



Fair Trading Commission

PRICE CAP PLAN 2012

COMPLIANCE RULES AND PROCEDURES

Document No.: FTC/UR/DEC/2012-02

Date: May 22, 2012

PART 1 - INTERPRETATION

1. Interpretation

“Actual Price Index (API)” has the meaning as set out in Rule 8.3;

“Bundle Offerings” may either include a combination of regulated services or a combination of regulated and unregulated services;

“Commission” means the Fair Trading Commission;

“Company” means Cable & Wireless (Barbados) Limited;

“Exogenous factor (Z-Factor)” is a correction factor included in the price cap formula to adjust the PCI in response to an unforeseen event outside the control of the Company that negatively affects its income;

“Inflation Factor” means the Retail Price Index (RPI) as given by the Barbados Statistical Service.

“Period” means a period during the Price Cap Plan 2012 as set out in Rule 4.1;

“Price Cap Index” (PCI) has the meaning set out in Rule 8.4;

“Price cap period” means the period during which the Price Cap Plan 2012 shall apply as set out in Rule 4.1;

“Rates” has the meaning assigned to it by Section 2 of the Utilities Regulation ACT CAP. 282;

2. These Price Cap Plan 2012 Compliance Rules and Procedures herein after referred to as “Rules” apply to the implementation and operation of the Price Cap Plan 2012 and are in turn applicable to the Company.

3. Where these Rules are silent on any matter of procedure in relation to Price Cap proceedings before the Commission, the procedure to be applied shall be determined by the Commission. The Commission may consult with the Company on such procedures to ensure that there are no conflicts with these Rules and the Utilities Regulation (Procedural) Rules 2003 and the Utilities Regulation (Procedural Amendment) Rules 2009.

PART II - THE PRICE CAP PLAN

4. General

4.1 The Price Cap Plan 2012 (PCP2012) which shall be applied by the Commission for a term of three (3) years in the regulation of retail telecommunications services provided by the Company and which are deemed to be regulated services subject to the Telecommunications (Regulated Services) Order 2006.

The periods of the PCP2012 are:

Period 1: April 1, 2012 through March 31, 2013

Period 2: April 1, 2013 through March 31, 2014

Period 3: April 1, 2014 through March 31, 2015

4.2 Changes in the rates of a regulated telecommunications retail service subject to the PCP2012 will be deemed to be approved where the proposed change complies with the PCP2012.

4.3 It is not intended that the PCP2012 be amended. However, in exceptional circumstances where there is a need to amend the PCP2012 this shall be done pursuant to Rule 14 of the Rules which sets out procedures for consultation between the Commission, the Company and other interested parties including the general public.

4.4 Going in rates for the PCP2012 shall be the rates existing at March 31, 2012 which was the end of the end of the Price Cap Plan 2008 (PCP2008). The procedures for effecting and notifying price changes are set out in these Rules.

5. Services Subject to Price Regulation under the PCP2012

5.1 The services to be regulated under the PCP2012 include only those retail services specified as being subject to regulation in the Statutory Instrument S.I. No. 5 - Telecommunications (Regulated Services) Order 2006 namely:

- (a) International telecommunications services;
- (b) Domestic voice telecommunications services; and
- (c) Leased circuits.

5.2 Subject to revision of the above referenced Telecommunications (Regulated Services) Order the following categories of services will be regulated under the PCP2012:

- (a) Residential fixed line access rental service;
- (b) Non-residential fixed line access rental service;
- (c) Non-residential and residential fixed line installation;
- (d) Domestic payphone service;
- (e) Value Added Services;
- (f) Residential and Business International Telephone Service;
- (g) International cards;
- (h) International toll-free;
- (i) International Private Leased Circuits;
- (j) Domestic private leased circuits;
- (k) Call centre international calls;
- (l) Operator assistance;
- (m) Voicemail;
- (n) Business voice network service e.g. Centre; and
- (o) Emergency.

