

ANNUAL REPORT | 2009

UTILITIES REGULATION & COMPETITION AUTHORITY



NEW **BEGINNINGS**

ANNUAL REPORT | 2009
UTILITIES REGULATION & COMPETITION AUTHORITY



MISSION STATEMENT

“We are committed to achieving sustainable competition and promoting consumer interests, through effective and efficient regulation of utilities and broadcasting.”

OUR CULTURE, OUR VALUES & TEAM COMMITMENTS

Think Customer

We understand our stakeholders so that we can deliver effectively and efficiently for them.

Keep our promises

We are passionate about doing what we say we will.

Champion professional conduct

We act with integrity and take personal responsibility.

Do what's right

We do what matters for our stakeholders.

Succeed together

We debate, decide and collaborate as a team.

Open communications

We encourage open and honest dialogue.

Skilled and motivated colleagues

Our team is skilled and motivated to do their best.

ABOUT OUR BRAND

The URCA logo provides a strong visual identification of this regulatory body and emphasizes its relevance to The Bahamas' electronic communications industry and other utilities.

Elements

The logo comprises a number of elements which convey various aspects of URCA's culture and mandate:

1. Firstly the acronym URCA is stylized in a very bold and striking black font. This commanding lettering and its colour convey the strength of the regulator.
2. The design employs a unique dot pattern which symbolizes modern trends in 21st century communications.
3. The arrow in our logo symbolizes transmission of information, and conveys the nature of communications and dialogue with the stakeholders.
4. The sphere in the background is a symbol of the global nature of communications and international practices in regulation that will be employed by URCA.
5. The warm yellow, orange and green colours of the logo convey a sense of place, that is the warmth of The Bahamas. They also suggest regard for the environment and openness to collaboration and dialogue, for example, as seen in the consultation process.

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“URCA is devoted to achieving the objectives outlined in the Electronic Communications Sector Policy of the Government of The Bahamas”

MESSAGE FROM THE CHAIRPERSON

It is my pleasure to present the Annual Report of the Utilities Regulation and Competition Authority (“URCA” or “the Authority”). This report presents the results of URCA’s performance and financial management over the five-month period, 1 August, 2009 (establishment of the Authority) to 31 December, 2009 (the end of the first fiscal period). This report demonstrates that URCA is devoted to achieving the objectives outlined in the Electronic Communications Sector Policy of the Government of The Bahamas and in approaching its tasks that it remains cognizant of its mission to protect the interests of residents and consumers by applying a “light touch” regulatory approach as much as possible. I am honoured that the Governor General, acting on the advice of the Prime Minister after consultation with the Leader of the Opposition, appointed me the first chairperson of the Authority, which is independent of the Government.

Whilst the new regulatory regime has provided URCA with independence in carrying out its mandate, it requires URCA to be accountable for its budget and actions in a transparent framework; this report and the Annual Plan are amongst the legal provisions directed at achieving accountability. The Annual Plan, which sets out URCA’s proposed objectives for the 2010 fiscal year, can be viewed on URCA’s website (www.urcabahamas.bs). The Board made significant strides early in ensuring that there were agreed terms for a comprehensive Corporate Governance approach that would be followed by the Board. A priority of URCA was the implementation of internal procedures to enable it to fulfil its obligations of accountability and transparency; in this regard, the Corporate Governance approach addressed the Board’s role and the roles of its members – executive and non-executive, relating to, inter alia, implementing effective controls, setting strategic aims, and ensuring that its statutory and legal obligations to stakeholders are met. URCA has

also implemented a policy of publishing on its website a quarterly report that summarises significant elements of its operations.

The Sector Policy, which is effective for up to three years from its date of issuance on 6 October, 2009, considered that certain tasks should be addressed as a matter of priority within the aforementioned period. These included, among others, implementing internal procedures and external guidelines to allow the proper functioning of URCA, processing of licence applications and licence reviews, the issuance of the critical Significant Market Power (SMP) obligations associated with the interim SMP determinations, the development and publication of a national spectrum plan in consultation with Government, and content regulation. As early as 18 August 2009, the Authority published its first Consultation Document, Consultation Procedure Guidelines, which explained how URCA intended to manage the way it consults. Thereafter, with great efficiency, other priority tasks were taken on and, where not yet completed, they are at various stages of progress, as more fully described in this report.

Sound financial management is an essential element of any successful organization. The independent auditors issued an unqualified opinion on URCA’s financial statements for the five months ended 31 December, 2009. The Audit Committee is chaired by Mr. Philip B Stubbs who, consistent with the provisions of the URCA Act, is not a member of the Board or a member of staff of URCA and is a public accountant. The Audit Committee will play a significant role in the oversight of the financial management of the Authority and, by the URCA Act, is required also to report to the Board on the extent to which URCA’s deployment of

its financial resources has delivered value for money. The expression, “our people is our most valuable resource” is not a cliché at URCA, which is fortunate to have a dedicated and knowledgeable staff of professionals, including accountants, attorneys, economists and engineers. Their tireless work during these initial stages of URCA’s operations has enabled the Authority to address the priority tasks, as mentioned above, and to do so within the timeframes set out in the legislation and other regulatory instruments. As is evident from the financial statements, the Authority made extensive use of consultants at significant costs; this has helped supplement URCA’s skills, and ensured the availability of appropriate resources required at this critical juncture of the new regime. Over time, the experience gained by the policy and regulation staff working with the consultants will benefit URCA and the industry. My fellow Board members and I are also grateful for the unwavering commitment and incredible team effort of those colleagues not involved directly in policy and regulation, including those Colleagues in human resources, finance and other supporting roles.

Mr. J. Paul Morgan, Deputy Chairman, and Ms. Katherine Doehler, both fellow non-executive members of the Board, are talented and informed professionals with experience in the communications sector and in the regulatory environment. Mr. Michael Symonette, Chief Executive Officer, and Mr. Usman Saadat, Director of Policy and Regulation, also have significant relevant experience. Mr. Vincent Wallace-Whitfield, an attorney, has been appointed Secretary, a role that he fulfils in addition to his responsibilities as a Senior Case Officer. I look forward to continuing working with them in the atmosphere of mutual respect and trust for which I am most appreciative, and I thank them for their support and contributions to the success of URCA.

Chairperson

Wayne Aranha
30 April 2010



CEO'S REPORT

HOW IT BEGAN....

