



FAIR TRADING COMMISSION

PRICE CAP PLAN 2021

DECISION

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FTC/UR/2005-01	Decision on Price Cap Mechanism	April 15, 2005
FTC/CONS/02-04	Consultation on Price Cap Mechanism	September 6, 2004

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INTERPRETATION SECTION

Actual Price Index (API) – means the actual level of prices in a service basket and should not exceed the Price Cap Index.

Annual Compliance Filing (ACF) – means the formal compliance document in which prices (and historically, volumes) are recorded for those services that are subject to a price cap during each relevant Price Cap Period, for the purpose of measuring compliance in that period.

C&W (Barbados) – means Cable and Wireless (Barbados) Limited, the regulated provider of domestic and international telecommunications services, pursuant to Utilities Regulation Order S.I. 2014 No. 65 and the Barbados subsidiary of Cable and Wireless Communications Plc.

Consultation – means the public consultation paper on the PCP 2016 review issued by the Commission on September 8, 2020 (FTC/UR/CONPCP/2020-02).

Enhanced Allocation Model (EAM) – means the formal detailed regulatory model containing financial information pertaining to Regulated Services, specifically the allocation of costs and revenues across Regulated Services, which the Company has historically been required to submit to the Commission each year.

Exogenous Factor (Z Factor) – means a component of the price cap formula that incorporates a change, specific to the telecommunications industry that has a material impact on the regulated telecommunications provider, resulting from actions which are beyond the control of the provider.

Fair Trading Commission – means the Fair Trading Commission (also known as the Commission, or FTC), the body responsible for consumer protection, fair competition and utilities regulation in Barbados.

Inflation Factor (I Factor) – means the percentage change in the retail price index (RPI) between two (2) periods.

Price Cap Index (PCI) – means the constraint that specifies the maximum level of aggregate price change for a service basket. The PCI within the PCP 2021 consists of an inflation factor (I) and a productivity offset (X).

Price Cap Plan Compliance Rules and Procedures – means the formal document setting out the official set of rules and procedures which the Company must follow in relation to the Price Cap Plans set by the Commission and which are published separately.

Productivity Offset (X Factor) – means the target productivity to offset the inflation rate in the price cap formula.

Rate Increase Compliance Filing (RICF) – means the formal document which the Company must submit to the Commission in the event it wishes to increase the prices of relevant Regulated Services.

Regulated Services – means the utility services designated by the Minister pursuant to the Telecommunications (Regulated Services) Order S.I. 2006 No. 5.

Service Baskets – means a group of services subject to pricing constraints in the Price Cap Plan.

EXECUTIVE SUMMARY

The Fair Trading Commission has determined that the new Price Cap Plan 2021 (PCP 2021), as detailed within this Decision, will govern the adjustments of rates of regulated telecommunications services (Regulated Services) of C&W (Barbados) (hereinafter referred to as the Company) from **April 1, 2021 to December 31, 2024**. **This will supersede the current Price Cap Plan, which was introduced in April 2016 and will remain in force until the PCP 2021 comes into effect.**

Price Cap Structure and Price Controls

The PCP 2021 will be based on two (2) service baskets, one for 'competitive' services and the other for 'non-competitive' services. Neither basket will be subject to an overall price cap. However, there will be a price cap on standard standalone fixed telephony services, inclusive of value-added services. The specific services subject to the price cap are outlined below.

Basket 1 - 'Competitive' Services

This basket will include all Regulated Services for which the level of competition is deemed to be sufficient to prevent excessive pricing by the Company. These services will not be subject to an overall price cap; however, the advance notification requirements as set out in the forthcoming PCP 2021 Compliance Rules and Procedures will be in place.

Basket 2 - 'Non-competitive' Services

This basket will include all remaining Regulated Services (i.e., all regulated domestic voice, fixed access, associated value-added services and domestic private leased circuits).

During the PCP 2021, prices across these services will not be subject to an overall price cap. Rather, only standard standalone fixed telephony services will be subject to a price cap, with the prices of other services uncapped, as described below. However, since the Commission considers all services within this basket to remain non-competitive, the Commission will continue to monitor the evolution of market conditions (including prices

and demand) and may introduce price regulation on these services in future, if deemed necessary.

Price cap on standard standalone fixed telephony services

The Commission has determined that a price control should be applied only to standard standalone fixed telephony services including value-added services, taking account of the need to protect the consumers of these services and with the further objective of acting as a constraint on the price of the Company's other fixed telephony services. The services subject to the price constraint are listed as follows:

Residential.