- 5.3 The Minister responsible for telecommunications may conduct market reviews and determine that a particular service should no longer be regulated.
- 5.4 The list of categories of services set out at Rule 5.2 shall be revised by the Commission on publication of a revised Telecommunications (Regulated Services) Order by the Minister. Where the Minister makes a determination that a telecommunications service included in the PCP2012 is an unregulated service, the Commission shall remove that telecommunications service from the PCP2012 and shall no longer require the service to be included in the Annual Compliance Filing for the next price cap period and the calculation of the API will exclude the service.
- 5.5 The following services shall not be subject to price cap regulation:
- (a) wholesale telecommunications services (including):
 - (i) charges in respect of interconnection charges;
 - (ii) international simple resale.
 - (b) bundled services as noted in Rule 7.4(iv)
 - (c) other retail services that are not identified as regulated in the Telecommunications (Regulated Services) Order, 2006 or any revised Telecommunications Regulated Services Order that may be issued by the Minister responsible for telecommunications.

PART III – BASKET STRUCTURE AND PRICING CONSTRAINTS

6. Basket structure

6.1 The PCP2012 shall be based on two service baskets which represent “competitive” and “non-competitive” services. In addition there will be a sub-cap on residential access services being a subset of the ‘non-competitive’ services. A detailed list of services and basket assignments is provided in Schedule 1. An example of the assignment of some service categories is set out below:

Basket 1: This basket includes all regulated services for which the level of competition is sufficient to ensure that prices are reflective of a competitive market outcome. These services include international call services, international private leased circuits (IPLCs) and business voice network services.

Basket 2: This basket will include all remaining regulated services, i.e., all regulated domestic voice access, ancillary services and domestic private leased circuits (DPLCs).

7. Price controls applied

7.1 In Period 1 a moratorium has been placed on all regulated prices whereby no regulated prices will be increased between April 1, 2012 and March 31, 2013.

7.2 In Period 2 and Period 3 of the PCP2012 different price controls are applied to each basket, reflecting the degree of competitive constraint on the Company’s pricing behaviour:

Basket 1: Services in Basket 1 will not be subject to a price cap control.

Basket 2: An RPI-X pricing control will be applied to Basket 2 services, with the X-factor set at 5.25%.

- 7.3 Residential access services, which are a subset of services included in Basket 2, will be subject to an additional pricing constraint to the general 'RPI-X' price cap for that Basket. In Period 2 and in Period 3 the prices for each of these services cannot be increased by more than the Inflation factor up to a maximum of 5% per annum.
- 7.4 Residential access services include all fixed-line access and installation services provided by the Company to residential customers.
- 7.5 When the Company chooses not to raise its prices to the maximum allowable level the PCI will exceed the API and headroom is created. In the subsequent year the Commission has the option of permitting the Company to retain this headroom and therefore the Company would have the opportunity to implement price increases that exceed the relevant difference between inflation and the X-factor (i.e. I-X) for that year. This option is known as carry-over of headroom.
- 7.6 The option of headroom from one period to another allows the Company greater flexibility in terms of the timing of its rate changes. This option allows the Company to delay legitimate rate increases if it so desires.
- 7.7 For Basket 2 the Company will be allowed to carryover any unused headroom from Period 2 to Period 3. However in accordance with the PCP2012 Decision on the sub-cap on residential services, the Company will not be allowed to apply any carryover of headroom to residential services 3.
- 7.8 The treatment of particular services under the PCP2012 is set out below:
- i. **Services currently not charged** - In order to establish a price for a regulated service which is currently provided without any charge, the Company shall give justification for the proposed application of a tariff to this service. The notice of establishment of a charge must be submitted to

the Commission 20 business days before the proposed effective date. The Commission shall review the information submitted and may require the Company to modify its proposal in the event that the Commission considers that the rate or associated terms are not fair or reasonable. If deemed to be a regulated service it will be placed in Basket 1 until the next price cap period.

- ii. New services** - Where a new retail service not previously supplied to the public by the Company is introduced during the price cap term, that service shall not be included in the PCP2012 unless deemed by the Minister responsible for telecommunications to be a regulated service in accordance with the Telecommunications (Regulated Services) Order.

Where the new service is deemed to be regulated, it shall be included in Basket 1.

