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APPLICATION TO INTRODUCE A NEW BASIC PAY TELEVISION SERVICE: "PRIME LOCAL"

**Submitted to the
Utilities Regulation and Competition Authority**

October 7, 2014

**Filed by
Cable Bahamas Ltd.**

Certain information provided in this Application is being filed in confidence with URCA. All such information is marked with a "#" symbol in the Application which includes all forecast financial data and information contained in the Application. CBL routinely treats such information as strictly confidential. Release of such information would provide existing or potential competitors with valuable competitive intelligence on the CBL's current and projected cost structure and operations that would not normally be available to them and which would enable them to develop more effective business strategies, causing specific direct harm to CBL. The Company therefore requests that URCA neither publish nor reveal this confidential information to any other person. This Abridged version of this Application is provided for public distribution.



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EXECUTIVE SUMMARY

With this Application, Cable Bahamas Ltd. ("CBL") is seeking approval to introduce a new basic television service for residential customers which would be branded as "RevTV Prime Local" service (referred to herein as "Prime Local" or "PLS"). The proposed PLS would be priced at \$10 per month and would include the following 6 diverse and informative television channels:

- ZNS Channel 13
- Parliamentary Channel
- CALA Weather
- Jones Communications Network (JCN)
- Bahamas Christian Network (BCN)
- PBS – WPBT2

PLS would be available to all residential customers in areas served by CBL's two-way digital cable network facilities which, as a result of its multi-year network digitization initiative, now cover approximately 96% of the population of the Bahamas. The planned launch date for the proposed PLS is November 1, 2014 or as soon as possible thereafter. This Application is being made simultaneously with a separate SuperBasic Application dated 18 August 2014 seeking approval to simultaneously implement an increase in the monthly price of "RevTV Prime" or, otherwise referred to as, "SuperBasic" in digitized areas.

CBL is introducing the PLS to fulfill its universal service obligation ("USO") under section 119(1) and Schedule 5 of the Communications ("Comms") Act in digitized areas. As such, the monthly price of \$10 for the proposed PLS has been set with regard to the principle of "affordability" rather than full recovery of the costs of provisioning the service. In respect of the islands that have a one-way network as an interim measure it is proposed that URCA treat the current offering as satisfying the requirements of section 119 and schedule 5 of the Comms. Act.

CBL submits that the proposed introduction of PLS is fully justified and supported by the evidence provided in this Application. Therefore, CBL respectfully requests that this Application be approved expeditiously so that the new PLS may be launched by November 1, 2014 or as soon as possible thereafter.



1.0 INTRODUCTION

With this Application, Cable Bahamas Ltd. ("CBL" or the "Company") is seeking approval from the Utilities Regulation and Competition Authority ("URCA") to introduce a new basic television service to be branded as "RevTV Prime Local" service (referred to herein as "Prime Local" or "PLS"). Prime Local would include 6 television diverse and informative channels and be priced at \$10 per month. The new service would be available to residential customers in areas served by CBL's two-way digital cable network facilities which, as a result of its multi-year network digitization initiative, now cover approximately 96% of the population of the Bahamas.

CBL is introducing the PLS to fulfill its universal service obligation ("USO") under section 119(1) and Schedule 5 of the Comms Act in digitized areas. As such, the monthly price of \$10 for the proposed PLS has been set with regard to the principle of "affordability" rather than full recovery of the costs of provisioning the service. In respect of the islands that have a one-way network as an interim measure it is proposed that URCA treat the current offering as satisfying the requirements of section 119 and schedule 5 of the Comms. Act.

CBL also notes that this Application is being filed along with a separate SuperBasic Application, dated 18 August 2014, seeking approval to implement a permanent increase in the monthly price of "RevTV Prime" or, as referred to therein, "SuperBasic" (i.e., the "SuperBasic Application") in digitized areas.

