non-residential fixed-line access	Smart Ring Line Only
2	Non-residential fixed-line access	800 Service Line
2	Non-residential fixed-line access	Charity Exchange Line
2	Non-residential fixed-line access	Directory Number Hunt Exchange Line
2	Non-residential fixed-line access	Direct Inward Dialling Channel via T1
2	Non-residential fixed-line access	Special Translation Line
2	Non-residential fixed-line access	Pay Station Exchange Line
2	Non-residential fixed-line access	Public Pay Station (Sub-Owned)
2	Non-residential fixed-line access	Card Phone Exchange Line
2	Non-residential fixed-line access	Business Extension
2	Residential fixed-line access	Residence Extension
2	Non-residential fixed-line access	Direct Exchange Line Company
2	Non-residential fixed-line access	Facsimile Line
2	Non-residential fixed-line access	Facsimile Line Stepping
2	Non-residential fixed-line access	Change Number Advisory
2	Non-residential fixed-line access	Additional Directory Listing
2	Non-residential fixed-line access	Intercept to Operator
2	Non-residential fixed-line access	Change of Address
2	Non-residential fixed-line access	Change of Billing Address
2	Non-residential fixed-line access	Unlisted Number
2	Non-residential fixed-line access	Change Unlisted to Listed
2	Non-residential fixed-line access	Callback Service Overseas per Line
2	Non-residential fixed-line access	Debar Overseas Calls per Line
2	Non-residential fixed-line access	Remove Debar on Overseas calls

2	Non-residential fixed-line access	Tracing Nuisance Calls
2	Non-residential fixed-line access	Install Authorisation Code
2	Non-residential and residential fixed line installation	Business Line Installation
2	Non-residential and residential fixed line installation	Residential Line Installation
2	Non-residential and residential fixed line installation	PBX/Key Systems Line Installation
2	Non-residential and residential fixed line installation	Fax Line Installation
2	Non-residential and residential fixed line installation	Government Line Installation
2	Non-residential and residential fixed line installation	Other Telecoms -Reconnection
2	Non-residential and residential fixed line installation	Temporary Disconnection
2	Domestic payphone	Coin Phone Call Revenue
2	Domestic payphone	Pay and Card Phones Other Domestic Revenue
2	Value Added Services	Micro Telemax
2	Value Added Services	Call Name, Number, M9316
2	Value Added Services	Call Name, Number, Interlude
2	Value Added Services	Magic Touch Platinum Interlude
2	Value Added Services	Magic Touch Platinum Max(M9316)
2	Value Added Services	Platinum Interlude
2	Value Added Services	Magic Touch Gold Interlude
2	Value Added Services	Magic Touch Gold Max (M9316)
2	Value Added Services	GoldMax(M9316)
2	Value Added Services	Magic Touch Silver Max (M9316)
2	Value Added Services	Silver Interlude
2	Value Added Services	Silver Max (M9316)
2	Value Added Services	Platinum Max (M9316)
2	Value Added Services	Distinctive Ring Call Waiting
2	Value Added Services	Selective Call Acceptance
2	Value Added Services	Selective Call Rejection
2	Value Added Services	Auto Busy Call Back
2	Value Added Services	Auto Recall
2	Value Added Services	Selective Call Forwarding
2	Value Added Services	Interlude Display
2	Value Added Services	Call Number, Interlude
2	Value Added Services	Call Number Block
2	Value Added Services	Vanity Name
2	Value Added Services	Magic Touch Silver Prevue
2	Value Added Services	Call Name, Number, Cobra
2	Value Added Services	Call Number, Fanstel
2	Value Added Services	Call Name, Number, Teledex
2	Value Added Services	Caller Name & Number M9316CW
2	Value Added Services	Call Wait, Forward, 3way, Speed,3Smart Ring
2	Value Added Services	Call Wait, Forward, 3way, Speed,2Smart Ring
2	Value Added Services	Call Wait, Forward, 3way, Speed,1Smart Ring
2	Value Added Services	Call Wait, Forward, 3-Way, 3 Smart Ring
2	Value Added Services	Call Wait, Forward, 3-Way, 2 smart Ring