- iii. Promotions** - Promotional rates including promotional discounts for services subject to the PCP2012 may not be included in the calculation of the API for compliance purposes, except where such discounts are offered to all customers who qualify for that service.
- iv. Bundled Services** - When the Company introduces any new bundled offering after the start of the PCP2012, such offering shall not count towards compliance of the API. However, the individual rate elements and quantities (excluding new regulated services) of the bundled offering, as provided on a stand-alone basis, shall continue to count towards compliance of the API.

PART IV - THE PRICE CAP FORMULA

8 The Price Cap Formula

8.1 The price cap formula is applicable to the regulation of regulated retail services provided by the Company which are contained in Basket 2 of the PCP2012.

8.2 The price cap formula specifies that the Actual Price Index (API), which represents changes in prices charged by the Company for the services contained in Basket 2, over a particular period (t), must be less than or equal to the Price Cap Index (PCI).

$$API_t \leq PCI_t$$

8.3 The API for Basket 2 is calculated as follows:

$$API_t = API_{t-1} \alpha$$

and alpha α is defined as follows:

$$\alpha = \left[\sum_{i=1}^n \left(\frac{\overline{P}_t^i}{\overline{P}_{t-1}^i} \right) \frac{r_{t-1}^i}{R_{t-1}} \right]$$

Where:

API_{t-1} is the Actual Price Index for Basket 2 during time period t-1;

$\left[\sum_{i=1}^n \right]$ represents the sum of all (n) services in Basket 2;

\overline{p}_t^i is the average price for service i during the current period t (i.e., the average of the prices as of the first day of each month during the current period);

\overline{p}_{t-1}^i is the average price of service i during time period t-1 (i.e., the average of the prices in each month during that period);

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

R_{t-1} is the total revenue for Basket 2 (i.e., the sum of prices times quantities for all (n) services in Basket 2) during time period t-1.

In line with Rule 7.9, the API calculations will take into account quantities from all services contained in Basket 2, excluding those from new stand-alone and bundled services.

8.4 The PCI for Basket 2 is calculated as follows:

$$PCI_{t-1} (1 + I_t - X_t + Z_t) = PCI_t$$

Where:

I denotes the Inflation Factor as described in paragraph 9.2;

X denotes the Productivity Factor described in paragraph 9.3; and

Z denotes the Exogenous Factor described in paragraph 9.4.

9. Components of the Price Cap Formula

9.1 The PCI is composed of three components. These are the Inflation (I) Factor, the Productivity (X) Factor, and the Exogenous (Z) Factor.

I - Factor

9.2 The annualised inflation rate for Barbados published by the Barbados Statistical Office shall be used as the I-Factor in calculating the PCI. This inflation rate is derived from the monthly Retail Price Index (RPI) for Barbados. When setting updates to the PCI, the Commission shall use the most recently published, annualised inflation rate (i.e., the change in RPI over the latest twelve (12) months available at the start of the price cap period). To ensure consistency in compliance monitoring, this annualised rate shall also be applied by the Company when filing its Annual Compliance Filing and Rate Increase Filing during that year, as set out in Rule 11.

X-Factor

9.3 The X-Factor for Basket 2 for Period 2 and Period 3 of the PCP2012 will be set at 5.25%.

Z - Factor

9.4 The Company, in response to an unforeseen event which the Company considers may negatively affect its income, may apply to the Commission for an Exogenous Z-factor to be included within the Price Cap Formula. The Commission may allow this but only after conducting a public consultation on the issue.

9.5 The Commission will consider filings by the Company 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.

9.6 Without limiting the generality of 9.4 and 9.5, the Commission has determined that a Z-factor adjustment shall be considered for inclusion in the PCI where any one 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 Plan.

9.7 The Z-Factor shall be set at zero for the calculation of the PCI until and unless a Z-Factor adjustment is proposed to the Commission and accepted by the Commission in accordance with filing rules 11.10 to 11.12 contained herein.