“URCA was designed to be a modern converged regulator with responsibilities and powers spanning the entire electronic communications”

The Utilities Regulation and Competition Authority (URCA), an independent multi-sector regulator was created by the URCA Act, 2009, to serve as the primary governing body for the electronic communications sector, and eventually all utilities in The Bahamas.

Prior to the regulatory reform, regulation of electronic communications in The Bahamas was split between a number of regulators and this caused inconsistency of regulation and regulatory uncertainty. URCA was designed to be a modern converged regulator with responsibilities and powers spanning the entire electronic communications spectrum, including fixed and mobile telecommunications, broadcasting, cable TV and other electronic communications services. The regulatory principles applied by URCA are consistent and transparent regardless of the services offered by the licensee.

URCA is charged with protecting the interest of consumers on the one hand, with respect to the availability of quality products and services at fair prices, while on the other hand, regulating the industry in such a way as to ensure sustainable competition, investor confidence, innovation in services and networks, and a fair return on investment.

URCA is independent of the Government and its entire operations are funded by the Communications Sector. Hence it is accountable for its budget and actions in a transparent framework of legal provisions and published policies and regulations.

Disputed decisions/determinations made by URCA may

be appealed to and dealt with expeditiously, by the Utilities Appeal Tribunal (UAT) established for such a purpose by the UAT Act, 2009.

URCA is directed by a Board comprising a non-executive chairman, two non-executive members and two executive members. Its day-to-day operations are led by the CEO, and regulatory activities by the Director of Policy and Regulation. URCA is supported by qualified and dedicated colleagues. Appropriate corporate governance has been effected to ensure clarity of roles and responsibilities.

As an organization that is funded by the industry, URCA is required to demonstrate accountability to the public and the industry. URCA, therefore, has a duty to publish information and consult with its stakeholders regarding significant proposed policy changes and other regulatory matters. As a regulator, URCA also has an obligation to protect the interest of consumers by monitoring and enforcing conditions in licences. Through consultation, open dialogue and effective regulation URCA will facilitate an environment in which competition and innovation can flourish in a growing electronic communications sector. As a result consumers will enjoy considerable improvements in quality, range and reliability of service and there will be significant net benefits for the Bahamian economy.

HOW IT BEGAN...

The early development process was an intensive period that involved the commitment of executive management, colleagues and consultants to bring the new regulator up to speed in a short time. Despite the

rigorous schedule of workshops and meetings, executive management and the team stood up to the challenges to ensure that all legal requirements were met to bring about a new era of effective regulation for the electronic communications sector.

URCA initially focused on promoting an understanding of its role as a more effective regulator, particularly with regard to changes, improvements and new procedures in the regulation of electronic communications. This education process started with its people – the heart of the organization. Colleagues were fully engaged in the transition of the new regime, providing inputs and outputs. Additionally they participated in focus groups to create a new logo, as well as workshops to develop the mission statement, team values and commitments.

URCA team members were also involved in making decisions on fees of stakeholders and contributed to URCA's annual strategic plan. Throughout the transition period, URCA purposed to build a reputation of fair play, open dialogue and transparency amongst all stakeholders. The new regulatory regime is committed to delivering outputs that will meet the objectives and mandate set out in the Communications Act, 2009 (Comms Act) and the Electronic Communications Sector Policy.



Chief Executive Officer

Michael J Symonette
30 April 2010



URCA BOARD – Pictured from l-r: Usman Saadat, Director of Policy and Regulation ; Michael Symonette, CEO ; Katherine Doehler, Non-Executive Member; Wayne Aranha, Chairman ; and J.Paul Morgan, Non-Executive Member.

OVERVIEW OF ACTIVITIES

The Board met each month during the last quarter of 2009 and there was a full quorum for all Board and Audit Committee meetings. Major achievements include:

- Addressed various areas of Corporate Governance, including the Board's role, and the roles of its members and various committees;
- Adopted policies and procedures to cover confidentiality of information and conflicts of interest declaration;
- Implemented internal procedures for review and approval of regulatory publications and decisions;
- Approved all major regulatory measures and actions; and
- Reviewed and approved URCA's budget and developing the Three-year Strategy and Annual Plan for 2009-2010.

CHAIRMAN

Mr. Wayne Aranha

Mr. Aranha joined PricewaterhouseCoopers in The Bahamas in 1976 and spent 24 years as a partner before his retirement in 2008. He is a member and past President of The Bahamas Institute of Chartered Accountants and is a member of the American Institute of Certified Public Accountants. He was a director of the Institute of Chartered Accountants of the Caribbean and he is currently a member of the board of The Central Bank of The Bahamas and a Commissioner of the Insurance Commission of The Bahamas.

NON-EXECUTIVE MEMBERS

Mr. J. Paul Morgan

Mr. Morgan is an independent advisor on policy and regulatory frameworks in the Energy, Telecommunications (ICT) and Water sectors. He has spent his career of 38 years to date in utilities. He is the former Chairman of the Commonwealth Telecommunications Organization, former Chairman of the Organization of Caribbean Utility Regulators (OOCUR), and former Director General for two terms of the Office of Utilities Regulation (OUR) in Jamaica. He is a past President of the Jamaica Institution of Engineers.

Ms. Katherine Doehler

Ms. Doehler is a communications specialist with 25 years experience working in Canada and internationally in the telecoms, broadcasting and cable TV fields. She is a founding member of the Executive Committee of the Canadian Network for the Advancement of Research, Industry and Education, a past member of the Canadian Standards Association Standing Committee on Telecommunications, and a past Director of the Board of the Telecommunications Applications Research Alliance. She is a partner of Syntel Consultancy Inc.

EXECUTIVE MEMBERS

Mr. Michael Symonette, Chief Executive Officer

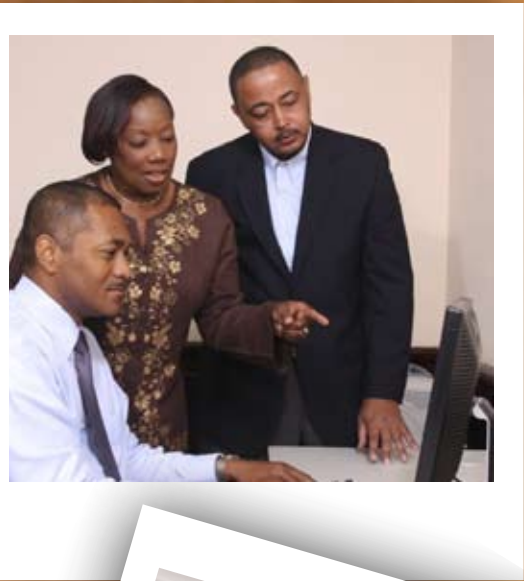
Mr. Symonette served as Executive Director of the Public Utilities Commission from 1 October, 2008 to 31 July, 2009. He was employed with the Bahamas Telecommunications Corporation which later became the Bahamas Telecommunications Company Limited (BTC) from 1960-2006. He spent the last 11 years at BTC as President and CEO. He oversaw the establishment of URCA and is the CEO of URCA.