2	Value Added Services	Call Wait, Speed Call, 1 Smart Ring
2	Value Added Services	Call Wait, Forward, 3 Smart Ring
2	Value Added Services	Call Wait, Forward, 2 Smart Ring
2	Value Added Services	Call Wait, Forward 1 smart Ring
2	Value Added Services	Call Wait, 3-Way, 3 Smart Ring
2	Value Added Services	Call Wait, 3-Way, 2 Smart Ring
2	Value Added Services	Call Wait, 3-Way, 1 Smart Ring
2	Value Added Services	Call Forward, 1 Smart Ring
2	Value Added Services	3-Way Calling, 1 Smart Ring
2	Value Added Services	Call Wait, 3 Smart Ring
2	Value Added Services	Call Wait, 2 Smart Ring
2	Value Added Services	Call Wait, 1 Smart Ring
2	Value Added Services	Smart Ring 3
2	Value Added Services	Smart Ring 2
2	Value Added Services	Smart Ring
2	Value Added Services	Call Wait, Forward, 3-Way, Speed Call
2	Value Added Services	Call Wait, Call Forwarding
2	Value Added Services	Call Wait, Speed Calling
2	Value Added Services	Speed Call, 2 Smart Ring
2	Value Added Services	Speed Call
2	Value Added Services	3-Way Calling
2	Value Added Services	Call Forward
2	Value Added Services	SR SDN 2
2	Value Added Services	SR SDN 3
2	Value Added Services	Call Waiting
2	Value Added Services	Speed Call, 2 Smart Ring
2	Value Added Services	Call Wait, 3-Way Calling
2	Value Added Services	Debar
2	Value Added Services	Cancel Call Waiting
2	Value Added Services	SmartChoice Plan A
2	Value Added Services	SmartChoice Plan B
2	Value Added Services	SmartChoice Plan C

International Telecommunications Services

<u>Basket</u>	<u>Price Cap Service Name</u>	<u>Service Description</u>
3	Fixed outgoing international	USA Fixed Line Internat'nl Call Rev.
3	Fixed outgoing international	EUROPE Fixed Line Int'nl Call Rev.
3	Fixed outgoing international	CW Caribbean Fxd Line Intrnl Call Rev
3	Payphone international	Payp'ne Intl
3	Fixed outgoing international	Enhanced Fax
3	Fixed outgoing international	Inmarsat
3	Fixed outgoing international	1800 International Call

3	Fixed outgoing international	Smart Choice Resident Discount Given
3	Fixed outgoing international	Talk Away Discounts Given
3	Fixed outgoing international	1010335 Discounts Given
3	Fixed outgoing international	1010269 Discounts Given
3	Fixed outgoing international	Business Volume Discounts Given
3	International private leased circuits	Int'l Leased Circuits
3	International private leased circuits	VSAT
3	Cards International	Cards Intl Call Rev.
3	Call Centre PSTN International Call	Operator Person-Person
3	Call Centre PSTN International Call	Operator Station-Station

Other Services (Not subject to PCI compliance)

<u>Basket</u>	<u>Price Cap Service Name</u>	<u>Service Description</u>
4	Operator Assistance-Domestic Voice Calling	Operator Service
4	Emergency-Domestic Voice Calling	Emergency Service
4	Domestic private leased circuits	National Leased Circuit
4	Domestic private leased circuits	All Private Wire
4	Telegraph	Other Telecoms -Telegraph
4	Telex	Telex
4	Voicemail	Customer Mail Box
4	Voicemail	Voice Mail, Call Forward Don't Answer (CFDA), With Number
4	Voicemail	Voicemail Express Message (Residence)
4	Voicemail	Voicemail Access Directory Number
4	Voicemail	Voice Call Forward Busy
4	Voicemail	Voice Menu
4	Voicemail	Voice Announcement
4	Voicemail	Voice Call Forwarding Don't Answer
4	Business internal voice network service	Comnet Band 1
4	Business internal voice network service	Comnet Band 2
4	Business internal voice network service	Comnet Band 3
4	Business internal voice network service	Comnet Band 4
4	Business internal voice network service	Line - Comnet Band 1 Stepping
4	Business internal voice network service	Line - Comnet Band 2 Stepping
4	Business internal voice network service	Line - Comnet Band 3 Stepping
4	Business internal voice network service	Line - Comnet Band 4 Stepping
4	Business internal voice network service	Centrex
4	Business internal voice network service	Pabx Trunk Line via T1
4	Business internal voice network service	Pabx Ext - Via T1
4	Business internal voice network service	DID PABX Ext
4	Business internal voice network service	Line - Key System Stepping via T1
4	Business internal voice network service	Sub-Owned Trunk Lines
4	Business internal voice network service	Pabx Trunk Line

4	Business internal voice network service	Direct Inward Dialling Trunk (PBX)
4	Business internal voice network service	Business Exchange Line Conn to Pabx