10. Sub-cap formula for Residential Access Services

10.1 Residential access services are subject to an additional pricing constraint set out in Rule 7.3. Compliance towards this additional pricing constraint will be measured based on the following formula:

$$API_t^{RA} \leq PCI_t^{RA}$$

Where:

API_t^{RA} represents the price index of residential access services in period t ; and

PCI_t^{RA} is equal to API_{t-1}^{RA} uplifted by the allowable price change of residential access services in period t (i.e., $API_{t-1}^{RA} * (1 + I_t)$ or $API_{t-1}^{RA} * (1.05)$ if Inflation that year exceeds 5% (i.e., $I_t > 5\%$).

10.2 The API_t^{RA} is calculated based on the following formula:

$$\left[\sum_{i=1}^n \left(\frac{\overline{p}_t^i}{p_{t-1}^i} \right) \frac{r_{t-1}^i}{R_{t-1}^{RA}} \right]$$

Where:

$\left[\sum_{i=1}^n \right]$ represents the sum of all (n) residential access services;

\overline{p}_t^i is the average price for residential access service i during the current period t (i.e., the average of the prices of these services as of the first day of each month during the current period);

\overline{p}_{t-1}^i is the average price of residential access service i during time period t-1 (i.e., the average of the prices of these services as of the first day of each month during that period);

r_{t-1}^i is the revenue for residential access service i (i.e. the price of i times quantity of i) during time period t-1; and

R_{t-1}^{RA} is the total revenue for residential access services (i.e., the sum of prices times quantities for all (n) residential access services) during time period t-1.

In line with Rule 7.7, the API calculations will take into account quantities from all residential access services, excluding those from new stand-alone and bundled services.

PART V - FILING AND REPORTING REQUIREMENTS

11. Compliance Filing

- 11.1 **Annual Compliance Filing:** On March 1st of each period of the PCP2012, that is, one month before the start of each new period, the Company shall file with the Commission, the API for the relevant service baskets. This filing shall be recorded as the Annual Compliance Filing (ACF).
- 11.2 The ACF allows the Commission to measure the degree of compliance by the Company in each year - that is whether the API for Basket 2 is equal or less than the PCI for that period, as well as whether any price changes for residential access services are in line with Rule 7.3 and Rules 10.1 to 10.2.
- 11.3 Additionally, the Company will be permitted to increase tariffs no more than once in any 12-month period and will use the annual filing to determine the extent to which the Company has accumulated headroom for Basket 2 services in the last two years of the PCP2012. This is illustrated in Schedule 2. There will be no carryover of headroom for the additional control on residential access services.
- 11.4 The ACF shall be in the format set out in Schedule 2.
- 11.5 **Rate Increase Compliance Filing:** Subject to the Rules, the Company may increase or decrease its rates for Basket 2 services based on the following procedure.
- 11.6 After the price moratorium has expired on 31 March 2013, the Company is permitted to increase each tariffed service within Basket 2 once in each of the remaining two price control periods. For any price increase, the Company must file a Rate Increase Compliance Filing (RICF) with the Commission.

- 11.7 A RICF must contain the proposed rate changes, a recalculation of the Basket's API reflecting any proposed rate changes, and a demonstration that the new API is less than or equal to the corresponding PCI ($API < PCI$).
- 11.8 Supporting documentation for API calculations in an RICF shall include all service price elements, and the associated revenues established in the most recent ACF. The Company must also provide documentation for price changes involving special treatment, including but not limited to, the introduction of volume or contract term discounts.
- 11.9 The RICF shall be in the same format as the ACF, set out in Schedule 2.
- 11.10 **Exogenous Factor Filing:** Should the Company consider that an exogenous event has occurred consistent with Rule 9.4, the Company shall file the proposed Z-factor adjustment to the PCI. Using actual data, the Company shall demonstrate the financial impact of the event, and provide evidence to prove that the event was outside of its control. At the time of filing the Company shall propose the value of the Z-factor necessary to mitigate the impact of the exogenous event.
- 11.11 The exogenous factor filing shall be submitted at least two months before the end of any period.
- 11.12 The Commission will consider the filing and if accepted, the proposed Z-factor will be included in the calculation of the PCI for the following period.

12. Notifications

- 12.1 *Rate Decreases* - The Company shall not be required to seek approval from the Commission for any proposed decrease in rates for any regulated service. The Company shall notify the Commission in writing of any proposed rate

decreases for regulated services subject to the PCP2012, no later than three (3) business days before the rate decrease takes effect. The public shall be notified no later than the same business day the rate decrease takes effect.