Mr. Usman Saadat, Director of Policy and Regulation

Mr. Saadat has 15 years of global communications experience including 5 years in economic consulting with UK based National Economic Research Associates (NERA) and Europe Economics. He served as advisor on major regulatory projects for the European Commission, and led projects for European and Asian national telecommunications regulators including OFTEL in the UK, ODTR in Ireland and OFTA in Hong Kong. Mr. Saadat also spent three years as an Economist with the regulatory team in the head office of Cable and Wireless PLC. His most recent responsibility was as Chief Executive Officer of Cable & Wireless St. Lucia, prior to which he served as Business Development Director of Cable & Wireless International.

TEAM URCA

URCA's team complement comprises 23 colleagues, including qualified economists, legal and engineering professionals (known as senior and assistant case officers) who are supported by skilled operations group of accountants, consumer information and public relations staff, and HR and administrative personnel. This combination of impressive skill sets have been harnessed to create a dedicated and enthusiastic Team URCA.



HUMAN RESOURCES

During the period 1 August to 31 December, 2009, the Utilities Regulation and Competition Authority (URCA) placed great emphasis on building institutional capacity through key Human Resources initiatives designed to support the achievement of URCA's strategic objectives.

These initiatives focused on the formulation of a robust people centred strategy aimed at supporting the overall organizational strategy, to establish URCA as a respected, efficient and effective regulation and competition authority. Components of these programmes included the creation of a performance management culture through the implementation of a comprehensive pay for performance management system, a retention plan & the development of the capabilities, competencies (skills) and behaviours framework.

The programme of activities mentioned above focused on developing and supporting the behaviours required for the overall transformation of URCA. The transition of URCA's colleagues and the institutionalization of correct procedures were equally important and essential to the support and undergirding of the organizational transformation. The programmes brought together a unique combination of proven techniques of organizational and behavioural change.

In addition to the programme of activities, key Human Resources policies and practices of URCA were reviewed and revised to rebrand and reshape URCA into a strategic and credible utilities regulation and competition authority.

Skills Development

While the development of training policies for URCA colleagues is still in progress, URCA's general approach is to focus on people and skills as part of its overall strategy.

There have been numerous in-house workshops and meetings that focused on the sharing of information essential to the transition while encouraging participation by colleagues in the process.

URCA supplements the skills of its colleagues with international advisors.

POLICY AND REGULATION

In discharge of its statutory duties and in developing regulatory measures, the Policy and Regulation team has taken on a vast number of projects since the inception of URCA including stakeholder education. In this regard there were numerous outreach activities designed to inform and train key publics about the new regime and specific obligations arising from the new legislation.

Regulatory Safeguards

The Communications Act, 2009 sets out presumptions of Significant Market Power (SMP) for Bahamas Telecommunications Company Limited (“BTC”) and Cable Bahamas Limited (“CBL”) for two high level markets respectively and imposes a duty on URCA to determine which specific, if any, ex ante obligations should be imposed on these two operators. The obligations are to be “designed to maintain the objective of encouraging, promoting and enforcing sustainable competition”.

The process for determining the types of obligations to impose on the presumed SMP operators has been underway since shortly after the Comms Act came into force in September 2009. Below is an overview of the main milestones in the process in 2009:

- 30 September 2009 – Publication of Preliminary Determinations and Draft Orders issued for public consultation. In addition, URCA published Draft Guidelines for Accounting Separation for BTC, Draft Guidelines for Accounting Separation for CBL, and Draft Guidelines for Access & Interconnection.
- 20, 21 October 2009 – Separate Meetings were held with BTC and CBL to present the Preliminary Determinations.
- 3 November 2009 - Following initial workshops with the SMP operators, and requests for extension of the deadline from one operator, URCA extended the timetable set out in the Preliminary Determinations, to allow the operators



to respond fully and to submit alternative revised proposals.

- 18 December 2009 – Submissions received from interested parties discussing the Preliminary Determinations and Draft Orders and the associated guidelines.

Throughout the process, URCA has been sensitive to the importance of engagement with the industry. Where possible, URCA has sought to extend deadlines for submissions and employed a process that provided it with sufficient time to review and analyse those submissions in detail. URCA held numerous meetings and conference calls to ensure that the operators understood the process and URCA's thinking with regards to the products in the SMP markets and types of obligations.

Licensing

Under the new licensing regime the rights and obligations of licensees are clearly defined, giving regulatory certainty to key issues while guidelines for allocating limited resources such as spectrum and numbering will be clear and transparent. Additionally, the new licensing process regime is simplified.

On 1 September, 2009 when the Comms Act came into effect, URCA was ready and began to fulfil its mandate, publishing several licensing documents along with Preliminary Determination on class licences, exemptions and types of licence fees, and a statement on Radio Spectrum consultation documents.

In the initial stages of URCA, the licensing unit embarked on a major project to transition all existing PUC licences into URCA licences. This process included informing and educating the industry through workshops in Nassau and the Family Islands on the new licensing regime and the requirements to transition an existing licence within three months of the Comms Act coming into effect.

Over 1500 full details forms were mailed to licensees with information about the transition. Licensees were informed of the requirement to supply URCA with full details of existing licences or give a Notice of Objection to URCA requesting that its existing licence continue in force for the remainder of its unexpired term or until a later date specified in the notice of objection.

Fees

URCA has the power and duty to collect certain fees from licensees for itself and on behalf of other bodies. Fees are set to cover URCA's annual budgeted costs of performing its duties. A fee schedule which is published on the URCA website outlines the fees for various types of licences and other services provided by URCA.

Spectrum Management

URCA has the exclusive right to manage, allocate and assign all frequencies in the radio spectrum in The Bahamas. Therefore, in fulfilling its mandate to ensure radio spectrum is managed and used in an efficient manner, URCA has undertaken to upgrade and enhance the mobile spectrum monitoring equipment system. The upgrade will include an island wide network with transportable equipment that can be taken to any Cay or Island in The Bahamas. It will also have an automated data collection feature that will help with transmitter location and locate radio transmission throughout the islands of The Bahamas.