CBL is proposing to introduce Prime Local on November 1, 2014 or as soon as possible thereafter, at the same time that CBL is also proposing to implement its proposed price increase to the SuperBasic service. As noted in the SuperBasic Application, the proposed increase to the residential SuperBasic price would only apply in the case of subscribers served by CBL's two-way digital cable network facilities and, therefore, for whom Prime Local would also be available.

URCA's *Regulation of Retail Prices for SMP Operators – Rules¹* (the "Price Regulation Rules") set out the approval requirements for the proposed introduction and pricing of new services, including USO services, in Price Regulated markets. The following sections of this Application address each of these requirements in order to provide the required rationale and supporting evidence for CBL's proposed new PLS.

¹ URCA, ECS06/2014, 22 April 2010.



2.0 PRICE REGULATION RULES REQUIREMENTS

Part K of the Price Regulation Rules set out specific requirements relating to applications to change the price of an existing Price Regulated USO service or introduce a pricing plan for a new Price Regulated USO service. In either case, it requires the Applicant follow the requirements of Parts B through E of the Price Regulation Rules (i.e., paragraphs 6 to 22 and particularly paragraphs 6 to 10, 11, 15.1 and 15.3). These paragraphs set out specific informational and data requirements that must be included in such applications.

CBL notes that paragraph 6 of Part B of the Price Regulation Rules states that applications should include, among other things, "(monthly) data on the current and expected demand, actual and projected revenues and costs" associated with the service in question. In this respect, CBL notes that it is providing a forecast of current year demand, revenue and cost data in this Application (i.e., 2014) in addition to two years of forecast data (i.e., for 2015 and 2016). While certain demand information is provided on a monthly basis for the current year and the two year forecast period, forecast revenue and cost data is provided on an annual basis. In CBL's submission, annual revenue and cost data should provide URCA with an effective basis to review and assess this Application.

With respect to the specific provision of cost data, paragraph 7 of Part B of the Price Regulation Rules states that:

Where possible and applicable, cost data should be provided by the SMP operator that satisfies the Accounting Separation and Cost Accounting Guidelines issued by URCA and should reflect the latest available Accounting Separation data available to the SMP operator, subject to the data having been approved by URCA.

CBL notes in this respect that, following this provision, it is providing cost data in this Application which is compliant with the Accounting Separation and Cost Accounting Guidelines ("AS Methodology") issued by URCA.

Lastly, paragraph 9 of the Price Regulation Rules states that "[a]ny quantitative information needs to be provided to URCA in electronic format (i.e., in the form of a clearly labelled Microsoft Excel spreadsheet setting out the information and/or analysis, including any assumptions made during the analysis)". In this respect, CBL notes that it is providing a single confidential Excel spreadsheet in conjunction with this Application as well as the SuperBasic Application which satisfies this requirement (i.e., the "CBL Applications Spreadsheet").

In what follows, each of the specific requirements set out in section 19 of Part E and paragraph 57 of Part K of the Price Regulation Rules are addressed.



2.1 Service Description (Section 19.1)

Prime Local would provide residential subscribers with access to 6 diverse and informative television channels at a monthly recurring price of \$10. The mandatory requirement to include ZNS Channel and the Parliamentary Channel is complimented by channels that would appeal to a wide range of interest and relevant in all respect to the local population. The channels included in the PLS package are summarized in Table 1.

Table 1 – Prime Local Channel

Channel	Name	Classification	Description
11	ZNS	Local	The national TV and public service broadcaster operated by the state owned Broadcasting Corporation of The Bahamas. ZNS TV, is now available in HD, produces programming for the entire family, from daily local news from around The Bahamas, to community oriented shows, weekly arts and entertainment and other cultural shows, religious and inspirational shows, youth and educational programs. ZNS carries major sporting events such as the Olympics, the Commonwealth Games and CARIFTA. It also broadcasts local sporting events. Movies and prime time US programming rounds out the offering.
14	JCN	Local	A subsidiary of the Jones Communications Network. It is the home of The Platform, Bahamian Idol, Supermodel 101 Dialogue, Inside View, People Helping People, and Jones & Co. JCN offers daily programming covering news, sports and entertainment. The channel broadcasts headlines at 5:00pm and the full news at 7:00pm. The daily lineup also includes new segments with local and international guests on the popular show Jones & Co.
	CalaWeather	Weather	A 24/7 weather channel that provides up to the minute weather information on more than 200 major television stations around the world. The channel's hourly and minute by minute forecasts provides superior accuracy for nearly 3 million locations worldwide, with customized content and engaging video presentations available on smart phones, tablets, free wired and mobile internet sites. CalaWeather also provides up to the minute local weather conditions and showcases the weather maps for the entire Bahamas and the surrounding areas.