12.2 **Rate Increases** – With the exception of services referred to in the rule 7.8 (1), the Company shall not be required to seek approval from the Commission for any proposed increase in rates for any regulated service subject to the PCP2012. The Company shall notify the Commission of any proposed increase in rate for any regulated service subject to the PCP2012 no later than 25 business days before such rate increase takes effect. With such a proposed increase, the Company must file a RICF with the Commission, consistent with the filing and reporting requirements set out at Rules 11.5 to 11.8.

12.3 The Commission requires that for every rate increase, the Company shall advise the public by way of advertisement published in at least two editions of the daily newspapers no later than 20 business days before the date of the expected price increase.

13. **Regulatory Reporting**

- 13.1 For the duration of the PCP2012 the Company will be required to provide:
- (a) Annual Audited Statutory Financial Statements;
 - (b) Regulatory Financial Statements in summary form showing revenues, expenses, net investment, rate base, capital structure, and rate of return on mean capital employed (MCE) for the periods ending March 31, 2013 and March 31, 2014. This should include reconciliation to the audited statutory financial statements.
 - (c) Annual updated versions of the Enhanced Allocation Model (EAM) and the associated EAM Manual or any other costing model used by the Company and which is approved by the Commission.

13.2 The regulatory statements and accompanying reconciliation may be subject to a Regulatory Compliance Review which will ensure that:

- (i) the Company's rates for services regulated under the PCP2012 are set in accordance with these Rules and the PCP2012 Decision;
- (ii) the Regulatory Financial Statements reconcile to the Audited Statutory Financial Statements;
- (iii) the Regulatory Financial Statements were prepared in accordance with the Commission's guidelines where applicable; and
- (iv) the Company acts in accordance with the PCP2012 Decision, the Price Cap 2012 Compliance Rules and Procedures, the Fair Trading Commission Act, Utilities Regulation Act and Telecommunications Act.

13.3 **Filing of statements** - The Commission will require that the Company file statutory and regulatory statements as follows:

- i) Audited Statutory Financial Statements for period April 01 - March 31 by July 15 of each year.
- ii) Reconciled Regulatory Statements for period April 01 - March 31 by September 15 of each year.
- iii) The EAM should be submitted by September 15 of each year.

13.4 These filings will be reviewed by the Commission.

14. Proceedings Conducted during the Price Cap Plan

14.1 Where any matter in these Rules is required to be determined by the Commission, it shall be determined by consultation on the basis of written documentation filed by the parties, and in accordance with the procedures set out in Rule 14.

14.2 Except as set out in Rule 11, the conduct of any review under these Rules, whether on application from the Company or upon initiation by the Commission, shall be by consultation. The Commission shall notify the public

of receipt of an application or initiation of a review. It shall issue a public notice inviting the public to collect the application or consultation paper from the offices of the Commission if they wish to comment. Information submitted by the Company or any other interested party with a claim for confidentiality and which the Commission rules to be confidential information will not be made available to the public or to other parties.

14.3 Persons participating in the consultation in accordance with Rule 14.2 shall submit comments in respect of the consultation in writing to the Commission.

14.4 The Company may be provided with copies of the comments submitted by interested persons under Rule 14.3 and the Company may be permitted to reply to the comments subject to claims for confidentiality as set out at Rule 14.2.

14.5 The Commission shall consider the application, responses to the consultation paper and replies to such responses. The Commission may convene a conference of the parties to clarify the application or any comments submitted by the parties.

14.6 The Commission may convene a conference in the absence of the public or other interested parties to hear the Company on any commercially sensitive matter related to the application or consultation. Where the Company requests that any information submitted in the application or consultation should be treated as confidential, the Commission shall not disclose it. Claims for confidentiality should be made in accordance with the Utilities Regulation (Procedural) Rules 2003.