TRANSPARENT DECISION MAKING

In carrying out its function under the Comms Act, URCA is required to act in a transparent manner. In light of this, several successful public consultations were held with the aim of having greater stakeholder and public involvement in the decisions that would affect them and the electronic sector.

URCA's public consultation process ensures that all stakeholders are involved in the development of policy and have appropriate input into regulatory proceedings. The public consultation process engages industry operators and the public in the creation of policies that foster a fair and level playing field for all providers as well as the best possible outcomes for consumers.

Keeping in line with international best practices the current consultation process requires URCA to publish a consultation document regarding each proposed new policy or policy change that will significantly impact a sector. Views and concerns that are expressed by the public are carefully considered in the formulation of URCA's policies.

URCA has published many consultation documents over the period of this report. Notices of the publications were placed in the print media and all documents were uploaded to the URCA website. These consultations afforded opportunities for participation of stakeholders and consumers to make comments and respond. Many of the consultations received media attention and responses.



TOWN MEETING: Pictured from left to right: Usman Saadat, Director of Policy and Regulation, URCA; Charles King, Island Administrator, Cat Island; Wendy Warren, Member, Committee for the Privatization of BTC; and Michael Symonette, Chief Executive Officer, URCA. Photo: TONY GRANT

URCA talks communications reform on Cat Island

The newly established Utilities Regulation and Competition Authority (URCA) recently travelled to Cat Island and held a town meeting at New Bight Primary School to educate the local population about the new regulatory regime for Electronic Communications in The Bahamas. The URCA team included Michael Symonette, Chief Executive Officer, URCA.

Regulator raises BTC and Cable's capital cost ratios

By NEIL HARTNELL
Tribune Business Editor

THE communications sector regulator has increased the capital cost ratios for all the sectors in which Cable Bahamas and the Bahamas Telecommunications Company (BTC) are deemed to have

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- * Cable bl...
- * dispropo
- * BTC says
- would ha

Criticizes URCA's political broadcast rules at rally

By CANDIA DAMES
Guardian News Editor
candia@nsguard.com

Progressive Liberal Party Leader Perry

URCA: Political broadcast rules will remain

By JASMIN BONEMY
Guardian Staff Reporter
jasmin@nsguard.com

The Utilities Regulation and Competition Authority (URCA) says its controversial Internet Code of Practices for political broadcasts will remain in place despite recent objections from the Progressive Liberal Party (PLP) and various broadcasters. The regulatory body made the disclosure at a press conference yesterday afternoon. Chief Executive Officer of URCA Michael Symonette told the media

See Rules on A8

URCA board member announced

By STAFF WRITER
Guardian Business

The government has announced the board and new chief executive officer of the Utilities Regulation and Competition Authority (URCA) - the body charged with regulating the communications sector.

Wayne Aranha has been named URCA's chairman and Michael Symonette has been named its chief executive officer.

Aranha joined PricewaterhouseCoopers in The Bahamas in 1977

retirement in 2008. He is a member and partner of the Bahamas Ins

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Regulator to address the telecoms gap

A senior executive at the newly-formed electronic communications sector regulator will address this week's Business Outlook Conference on the way forward for the industry, with a presentation entitled. 2010-2020: Closing

the sector? These are some of the questions I will address," Mr Saadat said.

Mr Saadat has 14 years of global communications experience, including five years in economic consulting with UK-based National Economic Research Associates (NERA) and Europe Economics.

He served as advisor on major regulatory projects for the European Commission, and led projects for European and Asian national telecommunications regulators, including OFTEL in the UK, Ireland and OFTA in Hong

URCA rules PM's address was not a political broadcast

By BRENT DEAN
Guardian Senior Reporter
brentdean@nsguard.com

Utilities Regulation and Competition Authority (URCA) has ruled that Prime Minister's address was not a political broadcast and therefore no free-to-air broadcast rules apply.

He made the comment against the Broadcast Corporation of The Bahamas (BCB), which was one of several stations to broadcast the

Regulator projects \$1.7m revenue fall

By NEIL HARTNELL
Tribune Business Editor

The newly-formed communications sector regulator has projected it will lose \$1.7 million in revenues as a result of the new licensing regime, although its operating budget is 73.3 per cent larger than its predecessor.

The Utilities Regulation and Competition Authority

- * Communications sector supervisor says operating budget 73% higher than predecessor, standing at \$5.2m compared to \$3 million

Regulator gets full power as Act takes effect

THE Communications Act came into force yesterday, giving the newly-created regulator its full powers for regulation and oversight of the electronic communications sector.

With the Utilities Regulation and Competition Authority (URCA) now possessing its full powers, the transition to a new regulatory regime has begun.

During the transition, URCA is required to act to ensure maximum continuity. For this purpose, the functions and powers previously vested in the Public Utilities Commission (PUC) and the Television Regulatory Authority are transferred to URCA by law.

Firms and individuals authorized to provide services and to operate networks under the Telecommunications Act and the Broadcasting Act will be able to apply for a licence under the Communications Act. URCA is also contacting all existing licensees and will run a press campaign to inform the public.

To facilitate as smooth a transition as possible to the new licensing regime, a number of new documents were published on 1 September 2009.

These include:

- * Preliminary Determination covering several class operating and spectrum licences, exemptions, and types of licences
- * Individual operating and spectrum licences
- * Draft class operating and spectrum licences
- * Fee schedule
- * Radio Spectrum statement (existing allocations and assignment)
- * Various forms - Full Details Form and Notice of Objection Form for the transition, and an Application Form for a licence.

Used new URCA regulatory measures already adopted, all existing regulatory measures adopted by the Public Utilities Commission and the Television Regulatory Authority continue in force to the extent that they do not conflict with provisions of the Communications Act, the Utilities Regulation and Competition Authority Act, 2009; the Utiliti

Dr. Bernard Nottage

business

PUBLICATIONS

SMP

Preliminary Determination on the Cost of Capital for Designated SMP Operators
19 August, 2009

Results of Retail Price Regulation Consultation
21 September, 2009

Results of Access and Interconnection Regulation
24 September, 2009

Public Consultation on Preliminary Determination on Types of Obligations on SMP Operators
30 September, 2009

Final Determination on Cost of Capital
2 November, 2009

Competition Policy

ECS COMP. 1. Merger control - procedural guidance
18 September, 2009

ECS COMP. 2. Merger control - substantive guidance
18 September, 2009

ECS COMP. 3. Merger control - Regulation on fees
18 September, 2009

Licensing

Preliminary Determination on Class Licences, Exemptions and Types of Fees
1 September, 2009

Licensing Guidelines
1 September, 2009

Final Determination on Class Licences, Exemptions & Types of Fees
2 November, 2009

Other

Draft Consultation Procedure Guidelines
18 August, 2009

Statement on Radio Spectrum - Existing Allocation and Assignment
1 September, 2009

Draft Annual Plan and Strategy 2009 -2010
30 December, 2009

EVENTS

Executive management and colleagues along with the Board continued to build the new regime following URCA's mission, values and team commitments. The Board hosted an evening with its key stakeholders and URCA's colleagues.