- a) Unlimited Local Calling
- b) Call Waiting
- c) Voicemail
- d) Caller ID
- e) Call Forwarding

Business.

- a) Unlimited Local Calling
- b) Call Forwarding
- c) Automated assistance for customers

In each year, the Company's ability to raise the prices of these services will be restricted, such that annual price increases will be below or equal to the level of inflation, or 3% a year in case inflation exceeds 3% during that year. In case of a negative inflation rate in any given year, the allowable price increase in that year will be set to zero.

Price Cap Formula

The price cap formula sets the maximum allowable annual price change across the price-capped services.

The formula applied under the PCP 2021 remains similar to the price cap formula underlying the previous price cap plan, with the exception that the exogenous Z Factor has been removed. The price cap formula allows the Company to change its retail prices for

price-capped services (i.e., the Actual Price Index, API) by no more than the predetermined Price Cap Index (PCI).

The PCI for each year (t) is calculated as

$$PCI_t = PCI_{t-1}(1 + I_t - X_t), \text{ where}$$

I is the inflation factor (i.e., RPI); and

X is the productivity factor.

The overall cap for the price-capped services will be set at the level of inflation, implying an X Factor equal to zero.

Consultation Process

The Commission utilised the public consultative process as the means of ensuring full participation in the development of the Price Cap Plan. The Commission also had an extensive discussion of the various issues with the Company prior to the public consultation. The consultation period began on Wednesday, September 16, 2020 and ended on Monday, October 12, 2020. The Commission invited 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 (NGOs), consumer representatives, residential consumers, businesses of all sizes and their representatives, the academic community and all other stakeholders. The Commission now takes this opportunity to thank all respondents for their participation.

INTRODUCTION

1. The Commission first established a price cap framework to replace the rate of return as a system for the economic regulation of C&W (Barbados) (the Company)'s Regulated Services in 2005. 66
2. At the time of its inception, the first price cap framework was designed to ensure that customers continued to have access to regulated telecommunications services at “just and reasonable” rates. This was in an effort to incentivise the Company to operate more efficiently over time and pass on cost savings to consumers, while providing flexibility for the Company in its pricing of individual services and allowing it to earn a fair return on its investments.
3. The Commission's Decision at the time (FTC/UR/2005-01) included provisions for a review of each Price Cap Plan prior to its conclusion. This is to allow the Commission to reconfirm the ongoing need for and resulting scope of any price cap regulation going forward.
4. The last such review occurred in 2016 (i.e., at the time of the expiry of the Price Cap Plan 2012), giving rise to the PCP 2016. The PCP 2016 was initially set to cover the period from April 1, 2016 to March 31, 2019. This was first extended to December 31, 2019, following a change in the Company's financial year, then again (until further notice from the Commission) to allow for completion of the PCP review process.¹ The Commission commenced its review of the said mechanism in November 2019.
5. Over the course of the various PCP reviews, the parameters within the price cap, as well as its objectives, have changed along with broader regulatory objectives and technological change. As the sector has evolved in Barbados, the Commission has sought to adjust the focus of its regulation accordingly by, for example, reassessing

¹ Source: Commission update – Extension of Price Cap Plan 2016, 11 October 2019
https://www.ftc.gov.bb/index.php?option=com_content&task=view&id=371&Itemid=1

which Regulated Services it considers to be competitive and by imposing sub-caps on specific services.

6. In recent years, the Commission has identified that an ever-decreasing group of customers continues to choose standalone fixed telephony services, as many others choose to take bundled fixed telephony and broadband services, including offerings from Digicel. However, there remains a group of customers who require only fixed telephony services and/or demand services outside Digicel's network footprint.
7. These customers, who are particularly reliant on the Company to provide their fixed telephony services, are more susceptible to becoming disadvantaged in the absence of price regulation as a result of the Company's enduring market power in the provisioning of these services. They therefore continue to require a degree of protection by means of price regulation. Although the objectives and focus of the price cap have changed over time and now apply to a narrower set of Regulated Services, the framework remains adequate and fit for purpose, as described in Section 2.

LEGISLATIVE FRAMEWORK

8. Under Section 4(3)(a) of the Fair Trading Commission Act, CAP.326B, the Commission is charged with the 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.
9. Further, in Section 39(1) of the Telecommunications Act, CAP.282B (TA), it states that the Commission shall:

"establish a mechanism for the setting of rates to be charged by a provider in accordance with the provisions of this Act, the Fair Trading Commission Act and the Utilities Regulation Act."
10. The TA also states in Section 39(2) that the rates should facilitate the policy of market liberalisation and competitive pricing.