14.7 The Commission shall publish its Decision in writing giving reasons for the decision.

PART VI - END OF TERM PRICE CAP REVIEW

15. Review

- 15.1 Prior to the expiry date of the PCP2012 the Commission shall conduct a review of the PCP2012. This review will include:
- (a) an assessment of the Company's operational and financial Performance under the PCP2012; and
 - (b) a public consultation.
- 15.2 The Commission in its review will take into consideration the perceived level of competition in the industry and will determine whether there is a need to:
- a) modify the principles, indices or rules of the price cap regime; or
 - b) consider alternative forms of incentive regulation.
- 15.3 The Commission will be guided by any policy issued by the Ministry responsible for Telecommunications with respect to the services to be regulated.

Assessment of the Company's regulatory and financial performance

- 15.4 Nine (9) months prior to the scheduled end of a PCP2012 the Company shall file a report outlining the extent to which specific competition-related, general economic and social developments in the industry have had an impact on its performance during the price cap period, and are likely to continue to do so. The report shall include quantifiable data, disaggregated into separate services and, where applicable, compare measures of the above factors for the PCP2012 to these figures for PCP2008.

15.5 By November 15, 2014, the Company shall file Unaudited Financial results in summary form, showing revenues, expenses, net investment, rate base, capital structure and rate of return on mean capital employed (MCE) for the period of this price cap plan for the half year ending September 30, 2014.

Public Consultation

15.6 Where the Commission is of the view that the price cap regime should continue following the end of this PCP2012 term as the appropriate form of incentive- based rate-setting mechanism, the Commission will issue a public consultation document inviting persons to submit comments on any proposed revisions to the structure and operation of the PCP2012 regime in accordance with Section 4 of the Fair Trading Commission Act, CAP. 326B.

15.7 Where the Commission is of the view that price cap regulation is not the appropriate form of regulation the Commission shall consult with the Company and other interested parties regarding the appropriate form of regulation that should be used for subsequent price adjustments. The Commission shall thereafter determine the type of incentive-based rate-setting mechanism that should be applied and give notice of such. The current PCP2012 shall continue until a new form of incentive regulation is established and implemented.

15.8 The Commission shall conduct a further consultation with the Company and interested persons on the structure and operation of the chosen form of incentive regulation.

16. Filing of Documents

16.1 All documents should wherever possible also be submitted to the Commission in electronic format.

SCHEDULE 1 - LIST OF REGULATED SERVICES

Basket 1 - Competitive services

<u>Price Cap Service Name</u>	<u>Detailed Description</u>	<u>Rate Element</u>
Fixed outgoing international	Residential and Business Fixed Line International Direct Dial (IDD) Call Revenue	Day Evening Weekend
Fixed outgoing international	Inmarsat	Day Evening Weekend
Fixed outgoing international	IDD 1010335	Day Evening Weekend
Fixed outgoing international	International Direct Dial (IDD) Credit Card	Set-up 3 Minute Min. Add. Min.,Day Add. Min.,Evening Add. Min., Weekend
Fixed outgoing international	International Prepaid Card Payphone International-Standard Rates IDD Smart Choice Residence Discount IDD Talkaway discounts Call Centre IDD International 1-800 Corporate Choice PSTN International Station to Station & Person to Person	
International Private Leased Lines	International Private Leased Circuits	
Operator Assistance-Domestic Voice Calling	Operator Service	
Emergency-Domestic Voice Calling	Emergency Service	
Business internal voice network service	Comnet Band 1	
Business internal voice network service	Comnet Band 2	
Business internal voice network service	Comnet Band 3	
Business internal voice network service	Comnet Band 4	
Business internal voice network service	Line - Comnet Band 1 Stepping	
Business internal voice network service	Line - Comnet Band 2 Stepping	
Business internal voice network service	Line - Comnet Band 3 Stepping	
Business internal voice network service	Line - Comnet Band 4 Stepping	
Business internal voice network service	Centrex	
Business internal voice network service	Pabx Trunk Line via T1	
Business internal voice network service	Pabx Ext - Via T1	
Business internal voice network service	DID PABX Ext	
Business internal voice network service	Line - Key System Stepping via T1	
Business internal voice network service	Sub-Owned Trunk Lines	
Business internal voice network service	Pabx Trunk Line	
Business internal voice network service	Direct Inward Dialling Trunk (PBX)	
Business internal voice network service	Business Exchange Line Conn to Pabx	
Non-residential fixed-line access	Install Authorisation Code	
Fixed outgoing international	International Operator Assistance	

Basket 2 – Non-competitive services

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

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

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

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

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

Schedule 2 - EXPLANATION OF THE PRICE CAP FORMULAE

Under the PCP2012, the price cap formulae only apply to Basket 2 (i.e., all 'non-competitive' services). Further, given the price moratorium in the first year of the PCP2008, the price cap formulae are only applicable to the last two years of the PCP2012.