CHAMPIONING CONSUMER RIGHTS

URCA has an important obligation to protect the interests and rights of consumers through effective and efficient regulation of electronic communications in The Bahamas. For the most part, market forces will drive improvements in quality service, prices and choice, however, consumers also have a significant role to play.

Consumers can become more informed about their rights, and demand better service from providers individually, or more effectively by creating bodies such as Consumer Association/Advocacy groups that will lobby on behalf of the public.

However, URCA, as the regulator, will do its part in:

- Promoting competition;
- Ensuring that the quality of services is satisfactory;
- Ensuring that prices for utility services are reasonable;
- Promoting and protecting consumer interest; and
- Publishing reports on the sectors it regulates.

URCA's responsibility is to monitor the industry and enforce licence conditions. As URCA continues its work, there will be procedures and mechanisms put in place to ensure the satisfactory resolution of consumer complaints. Consumers have the right to complain to URCA if there is not a satisfactory resolution of complaints from a service provider.

URCA continues to inform and educate the public with advertising and media exposure through speeches, presentations and town hall meetings, workshops and TV interviews.

URCA also published a supplement to give an overview of the new regime along with an infomercial that informs consumers of URCA.

LOOKING FORWARD

URCA will continue to work at improving and building its efficiency and regulatory effectiveness. There will be enhanced communication and dialogue with stakeholders and consumers as consultations continue.

URCA realizes that colleagues will have to also keep abreast of regulatory changes and trends and will, therefore, invest in further training and development of its people.

URCA will publish an Annual Plan that outlines the broad priorities and URCA's strategy for the financial year.

URCA is focusing on five main categories of Strategic Priorities covering the Electronic Communications Sector as key policy priorities which include:

- **Implementing Regulatory Safeguards** that are necessary for a level-playing field such as access and interconnection, retail price regulation, and fostering competition through relevant provisions of the Comms Act.
- **Promotion of Competition** in converging markets through new licences for fixed, pay TV, broadband, and cellular mobile services; driving forward market-based approaches to spectrum licensing, making available spectrum for cross-platform services; and removing barriers to switching suppliers.
- **Public Interest** policies that deliver on the objectives of providing quality public service broadcasting and protecting consumers through content regulation.
- **Consumer Protection** that empowers the public to make informed choices through educational programmes, developing and enforcing consumer protection policies, and driving improvements in quality of service.
- **Institutional Capacity Building** by ensuring that URCA has skilled and trained colleagues and is efficiently resourced to carry out its functions.

The further strengthening of URCA's reputation for being fair and transparent remains key to the fulfilment of its mandate.



INDEPENDENT AUDITORS' REPORT

To the Members of the Utilities Regulation and Competition Authority

We have audited the accompanying financial statements of the Utilities Regulation and Competition Authority (the Authority), which comprise the statement of financial position as of 31 December 2009, and the statement of comprehensive income, statement of changes in net assets and statement of cash flows for the period 1 August 2009 (date of establishment) to 31 December 2009, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

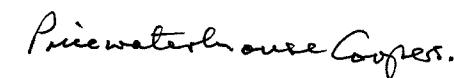
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Authority as of 31 December 2009, and its financial performance and its cash flows for the period 1 August 2009 (date of establishment) to 31 December 2009 in accordance with International Financial Reporting Standards.



**Chartered Accountants
 Nassau, Bahamas**

30 April 2010

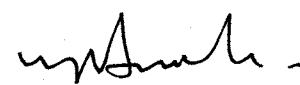
**FINANCIAL STATEMENTS
 INDEPENDENT AUDITORS' REPORT
 1 AUGUST - 31 DECEMBER 2009**

The Utilities Regulation and Competition Authority
(Established under the laws of the Commonwealth of The Bahamas)

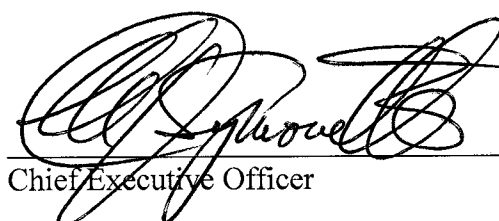
Statement of Financial Position
As of 31 December 2009
(Expressed in Bahamian dollars)

	\$
ASSETS	
Cash on hand and at banks	4,946,087
Accounts receivable (Note 3)	7,094,733
Due from agent (Note 4)	83,325
Prepaid expenses and other assets	353,127
Pension asset (Note 5)	163,206
Property, plant and equipment (Note 6)	<u>173,019</u>
Total assets	<u>12,813,497</u>
LIABILITIES	
Accounts payable and accrued expenses	467,223
Due to agent (Note 4)	41,089
Deferred revenue (Note 7)	<u>5,807,367</u>
Total liabilities	<u>6,315,679</u>
NET ASSETS	<u>6,497,818</u>
REPRESENTED BY:	
Contributed surplus (Note 8)	6,290,160
Electronic communications fund	<u>207,658</u>
Total net assets	<u>6,497,818</u>

APPROVED AND AUTHORISED FOR ISSUE BY THE BOARD AND SIGNED ON ITS BEHALF BY:



Chairperson



Chief Executive Officer

30 April 2010
Date

The Utilities Regulation and Competition Authority

Statement of Comprehensive Income
For the Period 1 August 2009 (Date of Establishment) to 31 December 2009
(Expressed in Bahamian dollars)