11. 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.”

REVIEW PROCESS

12. In line with previous review processes, this Price Cap Review process sought to assess the continued need for ex-ante price regulation of Regulated Services. This included an assessment of the Company’s recent regulatory and financial performance and the overall market developments that have impacted and would continue to impact its performance. This assessment involved, amongst others, the examination and evaluation of financial information and a market report submitted by the Company in preparation for the review process. It was carried out with the assistance of external consultants. The review also included meetings with the Company to verify and discuss the information submitted.
13. The Commission issued its public consultation paper (FTC/UR/CONPCP/2020-02) (the Consultation) on the PCP 2016 review on September 8, 2020. That document presented information on:
- a. the current Price Cap Plan and recent trend in prices and demand under the Price Cap Plan;
 - b. the continued need for price cap regulation, based on a review of the recent market developments;
 - c. an outline of the proposed scope and structure of the Price Cap Plan 2021 (PCP 2021); and
 - d. the proposed implementation of the PCP 2021.

14. The objective of the Consultation was to obtain public input to facilitate the Commission in ascertaining (i) whether there remains a need to regulate, on an ex-ante basis, the Company's Regulated Services; and if so, (ii) whether to modify the principles, rules or parameters of the Price Cap Plan.
15. The Commission received one (1) response to the public consultation, from the Company.
16. The Commission has carefully reviewed and considered the Company's submission although not all its positions have been summarised in this Decision.
17. The Commission thanks the Company for its response.

18. The Commission has determined that there is a continued need for price regulation of specific Regulated Services. Further, the price cap framework remains appropriate and thus it will not be substantially modified for the next Price Cap period. However, the scope of the services which are subject to a price cap has changed relative to the PCP 2016. A new Price Cap Plan 2021 (PCP 2021), as detailed within this Decision, will govern the Regulated Services of the Company from April 1, 2021 to December 31, 2024.
19. A price cap plan is defined by a specific set of elements that are designed to fit the particular market and regulatory environment. These elements include the number of service baskets, productivity factors, inflation factors, exogenous factors and carry-over provision.
20. This section sets out a description of each of the elements that will define the PCP 2021 and the reasons for the Commission's Decision.

THE CONTINUED NEED FOR PRICE REGULATION

21. The Commission remains of the view, as explained in detail in the Consultation, that there is a continued need for price regulation of a subset of the Company's Regulated Services, and that a price cap mechanism remains the most efficient form of implementing such regulation.
22. The Company, in its response to the Consultation, questioned the need for continued regulation of the Company's retail fixed service prices going forward, given those prices have not increased to the extent allowed under the PCP 2016. It further disagreed with the Commission's view that Digicel does not represent a competitive constraint on the Company's retail fixed telephony services on a national basis.
23. The Commission believes that the Company's ability to act independently of the market (i.e., to increase its prices of non-competitive services) has not changed. As

such, the Company's past decisions not to increase its prices to the full extent allowed do not guarantee similar decisions in the future.

24. The primary concern of the Commission remains that in a non-trivial part of the country, consumers have no choice of fixed provider as they are served only by the Company. Furthermore, across the entire country the Company is the only provider of standalone fixed telephony services, as Digicel only offers multi-play bundles. As such, the Commission considers that, in the absence of any retail price regulation, the Company would have the ability to increase prices independently of other economic forces, i.e., competitors and customers.
25. Further, if the Company's position truly is that, in the absence of price regulation it would not increase its retail prices to the extent allowed under the price cap, then the imposition of a price cap would not limit the Company's future pricing decisions. In the Commission's view, the only impact on the Company would be the regulatory cost relating to compliance with the ongoing price regulation. The Commission notes that any regulatory burden to the Company relating to price-capped services should be mitigated by the narrower scope of price-capped services, as well as the Commission's decision on the appropriate regulatory reporting requirements. These requirements are significantly less onerous than those proposed in the Consultation and which have been set out in Section 4, as well as the forthcoming PCP 2021 Compliance Rules and Procedures.
26. **The Commission has determined that there is a continued need for price regulation of certain Regulated Services, which necessitates a new regulatory regime in the form of the PCP 2021.**

OBJECTIVES

27. As set out in the Consultation, the Commission considers that a price cap mechanism remains the most efficient form of regulation for continuing to regulate the prices of retail fixed services in Barbados.