The main price cap compliance calculation for Basket 2 aims to ensure that in any given year the weighted average actual price changes within Basket 2 (measured by the Actual Price Index, API) is equal or less than the allowable price changes in that basket (measured by the Price Cap Index, PCI).

Price Cap Index (PCI)

Unless an exogenous (Z) Factor applies, the PCI is last period's PCI adjusted for the retail price index of inflation (RPI) and the X-factor, which is set at 5.25%. Whereas the RPI will vary from year to year, the X-factor will remain constant over the period.

Period 1

$PCI_t = 1$ for $t = 1$ due to the price moratorium

Periods 2 and 3

$PCI_t = PCI_{t-1} (1 + RPI_t - X)$ for $t = 2$ and 3

For example, in the second year of the PCP2012, the PCI will equal: $PCI_2 = PCI_1 (1 + RPI_2 - X) = (PCI_1 + RPI_2 - 5.25\%)$, with the RPI yet to be determined.

The PCI_{t-1} term (i.e., the PCI value for the previous year) represents the carry-over provision for these services in Period 3 (i.e., the PCI in Period 3 will be take into account of the allowable price increases over both, Period 2 and 3. In case, the API in Period 2 is less than the PCI in that period, this headroom will be carried over into Period 3).

Actual Price Index (API)

The API measures the weighted average change in prices of Basket 2 services in between two periods. The index compares average prices in both Periods (i.e. the average of the prices in each month during the relevant Period) and takes into account the relative demand for each service (i.e. by applying a revenue weighting to individual price changes to derive the weighted average price change across Basket 2).

$API_t = API_{t-1} [\Sigma [(\underline{p}_t^i / \underline{p}_{t-1}^i) (q^{i_{t-1}} \underline{p}_{t-1}^i) / \Sigma (q^{i_{t-1}} \underline{p}_{t-1}^i)]]$; where:

$(\underline{p}_t^i / \underline{p}_{t-1}^i)$ represents the change in average prices of a particular service between the two periods under consideration

$(q^{i_{t-1}} \underline{p}_{t-1}^i)$ represents the revenue of a particular service during the last period

$\Sigma (q^{i_{t-1}} \underline{p}_{t-1}^i)$ represents the total revenue of all services in Basket 2 during the last period

Sub-cap on residential access services

The price moratorium also applies to residential access services (i.e. these prices are not allowed to increase during Period 1). In Period 2 and Period 3, residential access services are allowed to increase in line with inflation (i.e. RPI), up to a maximum of 5% per annum. No carryover headroom will be applied to these services (i.e., if, in Period 2, the Company decides to increase the average prices of these services by less than the allowable amount, this will not be taken into account in the price cap in Period 3).