	\$
REVENUE	
Electronic communications operating licence fees	1,733,868
Telecommunications, radio communications and other fees	<u>794,727</u>
Total revenue	<u>2,528,595</u>
EXPENSES	
Legal, professional and consultancy fees	1,114,379
Salaries and employee benefits (Note 5)	859,867
Depreciation (Note 6)	98,916
Office	64,978
Data processing	52,725
Rent	51,864
Agency fees	41,184
Training	14,494
Public consultation and education	25,520
Utilities	24,512
Travel	15,635
Repairs and maintenance	8,502
Insurance	7,654
Provision for doubtful accounts (Note 3)	6,685
Vehicle and equipment maintenance	<u>2,345</u>
Total expenses	<u>2,389,260</u>
Operating income	139,335
Interest income	<u>68,323</u>
Total comprehensive income	<u>207,658</u>

The Utilities Regulation and Competition Authority

Statement of Changes in Net Assets

For the Period 1 August 2009 (Date of Establishment) to 31 December 2009
(Expressed in Bahamian dollars)

	Contributed Surplus \$	Electronic Communications Fund \$	Total \$
Initial contributed surplus (Note 8)	6,290,160	-	6,290,160
Total comprehensive income	<u>-</u>	<u>207,658</u>	<u>207,658</u>
Balance as of 31 December 2009	<u>6,290,160</u>	<u>207,658</u>	<u>6,497,818</u>

The Utilities Regulation and Competition Authority

Statement of Cash Flows

For the Period 1 August 2009 (Date of Establishment) to 31 December 2009
(Expressed in Bahamian dollars)

	\$
CASH FLOWS FROM OPERATING ACTIVITIES	
Total comprehensive income	207,658
Adjustments for non-cash items:	
Depreciation	98,916
Provision for doubtful accounts	6,685
Interest income	(68,323)
(Increase)/Decrease in operating assets	
Accounts receivable	(6,284,048)
Due from agent	291,110
Prepaid expenses and other assets	(284,917)
Pension asset	(14,681)
Increase/(Decrease) in operating liabilities	
Accounts payable and accrued expenses	288,717
Due to agent	(138,340)
Deferred revenue	4,389,143
Interest received	<u>81,568</u>
Net cash used in operating activities	<u>(1,426,512)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Net increase in term deposits with original contractual maturities greater than three months	(58,969)
Purchase of property, plant and equipment	<u>(22,660)</u>
Net cash used in investing activities	<u>(81,629)</u>
Decrease in cash and cash equivalents	(1,508,141)
Cash and cash equivalents as of beginning of period	<u>4,333,712</u>
Cash and cash equivalents as of end of period	<u>2,825,571</u>
CASH AND CASH EQUIVALENTS	
Cash on hand and at banks	4,946,087
Term deposits with original contractual maturities greater than three months	(2,115,681)
Accrued interest	<u>(4,835)</u>
	<u>2,825,571</u>

The Utilities Regulation and Competition Authority

Notes to the Financial Statements 31 December 2009

1. General Information

The Utilities Regulation and Competition Authority (the Authority) was established on 1 August 2009, as a corporate body, under the Utilities Regulation and Competition Authority Act, 2009 (the Act). The offices of the Authority are located at Agape House, 4th Terrace East, New Providence, Bahamas.

The functions of the Authority are: i) to ensure that utility services are satisfactory and that the charges imposed in respect of these services are reasonable; ii) to promote the interest of consumers, whilst enabling service providers that operate efficiently to finance the provision of utility services; iii) to publish information, reports and other documents relating to utility services; and iv) to promote effective competition consistently and in accordance with any policy established by the Government of the Commonwealth of The Bahamas (the Government) for that sector.

Currently, the Authority only regulates electronic communications. It will commence regulating the other sectors on dates to be determined by the Government, and following the necessary amendments to the legislation governing those sectors. The electronic communications sector is regulated in accordance with the Communications Act, 2009 and the Electronic Communications Sector Policy.

The Act provided for the dissolution of the Public Utilities Commission (the PUC) and the Television Regulatory Authority (the TRA) and for the transfer of their property and contracts to the Authority, together with all functions and powers required to ensure the effectiveness and continuity of regulation. The TRA, which had not commenced any activities, had no assets and liabilities. Prior to the coming into force of the Communications Act, 2009 and the Electronic Communications Sector Policy, the Authority regulated radio communications, telecommunications (including internet) and broadcasting services in accordance with the Telecommunications Act, 1999 and the Telecommunications Sector Policy.

Further, the Utilities Appeal Tribunal Act, 2009 has come into force and provides for the Tribunal that will adjudicate all matters relating to sectors regulated by the Authority.

2. Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below.

(a) Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and under the historical cost convention. The preparation of financial statements in accordance with IFRS requires management to exercise its judgment in the process of applying its accounting policies.

The Utilities Regulation and Competition Authority

Notes to the Financial Statements 31 December 2009 (Continued)

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

It also requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Notes 2(d), 2(g) and 2(h).

The application of new standards and amendments and interpretations to existing standards that have been published but are not yet effective are not expected to have a material impact on the Authority's accounting policies or financial statements in the period of initial application.

(b) Foreign currency translation

The financial statements are presented in Bahamian dollars, which is the Authority's functional and presentation currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from settlement of such transactions and from translation of monetary assets and liabilities at year end exchange rates are recognised in the statement of comprehensive income.

(c) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, call accounts at bank and term deposits with original contractual maturities of three months or less.

(d) Accounts receivable

Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Authority will not be able to collect all amounts due according to the original terms of the receivables.

The Utilities Regulation and Competition Authority

Notes to the Financial Statements
31 December 2009
(Continued)

2. Summary of Significant Accounting Policies (Continued)

(d) Accounts receivable (continued)

The amount of provision is the difference between the asset's carrying amount and the present value of future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of a provision account, and the amount of the loss is recognised in the statement of comprehensive income. When an account receivable is uncollectible, it is written off against the provision for doubtful accounts. Subsequent recoveries of amounts previously written off are credited to the statement of comprehensive income.

No provision is made against accounts receivable from the Government, or entities which it controls, except to discount expected future cash flows.

(e) Property, plant and equipment

Property, plant and equipment are stated at historical cost, less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Authority and the cost of the item can be measured reliably. Repairs and maintenance costs are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is provided on a straight-line basis over the estimated useful lives of the assets as follows:

Leasehold improvements	Lesser of lease term and 10 years
Information systems	3 – 5 years
Vehicles	5 years
Furniture and office equipment	5 years

Assets' useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date or when an event has occurred that indicates a need to reevaluate useful lives. Assets subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the statement of comprehensive income.

The Utilities Regulation and Competition Authority

Notes to the Financial Statements
31 December 2009
(Continued)

2. Summary of Significant Accounting Policies (Continued)

(f) Accounts payable

Accounts payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(g) Income and expense recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when the amount of revenue can be reliably measured and when it is probable that future economic benefits will flow to the Authority.