28. The Commission recognises that the objectives of the Price Cap Plan have evolved over time as the market for the Company's Regulated Services has declined. Its objectives are now chiefly to protect customers for whom the Company is the only provider of fixed telephony services, both in areas of the country where Digicel does not have a network and nationally for those customers who demand fixed telephony-only services, which Digicel does not offer. In this context, an effective price cap is one which protects customers of Regulated Services from being charged excessive prices, i.e., as a result of the Company's market power and therefore ability to set prices, based on streamlined regulatory compliance procedures, while still allowing the Company to earn a reasonable return across all of the services it offers in Barbados.
29. Given these objectives, the PCP 2021 aims to provide the required protection for ratepayers in the least intrusive manner, taking into account the overall regulatory framework.
30. The Commission notes that forms of regulation other than the price cap do not represent feasible alternatives at this point in time, since they would require accurate cost data for each price-capped service. Since the Commission does not have access to reliable, granular cost information from the Company, it would be difficult to accurately assess whether the Company's prices were based on efficient costs. Furthermore, there are implementation costs of adopting an alternative regime, such as those associated with the preparation of the relevant regulatory documents. The Commission notes that such a move would therefore place an unnecessary burden on the Company.
31. **The Commission has determined that the price cap framework remains the best suited approach to achieving the overall objectives described above.**

DURATION OF THE PCP 2021

32. In its response, the Company indicated that it had no objections to the proposed three (3) year length of the next price cap plan.
33. The Company did not explicitly state disagreement with the option to extend the price cap plan for an additional year, at the discretion of the Commission at the end of the Price Cap period. In recent years, however, the Commission has recognised a trend where circumstances have repeatedly required that the Price Cap Plan be extended for an additional period, due to insufficient time, resources or other considerations. In 2014, the Commission determined that the PCP 2012 could, of necessity, be extended for an additional period based on its general rate setting powers as set out in section 39(4) of the TA. As such, the PCP 2012, which was due to end in March 2015, came to a close in March 2016 and gave rise to the PCP 2016. With respect to the PCP 2016, the Commission included a specific clause that allowed it full discretion to extend the framework for an additional period without the need for a consultation period. This option, as highlighted at the beginning of this paper, was indeed utilised. As a result of the foregoing, the Commission has determined that the PCP 2021 shall have four (4) periods as outlined below.
34. **The Commission determined that PCP 2021 will therefore be based on the following four (4) reporting periods which are aligned with the Company's financial year:²**

Period 1: April 1, 2021 through to December 31, 2021

Period 2: January 1, 2022 through to December 31, 2022

Period 3: January 1, 2023 through to December 31, 2023

Period 4: January 1, 2024 through to December 31, 2024

Of note here is that this structure, which spans three (3) years and nine (9) months, is essentially identical to that of the PCP 2008, where Period 1 was referred to as a bridge period. Additionally, the Commission determines that, should changing

² With the exception of Period 1, which covers the remainder of the Company's financial year beginning on the date of the publication of this Decision.

circumstances warrant, the PCP 2021 may be reviewed earlier, at the Commission's discretion. The Company shall also have the ability to request an earlier review should it recognise conditions which justify such course of action.

SCOPE AND STRUCTURE OF THE PCP 2021

Service scope

35. The Commission has determined that the services to be regulated under the PCP 2021 should continue to be the retail services specified by the Telecommunications (Regulated Services) Order 2006, as set out below.

Table 1 - Regulated Retail Services

Category	Services
Domestic voice services	Residential and non-residential fixed line access and installation, value-added services, voicemail, internal voice network calling, domestic payphone calling, emergency calling
International voice services	Fixed outgoing international calling, international toll-free calling, international call centres, international calling cards, international payphone calling
Dedicated lines services	Domestic private leased circuits, international private leased circuits, direct exchange lines, dedicated lines used for Internet

Basket structure

36. Given the predetermined service scope, the price control will continue to cover all Regulated Services. However, as discussed above, the focus of the price cap will be on those Regulated Services typically purchased by vulnerable customers and for which the Company faces no competition from Digicel anywhere within the country, whilst also retaining scope for the Commission to re-introduce price regulation for

other services considered to be non-competitive if this becomes necessary. The price cap (or basket) structure plays an important role in meeting this objective.