Illustrative example of the Annual Compliance Filing template - Basket 2

Annual Compliance Check for Basket 2		Previous reporting period		Current reporting period			
		1 April 2013 - 31 March 2014		1 April 2014 - 31 March 2015			
		API _{t-1}	1.000	I-Factor	6.00%	Alpha (α _t)	1.003
		PCI _{t-1}	1.000	X-Factor	5.25%		
				Z-Factor	0.00%		
				PCI _t	1.008	API _t	1.003
				Compliance check API _t ≤ PCI _t	OK		
Regulated retail service	Rate element	TRUE	TRUE	Average price (p _t)	Price ratio (p _t) / (p _{t-1})	Revenue share (r _{t-1}) / (R _{t-1})	
		Quantities (Q _{t-1})	Average price (p _{t-1})				
Line - Residence Exchange	MRC	710,720	\$ 39.00	\$ 40.17	1.03	39.7%	
	NRC	6,960	\$ 108.00	\$ 110.92	1.03	9.9%	
Line - Residence Exchange Only	MRC	80	\$ 20.00	\$ 20.58	1.03	0.0%	
	NRC	10	\$ 44.00	\$ 45.17	1.03	0.0%	
Line - Residence Stepping	MRC	270	\$ 64.00	\$ 65.75	1.03	0.0%	
	NRC	40	\$ 108.00	\$ 110.92	1.03	0.0%	
Line - Staff/Pensioner Exchange	MRC	2,070	\$ 20.00	\$ 20.58	1.03	0.1%	
	NRC	100	\$ 108.00	\$ 110.92	1.03	0.0%	
Business Exch. Line	MRC	94,090	\$ 88.00	\$ 84.50	0.96	11.9%	
	NRC	950	\$ 108.00	\$ 110.92	1.03	0.1%	
Business Exch. Only	MRC	500	\$ 45.00	\$ 46.17	1.03	0.0%	
	NRC	140	\$ 44.00	\$ 45.17	1.03	0.0%	
Business Exch. Stepping	MRC	11,390	\$ 110.00	\$ 110.00	1.00	1.8%	
	NRC	3,180	\$ 108.00	\$ 108.00	1.00	0.5%	
DEL Line (Direct Exchange Line) (Business)	MRC	0	\$ 100.00	\$ 100.00	1.00	0.0%	
Business Automatic Universal Line	MRC	100	\$ 88.00	\$ 88.00	1.00	0.0%	
	NRC	0	\$ 108.00	\$ 108.00	1.00	0.0%	
112 Emergency Lines	MRC	60	\$ 88.00	\$ 88.00	1.00	0.0%	
	NRC	0	\$ 108.00	\$ 108.00	1.00	0.0%	
Smart Ring Line Only-Business	MRC	0	\$ 18.00	\$ 18.00	1.00	0.0%	
	NRC	0	\$ 11.00	\$ 11.00	1.00	0.0%	
Smart Ring Line Only-Residence	MRC	0	\$ 10.00	\$ 10.00	1.00	0.0%	
	NRC	0	\$ 11.00	\$ 11.00	1.00	0.0%	

Illustrative example of the Annual Compliance Filing template - Residential Access Services

Annual Compliance Check for Residential Access Services		Current reporting period 1 April 2014 - 31 March 2015				
		I-Factor Ceiling	6.00% 5.00%			
		Allowable price increase	5.00%			
		Actual price increase	2.93%			
		Compliance check	OK			
Regulated retail service	Rate element	Quantities (Q_{t-1})	Average price (p_{t-1})	Average price (p_t)	Price ratio (p_t) / (p_{t-1})	Revenue share <i>TRUE</i> (r_{t-1}) / (R_{t-1})
Line - Residence Exchange	MRC	710,720	\$ 39.00	\$ 40.17	1.03	79.9%
	NRC	63,960	\$ 108.00	\$ 110.92	1.03	19.9%
Line - Residence Exchange Only	MRC	80	\$ 20.00	\$ 20.58	1.03	0.0%
	NRC	10	\$ 44.00	\$ 45.17	1.03	0.0%
Line - Residence Stepping	MRC	270	\$ 64.00	\$ 65.75	1.03	0.0%
	NRC	40	\$ 108.00	\$ 110.92	1.03	0.0%
Line - Staff/Pensioner Exchange	MRC	2,070	\$ 20.00	\$ 20.58	1.03	0.1%
	NRC	100	\$ 108.00	\$ 110.92	1.03	0.0%

17. Issuance of Rules

17.1 These Compliance Rules and Procedures are issued under the provisions of Section 39(1) of the Utilities Regulation Act, Cap. 282 and are supplemental to the Price Cap Plan 2012 issued on the 29th day of March 2012.

Dated this 22nd day of May 2012.

Original signed by

Neville V. Nicholls
Chairman

Original signed by

Andrew Downes
Deputy Chairman

Original signed by

Gregory Hazzard
Commissioner

Original signed by

Trevor T. Welch
Commissioner