Revenue from licensing activities is recognised over the period of the applicable licence, with amounts collected in relation to future periods being deferred in the statement of financial position. Certain licence fees are fixed and others are based on the revenues of the licensees. For licence fees based on licensee revenue, the Authority makes an estimate of the fee based on the latest available financial information of the licensee and recognises any increase or decrease in that estimate upon receipt of the final revenue amounts of the licensee for the applicable licence period. The applicable revenues for fee purposes are those earned in the licensee's fiscal year ending within the licence period.

Interest income is recognised using the effective interest method. Agency fees are recognised at the time that they are incurred, which generally coincides with disbursement. All other income and expenses are recognised on the accrual basis of accounting.

(h) Employee benefits

The Authority operates a defined benefit pension plan, which requires contributions, determined by periodic actuarial calculations, to be made to a separately administered fund. A defined benefit pension plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The asset/liability recognised in the statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the date of the statement of financial position less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method.

The Utilities Regulation and Competition Authority

Notes to the Financial Statements

31 December 2009

(Continued)

2. Summary of Significant Accounting Policies (Continued)

(h) Employee benefits (continued)

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of Government bonds that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the fair value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives. Past-service costs are recognised immediately in employee benefits expense, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Salaries and other employee benefits are recognised on the accrual basis of accounting.

(i) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under the operating lease are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

(j) Taxation

The Authority is established under the laws of the Commonwealth of The Bahamas and therefore is not subject to income or capital gains taxes.

(k) Fiduciary activities

The Authority regulates certain elements of the electronic communications sector and collects fees from licensees on behalf of the Government. No account is taken in these financial statements of the transactions and balances associated with these activities, which are carried out in a fiduciary capacity.

The Utilities Regulation and Competition Authority

Notes to the Financial Statements

31 December 2009

(Continued)

3. Accounts Receivable

	\$
Trade receivables	7,180,436
Provision for doubtful accounts	<u>(85,703)</u>
Total	<u>7,094,733</u>
Movements in provision for doubtful accounts are as follows:	
	\$
Opening balance	79,018
Provision for doubtful accounts	<u>6,685</u>
Closing balance	<u>85,703</u>

4. Agency Agreement

On 4 September 2002, the Minister responsible for telecommunications approved a vesting order effective 25 March 2000, transferring from the Bahamas Telecommunications Company (BTC), a company wholly owned by the Government, to the PUC all property, rights and liabilities relating to the regulatory undertakings of BTC. Included in the rights transferred to the PUC was an agency agreement dated 4 June 1998, between BTC and the Bahamas Maritime Authority (BMA), which authorised BMA to process and issue radio communications licences on behalf of BTC. Under the agreement BMA, an agency of the Government, collected all licence revenues for the PUC, with a percentage of the revenues being payable to BMA for its services. Amounts receivable and payable to BMA are shown in the statement of financial position as due from agent and due to agent, respectively. The agency arrangement was transferred to the Authority on dissolution of the PUC and subsequently terminated upon the coming into force of the Communications Act. Balances outstanding as of 31 December 2009 were settled subsequent to the period end.

5. Employee Benefits

The Authority's pension plan (the Plan) is a non-contributory defined benefit pension plan established for the provision of pension benefits to the members of the Plan. As of 31 December 2009, there are 17 members participating in the Plan. All assets for the Plan are invested in a fund managed and administered by an independent investment manager. The Plan is subject to actuarial valuations at least every 3 years, and the latest actuarial valuation was performed by an independent actuary as of 31 December 2009.

The Utilities Regulation and Competition Authority

Notes to the Financial Statements
31 December 2009
(Continued)

5. Employee Benefits (Continued)

The following tables summarise the components of net pension benefit expense and the funded status and amounts recognised in the statement of financial position for the Plan as determined as of the date of the last actuarial review.

Pension benefit expense comprises:

	\$
Current service cost	48,226
Interest cost	26,379
Expected return on plan assets	<u>(33,292)</u>
Total, included in salaries and employee benefits	<u>41,313</u>
Actual return on plan assets	<u>25,296</u>

The pension asset is analysed as follows:

	\$
Present value of obligations	1,050,545
Fair value of plan assets	<u>(1,384,962)</u>
	(334,417)
Unrecognised actuarial gain	<u>171,211</u>
Asset in statement of financial position	<u>(163,206)</u>

Movements in the benefit obligation comprise:

	\$
Present value of obligation, beginning of period	1,052,799
Current service cost	48,226
Interest cost	26,379
Actuarial gain on obligation	<u>(76,859)</u>
Present value of obligation, end of period	<u>1,050,545</u>

The Utilities Regulation and Competition Authority

Notes to the Financial Statements
31 December 2009
(Continued)

5. Employee Benefits (Continued)

Movements in the fair value of plan assets comprise:

	\$
Fair value of plan assets, beginning of period	1,303,672
Expected return on plan assets	33,292
Contributions	55,994
Actuarial loss on obligation	<u>(7,996)</u>
Fair value of plan assets, end of period	<u>1,384,962</u>

Movements in the asset in the statement of financial position comprise:

	\$
Asset, beginning of period	(148,525)
Pension benefit expense	41,313
Contributions	<u>(55,994)</u>
Asset, end of period	<u>(163,206)</u>

The principal assumptions used are shown below:

Discount rate	5.75%
Expected rate of return on plan assets	5.50%
Future salary increases	5.00%

Mortality rates have been taken from the 1994 Group Annuity Mortality Table.

The Plan is responsible for making full pension payments to public officers transferred to the PUC that are still participants in the Plan for their period of employment in the Public Service and the PUC (that is, pension will be based on combined employment with the Public Service, the PUC and the Authority). The Plan has the right to claim reimbursement from the Government for pension payments made to these persons in relation to the period of employment in the Public Service. Currently, no pension payments are being made to these persons.