37. Previously there were two (2) baskets defined, one for 'competitive' and another for 'non-competitive' services. This allows for the control of prices for those services where competition is not likely to be a constraint, whilst leaving the competitive services uncapped.
38. In addition, the previous price control (PCP 2016) included a sub-cap on residential access services, so that these customers were protected from large price increases. Introducing sub-caps on particular services within a basket ensures that prices on these services are not disproportionately increased, and thus ensures that there is a fair distribution of benefits and price reductions across customers, irrespective of their relative consumption of services. Due to the nature of the proposed price control parameters under the PCP 2021, which are meant to focus on capping the prices of the standard fixed telephony services for residential and business customers, there is no longer a need for a sub-cap on residential services.
39. The Consultation set out the Commission's proposal to retain the current price cap structure for the PCP 2021, due to the effectiveness of the PCP 2016 and limited market developments in recent years. It further allows for differentiation between Regulated Services that are deemed competitive and those which remain non-competitive, with any price regulation focussing on the latter set of services.
40. In its response to the Consultation, the Company set out its position that it does not consider the continuation of the price cap regime to be appropriate. However, it did not provide comments on whether, subject to the retention of a price cap regime, it considered the structure of the baskets to be appropriate. The Company's proposals in relation to alternative forms of regulation are discussed in the context of basket composition, below, which pertains to the appropriate focus of regulation.
41. **The Commission has determined that the PCP 2021 will be based on two (2) service baskets for 'competitive' and 'non-competitive' services.**

Basket composition

42. The regulated services of the Company are currently defined by the Telecommunications (Regulated Services) Order, 2006. These services populate the baskets that comprised the PCP 2016 and shall comprise the PCP 2021.

With the implementation of the very first PCP, the Commission and its Consultants at the time found it prudent to group the Company's services into four (4) baskets. The first basket comprised just residential access services and carried its own specific constraint. The second basket included a large group of domestic retail services with the exception of residential access and those services placed in basket four (4). The third basket comprised international services. However, the Commission observed that, arising out of the liberalisation of the sector, these services would soon be subject to significant competition. As such, it was expected that they would cease to be subject to any constraints by the end of that first PCP. The fourth basket was reserved for services that were either already subject to significant competition or significant declines in demand.

In 2008, the Commission conducted a review of the first PCP and issued a new Decision, which rearranged the basket structure such that the international services were no longer subject to a price constraint, as they were considered constrained by a significant level of competition. These services were grouped together with the services that previously made up basket four (4). As a consequence, the Commission reduced the number of baskets to three (3). The PCP 2012 took it a step further, introducing the two (2) basket structure, which was carried forward into the PCP 2016. One (1) basket comprised competitive services, i.e., the international services and others that made up basket three (3) in the PCP 2008, and the other basket held non-competitive services such as residential access, which also carried a specific sub cap. Services such as international outgoing calls and international private leased circuits were deemed competitive in the wake of the liberalisation of the sector and the Commission made the commensurate adjustments to the basket structure at the appropriate times. As it relates to these services, conditions have not reverted to a state whereby a price constraint would be required.

Consequently, the composition of Basket 1 remains unchanged from the PCP 2016. Regulated Services for which the Commission deemed that there exists sufficient competition to prevent excessive pricing by the Company (see Table 2), will continue to be included in this basket, which will be uncapped (i.e., there are no pricing constraints imposed on those services). All remaining Regulated Services will continue to form part of Basket 2.

Table 2 - Basket Composition under the PCP 2021

Structure	
Basket 1	Fixed international outgoing calls, international calling cards, International calls from payphones, Domestic and international operator assistance and International private leased circuits (IPLCs)
Basket 2	All remaining Regulated Services including residential access, business access, voicemail, call waiting and domestic private leased circuits (DPLCs)

43. The Company argued in its response that it faces competitive constraints on its fixed access services due to increasing fixed-to-mobile substitution and perceived competition from OTT-based services. Competitive constraints resulting from the entry of Digicel to the fixed market were also raised as an issue. The Company suggested that, if the Commission considers ongoing price regulation to be necessary, then it should be more targeted, focusing on vulnerable customers only. The Company's proposal partly relies on its view that Digicel's fixed presence represents a constraint across the entire country due to the Company's national pricing obligation.
44. The Commission broadly shares the Company's view on the merits of moving to a more targeted approach to price regulation going forward. As recognised in the Consultation, the take-up of retail fixed telephony services is generally in decline and the need for continued regulation is mostly concerned with those customers who only want a fixed telephony service (but no fixed broadband service) and those who

live (or work/do business, in the case of business services) outside of Digicel's fibre network footprint.