13	WPBT2 (PBS)	U.S.	This channel broadens the boundaries of communication, and is an agent for innovation and growth; culturally, socially, economically and historically. The network is a vibrant force in the South Florida community that entertains, enlightens, and educates with highlights from the local theatrical and concerts scenes. WPBT2 (PBS) is community-supported and takes pride in reflecting the diversity of the region, home and work life.
40	Parliamentary Channel	Local	This channel provides access to all the proceedings of the legislative bodies of The Commonwealth of The Bahamas. It broadcasts live and recorded coverage of the House of Assembly and the Senate and the parliamentary committees thus allowing all citizens to participate in current and national issues debated.
55	BCN (Bahamas Christian Network)	Local Religious	This channel is the first and only 24/7 TV station (all christian) located in The Bahamas. BCN is based in Abaco and provides religious programmes showcasing various denominations, outreach programmes, skits, music videos, television shows etc. In addition to covering activities in Nassau, BCN's content includes activities throughout the islands of The Bahamas as well as programming from the United States.

PLS subscribers would be restricted from adding digital premium tier services (such as HBO and Showtime) or accessing pay-per-view services. To access digital premium tier services, a subscriber would have to subscribe to SuperBasic at a minimum.

PLS would be simultaneously launched in New Providence, Grand Bahama, Abaco and parts of Eleuthera where CBL's two-way digital cable TV network facilities exist, which would cover approximately 96% of the population of The Bahamas.

2.2 Targeted Customer Segment (Section 19.2)

As noted, CBL is introducing the PLS to fulfill its universal service obligation ("USO") under section 119(1) and Schedule 5 of the Comms Act.

In this context, PLS is targeted at residential subscribers who prefer a cable service that is more affordable than SuperBasic.



2.3 Proposed Effective Date (Section 19.3)

Subject to URCA's approval of this Application and the associated subscriber notification requirements set out in section 15 of the Price Regulation Rules, CBL proposes that the Prime Local service be launched effective November 1, 2014 or as soon as possible thereafter.

2.4 Current Prices (Section 19.4)

This provision of the Price Regulation Rules does not apply in the case of PLS given it is a new service.

2.5 Proposed Prices (Section 19.5)

The proposed monthly recurring price of Prime Local is \$10.

Additional non-recurring fees for PLS would include: installation (\$40), transfer/reconnection (\$40), late payment fee (\$5.50) and single service security deposit (\$20). Note that these are the same fees that apply in the case of SuperBasic, other than the single service security deposit which is lower in the case of PLS.

2.6 Any Proposed Changes to Applicable Terms & Conditions (Section 19.6)

This provision of the Price Regulation Rules does not apply in the case of PLS given it is a new service.

That said, CBL notes that PLS would be made available under the same general terms and conditions applicable to SuperBasic service. The one exception, as noted above, would be that PLS subscribers would be restricted from adding digital premium tier services (such as HBO and Showtime), accessing pay-per-view services or video-on-demand.

A cable set-top box ("STB") is required to access PLS. The same terms and conditions applicable to CBL's SuperBasic service in this regard would also apply to PLS. New PLS customers may rent or purchase a STB from CBL. Current STB monthly rental rates start at \$2.00 and STB purchase prices start at \$70.² Existing SuperBasic subscribers who migrate to PLS would already own or rent a STB from CBL and, therefore, would have no need to make any changes to their existing STB arrangements when migrating to PLS.