The Utilities Regulation and Competition Authority

Notes to the Financial Statements

31 December 2009

(Continued)

6. Property, Plant and Equipment

	Leasehold Improvements	Information Systems	Vehicles	Furniture & Office Equipment	Total
	\$	\$	\$	\$	\$
Cost					
1 August 2009	440,733	592,468	53,200	227,733	1,314,134
Additions	-	19,482	-	3,178	22,660
31 December 2009	440,733	611,950	53,200	230,911	1,336,794
Accumulated Depreciation					
1 August 2009	388,728	456,001	41,847	178,283	1,064,859
Depreciation expense	52,005	40,292	2,393	4,226	98,916
31 December 2009	440,733	496,293	44,240	182,509	1,163,775
Net book value as of:					
31 December 2009	-	115,657	8,960	48,402	173,019

7. Deferred Revenue

	\$
Electronic communications operating licence fees	4,957,140
Telecommunications, radio communications and other fees	850,227
Total	5,807,367

All electronic communications operating licence fees are current. The current portion of other fees total \$393,852, with the remaining balance to be recognised over periods up to 5 years.

8. Contributed Surplus

As discussed in Note 1, the Act dissolved the PUC and transferred its net assets, amounting to \$6,290,160, to the Authority as of the date of its establishment. The net assets transferred have been designated contributed surplus and comprised:

The Utilities Regulation and Competition Authority

Notes to the Financial Statements

31 December 2009

(Continued)

8. Contributed Surplus (Continued)

	\$
ASSETS	
Cash on hand and at banks	6,408,504
Accounts receivable	817,370
Due from agent	374,435
Prepaid expenses and other assets	68,210
Pension asset	148,525
Property, plant and equipment	249,275
Total assets	8,066,319
LIABILITIES	
Accounts payable and accrued expenses	178,506
Due to agent	179,429
Deferred revenue	1,418,224
Total liabilities	1,776,159
NET ASSETS	6,290,160

9. Balances and Transactions with Related Parties

Related parties comprise: i) Government ministries and departments; ii) Government corporations and agencies; iii) entities controlled by the Government; iv) entities in which the Government has a significant ownership interest; and v) key management personnel. Balances and transactions with related parties, not otherwise disclosed in the financial statements, include:

	\$
Assets	
Cash at bank	3,599,389
Accounts receivable	5,362,599
Liabilities	
Accounts payable and accrued expenses	11,910
Deferred revenue	3,427,755
Revenue	
Electronic communications operating licence fees	1,558,071
Telecommunications, radio communications and other fees	321,673
Expenses	
Utilities	24,512

The Utilities Regulation and Competition Authority

Notes to the Financial Statements

31 December 2009

(Continued)

9. Balances and Transactions with Related Parties (Continued)

Key Management Compensation

Key management personnel comprise the members of the Board, the chairman of the Audit Committee and members of the Executive Committee. The executive members of the Board and four other members of the Authority's senior management constitute the Executive Committee. Compensation of key management personnel for the period for salaries and other short term benefits amounted to \$418,394.

10. Commitments and Contingencies

Commitments

The Authority entered into an eight month extension of its current lease for office space, which was originally due to expire 31 December 2009. In addition, the Authority has signed a five year lease for new office space, which commences 1 June 2010. Future minimum rental payments required under the current and new operating leases are as follows:

	\$
2010	270,750
2011	283,200
2012	290,400
2013	297,600
2014	304,800
2015	128,250

In addition, the Board has approved the commitment for expenditures totaling \$900,000 for leasehold improvements and furnishings for the new office space of which \$224,000 has already been spent at year-end and included in prepaid expenses.

Contingencies

The Authority is party to several legal cases mainly involving its major licensees in the electronic communications sector, including a related party. In most instances, the cases involve breaches of the Telecommunications Act and Telecommunications Sector Policy asserted by the Authority, or challenges against the rulings by the Authority brought by licensees. Costs associated with these legal cases are uncertain, and will depend on whether or not the Authority is successful; which is not possible to predict. Accordingly, no provisions have been made in these financial statements relative to the legal proceedings.

The Utilities Regulation and Competition Authority

Notes to the Financial Statements

31 December 2009

(Continued)

11. Financial Risk Management

The Authority engages in transactions that expose it to credit risk, liquidity risk and interest rate risk in the normal course of business. The Authority's financial performance is affected by its capacity to understand and effectively manage these risks.

(a) Credit risk

Credit risk arises from the potential failure of a counterparty to perform according to the terms of the contract. The Authority's exposure to credit risk is concentrated in its cash at banks, accounts receivable and due from agent. The Authority mitigates the risk associated with cash at banks by placing its deposits with financial institutions in good standing with the Central Bank of The Bahamas. The risk associated with accounts receivable from non-related parties is mitigated by the monitoring of payment history before continuing to extend credit to licensees. Accounts receivable from related parties and due from agent are considered to have minimal credit risk, as this risk is with the Government.

The Authority in its effort to minimise credit risk exposure monitors the account receivable balances ensuring that all efforts are expended in order to reduce accounts with long overdue balances. The aged analysis of accounts receivable comprises:

	\$
<i>Days Outstanding</i>	
0 – 90 days	6,913,249
91 – 180 days	15,233
181 – 365 days	34,585
More than 365 days	217,369

Based on its experience, the Authority considers balances less than 180 days to have acceptable credit quality. Of the balances with an aging greater than 180 days, approximately 60% represent receivables from related parties.

(b) Liquidity risk

The objective of liquidity management is to ensure the availability of sufficient funds to honour all of the Authority's financial commitments as they become due. The Authority maintains a level of liquid assets that mature in the short term or could be redeemed immediately to meet cash requirements for normal operating purposes. The Authority has the ability, under the Act, to charge supplemental fees to licensees in order to cover operating expenses.

As of 31 December 2009, all of the Authority's liabilities, except deferred revenue of \$456,375, are due within one year.

The Utilities Regulation and Competition Authority

NOTES

Notes to the Financial Statements

31 December 2009

(Continued)

11. Financial Risk Management (Continued)

(c) Interest rate risk

Interest rate risk is the risk that future cash flows or fair value of a financial instrument will fluctuate because of changes in market interest rates. The Authority's exposure to cash flow interest rate risk is concentrated in its time deposits, and the Authority has elected not to hedge this risk as it is not considered significant. The Authority does not have any significant fair value interest rate risk.

12. Fair Value of Financial Instruments

Financial instruments utilised by the Authority include the recorded financial assets and liabilities, and their estimated fair values approximate their carrying value due to the relatively short term nature of these instruments.

13. Capital Management

The Authority's objective when managing capital are to: i) safeguard its ability to continue as a going concern; and ii) maintain a capital base sufficient to support the expected expansion of its regulatory powers and associated operations.

13. Subsequent event

Subsequent to 31 December 2009, the Board approved the appropriation of \$3,000,000 of its contributed surplus to a separate reserve for utilisation in preparing to regulate the energy and water sectors.

NOTES