45. However, the Commission considers the Company's proposal to target only vulnerable customers as too narrow and problematic to implement and monitor. Further, and importantly, the Commission considers that consumer protection measures must extend beyond vulnerable customers and also apply nationally, since Digicel only offers fixed telephony services on a bundled basis, i.e., it does not offer fixed telephony services on a standalone basis as the Company continues to do.
46. As such, the Commission considers that in the absence of any retail price regulation, the Company would have the ability to increase prices for standalone fixed telephony services independently of other economic forces (i.e., competitors and customers).
47. The Commission determines that for practicality, the price cap framework and the current basket structure shall be retained, since it remains both adequate and the most efficient way to achieve the Commission's objectives, particularly in light of changes to the scope of the price cap and reporting requirements.
48. However, the Commission further determines that the global price cap on the "non-competitive" basket (Basket 2) shall be removed in favour of a price cap on the Company's standard standalone fixed telephony services only. The Commission considers that this approach strikes a reasonable balance between increased flexibility for the Company and retaining a sufficient degree of protection for ratepayers.
49. The Commission's focus on price regulation of standard services only means that the Company is mandated to offer specific standard residential and business standalone fixed telephony services, which include common value-added services, on regulated terms, without reducing the components included in these offerings (for example, the unmetered domestic call allowance). These services are:

Residential.

- a) Unlimited Local Calling
- b) Call Waiting
- c) Voicemail
- d) Caller ID
- e) Call Forwarding

Business.

- a) Unlimited Local Calling
- b) Call Forwarding
- c) Automated assistance for customers

50. **The Commission has determined that all Regulated Services other than those included in the 'Competitive' basket (Basket 1) will continue to be included in a separate basket, the 'non-competitive' basket (Basket 2). Nevertheless, the global price cap on this basket will be removed in favour of a price cap on the Company's standard standalone fixed telephony services only, as specified above.**

PRICE CAP FORMULA

51. The price cap formula sets the allowable annual price change across the capped services (i.e., standard standalone fixed telephony services including value-added services).
52. In the Consultation, the Commission stated its preliminary view of applying the same price cap formula to the PCP 2021 as contained in the PCP 2016. The proposed price cap formula would allow the Company to change its retail prices by no more than the predetermined Price Cap Index (PCI).
53. However, given the narrower focus of the price cap determined in this Decision, the Commission has given further consideration to the continued need for the exogenous Z Factor previously included in the PCI and originally proposed in the Consultation, as discussed below. The resulting PCI calculation on this basis is described below.

54. The PCI for each year (t) will be calculated as

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

Where:

I is the inflation factor (RPI); and

X is the productivity factor.

55. In its consultation response, the Company explained that its proposals for a more targeted regulatory regime would negate the need for a price cap and associated formula. However, it did not provide comments on whether, subject to the retention of a price cap regime, it considered the price cap formula to be appropriate.
56. **Given the above, the Commission has determined that it is appropriate to apply the price cap formula described above during the PCP 2021.**

I Factor

57. The inflation factor as included in the price cap formula aims to allow the Company to recover exogenous changes to its input prices during the price cap period, as well as ensure that prices for standalone fixed telephony services move in line with those for other services and consumer goods in Barbados.
58. The PCP 2016 uses the annualised Barbados Retail Price Index (RPI), computed on a monthly basis by the Barbados Statistical Service.
59. **The Commission has therefore determined that the RPI will continue to be used to measure the inflation factor in the price cap formula during the PCP 2021.**

X Factor

60. The X Factor, which considers productivity changes, is commonly determined to set a 'glide path' to align capped prices with the underlying costs of providing these services by the end of the price control period.

61. As discussed in detail in the Consultation document, the Commission did not derive a new X Factor based on a modelling exercise for the upcoming price control period. This was due to a general concern with regard to the overall merits of estimating the cost of providing retail fixed telephony services, given the converged service offering and a range of issues with the costing data and other supporting information submitted by the Company.
62. **Instead, the Commission has determined that an overall cap for the price-capped services will be set at the level of inflation, implying an X Factor equal to zero.**

Z Factor

63. The Z Factor was a specified cost pass-through variable, historically intended to address instances where the Company faces extreme variations in input prices outside of the inflation factor; these are not accounted for in the X Factor and are beyond the control of the Company. The effect of a Z Factor would be to increase or decrease the PCI, thereby restricting or increasing the Company's ability to vary its prices in response to the exogenous shock.
64. There were no filings for the Z Factor during any of the previous PCPs. However, in the Consultation, the Commission discussed its recognition of the changing and unpredictable conditions in the world economy, particular in regard to the COVID-19 pandemic. However, taking into consideration the significantly lower share of the Company's total revenue now accounted for by price-capped services, as a result of the narrower scope of the price cap determined in this Decision relative to that which was proposed in the Consultation, the Commission sees no need to continue making any provision for a Z Factor. Enough of the Company's business remains either uncapped or unregulated that the overall effect of unforeseen costs is very unlikely to be critically exacerbated by the existence of the price cap. As such, the Commission has determined that it is appropriate to remove the Z Factor from the price cap formula for the PCP 2021.
65. **Thus, the Commission has determined that an allowance for a Z Factor adjustment will not be included in the PCI during the PCP 2021.**

PRICE CONTROL APPLIED TO EACH BASKET

66. In line with previous Price Cap Plans, the price control applied to each basket will vary in reflection of the degree of competitive constraint on the Company's pricing behaviour.

Basket 1 – 'Competitive' Regulated Services

67. For the services within Basket 1, it is expected that these prices will continue to be driven primarily by competitive forces. As such and as outlined in paragraph 42, the Company's pricing flexibility is deemed to be sufficiently constrained by competition to allow for a lighter form of price control. In particular:
- a. As under the PCP 2016, the basket of 'competitive' services will not be subject to an overall price cap under the PCP 2021.
 - b. These services will, however, remain subject to advance notification of price changes as set out in the forthcoming PCP 2021 Compliance Rules and Procedures.
68. **The Commission has determined that competitive services (i.e., those contained in Basket 1) will not be subject to an overall price cap during the PCP 2021.**

Basket 2 – 'Non-competitive' Regulated Services

69. For the duration of the PCP 2021, the 'non-competitive' service basket will not be constrained by an overall price cap. Rather, only specific standard standalone fixed telephony services, including value-added services, will be subject to a price cap, as described in paragraph 49. This aims to ensure protection of consumers who wish only to take a fixed telephony service (i.e., not bundled with broadband) or who live or work outside of Digicel's fibre network footprint.
70. The prices of standard standalone fixed telephony services in this basket must be set such that the annual price change for each of the relevant residential and business services is no greater than the rate of inflation.

71. Similar to the PCP 2016, the Commission again considers it reasonable to set the overall cap at the level of inflation (i.e., RPI-0) which implies an X Factor equal to zero.
72. To provide further protection to consumers from any significant price increases in any given year, if inflation is greater than 3%, the maximum allowable price increase for each of these services will be capped at 3% each year. In cases when the inflation rate is less than zero, the allowable price increase in that year will be set to zero.
73. A maximum increase of prices for the period of the price cap implies that the prices of standard standalone fixed telephony services at the end of the PCP 2021 will be, at most,³ the same in real terms (i.e., adjusted for inflation) as the prices at the beginning of the PCP 2021.
74. In the Consultation, the Commission proposed to allow the Company to 'carry over' any unused headroom for the price-capped services from one period to the next. However, the Commission proposed that this would not apply to the sub-cap proposed for residential access services. Further, the Commission proposed that there would be no carry-over provision across price cap plans.
75. As part of its submission, the Company agreed with the concept of being able to carry over headroom from one period to the next within the PCP 2021.
76. However, as explained above, the Commission has determined only a focussed price cap for standard fixed telephony services, including value-added, which the Commission considers to represent an even narrower set of services than the residential access services originally proposed to be covered by the sub-cap. As such, the Commission does not consider that a carry-over provision is appropriate for the services subject to a price cap within the PCP 2021 (i.e., if the Company decides against using its allowable price increase for one or both of the standard residential and business services in one period, this will have no impact on the allowable price increase for any of the price-capped services in the following period).

³ Since prices cannot increase by more than 3% per year, prices will fall in real terms if RPI inflation increases by more than 3% in any given period.

77. The price control for fixed telephony services in Basket 2 under the PCP 2021 can be summarised as follows:
- a. No overall price cap on the services in Basket 2.
 - b. For standard standalone fixed telephony services, including value-added, a price cap for each of the relevant residential and business tariff plans as follows:
 - i. A price cap equal to annual inflation (RPI) up to 3% is applicable in each year of the price control. In case of negative inflation (deflation) in any given year, the allowable price increase will be set at zero for that year.
 - ii. There is no carry-over provision in between price control periods.
 - iii. The Company is permitted to increase the prices of each price-capped service once in each price control period.

78. The Commission has determined that it is appropriate to implement some revisions to the Price Cap Plan Compliance Rules and Procedures to take into consideration the principles of the PCP 2021, as explained in Section 2.

COMPLIANCE FILING

79. The Commission will apply a simplified approach for monitoring and ensuring compliance with the Price Cap Plan relative to the approach implemented under the PCP 2016, as described below.
80. On December 1 of each period of the PCP 2021, that is, one (1) month before the start of each new period, the Company shall file with the Commission the API for the price-capped services. This filing shall be recorded as the Annual Compliance Filing (ACF). The ACF allows the Commission to measure the degree of compliance by the Company in each year.
81. In the event that no price changes for any price-capped services are planned for the upcoming period of the PCP, the Company is exempted from filing an ACF. In such an event, the Company must submit a written statement to the Commission one (1) month before the start of the new period, authorised and signed by its CEO, explaining that no price changes are planned for that PCP period.
82. The Commission notes that this process has been simplified relative to the PCP 2016, as the Company is able to submit a simple letter in the event that it does not increase its prices of price-capped services in a given year of the PCP 2021. Further, as a result of the narrower service scope of the price-capped services, the process for filing an ACF is greatly reduced. In particular, since the price cap does not depend on any weighting across services, the Company must simply populate the file with its updated prices to confirm that the price of each price-capped retail service will not increase by more than RPI (or 3%, if RPI is greater). There shall also be no need to

consider the impact of volume changes on the overall weighted increase over a basket of services, since the price cap applies to individual services.

83. The Commission has also removed the need for the Company to file a Rate Increase Compliance Filing (RICF) with the Commission when the prices of price-capped services are increased. The Commission considers that the notification requirements set out below are now sufficient under the PCP 2021.

NOTIFICATION

84. During the PCP 2021, the Company will be subject to the following notification process:
- a. **Rate Decreases:** The Company shall not be required to seek prior approval from the Commission for any proposed decrease in prices for any Regulated Services. However, the Company shall notify the Commission in writing of any proposed rate decreases for Regulated Services no later than three (3) business days before the rate decrease takes effect. The Company's customers shall be notified via their billing statements.
 - b. **Rate Increases:** The Company shall not be required to seek prior approval from the Commission for any proposed increase in prices for any Regulated Services. However, the Company shall notify the Commission of any proposed increase in rate for any Regulated Service no later than 25 business days before such rate increase takes effect. The Commission requires that for every rate increase, the Company shall advise the public by way of insert attached to the prior month's bill; advertisements in two (2) daily publications in at least two (2) editions; and on all of its social media platforms no later than 20 business days before the date of the expected price increase.
85. For the avoidance of doubt, all notification requirements concerning price and non-price terms for Regulated Services remain governed by the relevant Consumer Protection legislation.

86. This represents a reduced burden from both the PCP 2016 and the Consultation, as the Company no longer needs to inform the public regarding price decreases.

REGULATORY REPORTING

87. Each year, the Company is required to provide the Commission with financial information on a business segment level and total business level. In particular, the following information will be required from the Company on an annual basis:
- a. Audited Statutory Financial Statements and Audited Regulatory Financial Statements for the Company's entire operations in Barbados;
 - b. Separated financial statements (i.e., Profit & Loss statements and Balance Sheets, plus a reconciliation statement to its Audited Statutory Financial Statements) for the following business segments:
 - i. Residential and non-residential fixed telephony and broadband services (including payphones)
 - ii. Domestic and international business connectivity services
 - iii. Mobile services
 - iv. All other business segments (e.g., TV services)
 - c. Information on the total subscribers/connections and traffic volumes for fixed telephony, fixed broadband, payphone and business connectivity services – reported separately for residential and non-residential customer segments.
88. The Commission reserves the right to impose alternative or additional regulatory reporting requirements in future, including within the timeframe of the PCP 2021, should it consider them necessary.
89. The regulatory statements shall be prepared by the Company in accordance with the accepted accounting principles and may be subject to a Regulatory Compliance Review and Audit by the Commission.
90. This represents a simplification from the PCP 2016, as the Company need no longer submit the Enhanced Allocation Models (EAMs). The Commission has also removed

the need for the Company to produce more granular information relating to costs, volumes and profitability, which was originally proposed in the Consultation.

91. **The PCP 2021 Compliance Rules and Procedures will be issued in a separate document in due course.**

Dated this day of March, 2021

Original signed by

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Dr. Donley Carrington
Deputy Chairman

Original signed by

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Dr. Brian Francis
Commissioner

Original signed by

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John Griffith
Commissioner

Original signed by

.....

Jennivieve Maynard
Commissioner

Original signed by

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Sukeena Maynard
Commissioner