² For instance, CBL currently offers the Motorola DCT 2500 standard definition STB at a monthly rental rate of \$2.00 and new and refurbished Motorola DCT 700 standard definition STBs at monthly rental rates of \$3.00 and \$5.00, respectively. In the later case, customers may also purchase a refurbished or new Motorola DCT 700 for \$70 or \$125, respectively.



2.7 Commercial Rationale for the Proposed Price Change (Section 19.7)

This provision of the Price Regulation Rules does not apply in the case of PLS given it is a new service.

2.8 Pricing Principle for the Service in Question (Section 19.8)

The price of PLS has been set on the principle "affordability" in compliance with section 119(1) of the Comms Act and Part K of the Price Regulation Rules. CBL addresses the issue of affordability in Section 3.0 below.

CBL notes that the proposed \$10 price of PLS falls well short of covering the projected costs for the service, including the Company's cost of capital (at the currently URCA-approved regulated RoMCE of 10.86%). As shown in Section 2.9.2 below, at a price of \$10, the projected return on PLS is negative.

2.9 Relevant Data (Section 19.9)

CBL has developed forecast revenues and costs for Prime Local utilizing URCA's established AS Methodology. Under this approach, the new PLS would be assumed to fall within the Basic TV business segment along with SuperBasic service. In addition, the "separated" costs of the new PLS would be expected to be similar, in many respects, to the "separated" costs for SuperBasic.

In what follows, forecast demand, revenue and cost data for the new PLS are provided for 2014, 2015 and 2016. More detailed data and information, including specific assumptions relating to the projection of 2014, 2015 and 2016 demand, revenues and costs, are provided in the CBL Applications Spreadsheet.

2.9.1 Forecast PLS Demand and Revenue (Sections 19.9.1 to 19.9.3)

Under CBL's proposal, Prime Local would be priced at \$10 per month and would launch on November 1, 2014. As noted, CBL proposes to increase the price of the residential SuperBasic service at the same time.

There are two potential sources of demand for the new PLS:

- i) customer migration from SuperBasic, and
- ii) new demand.

In the first case, which CBL expects will account for the vast majority of the demand for the new service, a significant number of SuperBasic subscribers can be expected to migrate to Prime



Local since it provides them with a new very low priced pay TV option and also in response to the proposed increase in the SuperBasic service (i.e., effectively cross-price elasticity effects). In this respect, CBL notes that roughly # existing SuperBasic-only subscribers also subscribe to satellite TV services.³ CBL surmises that these customers subscribe to SuperBasic mostly, if not entirely, to obtain local TV services available on SuperBasic. CBL expects that a large percentage of these subscribers would likely migrate to the significantly lower priced PLS. CBL also expects that a significant number of additional SuperBasic subscribers would likely migrate to the new much lower priced PLS. Overall, based on CBL's experience in the market, it conservatively estimates that in the order of # SuperBasic subscribers in total would likely migrate to the PLS.

In the second case, CBL expects that some additional new demand would arise for the PLS given its very low proposed price point and that it provides access to local television channels. However, given the pay TV market is largely saturated in The Bahamas, CBL expects that any such new demand would likely be limited. CBL expects, therefore, that in the order of # new cable TV customers would likely subscribe to PLS.

In total, therefore, CBL estimates that # customers would likely subscribe to Prime Local in the intermediate term. Further, CBL estimates that this total demand estimate would be reached over the course of an 18 month period, with more than half of the total estimate being achieved in the first 6 months. Table 2 provides a summary of the expected number of PLS subscribers as of year-end 2014, 2015 and 2016 and on an average annual basis, based on a launch date of November 1, 2014.

Table 2 – Forecast PLS Subscriber Levels
(with residential SuperBasic price increase in effect)

	2014F	2015F	2016F
Migrating Subscribers (year-end)	#	#	#
New Subscribers(year-end)	#	#	#
Total PLS Subscribers (year-end)	#	#	#
Total PLS Subscribers (average annual)	#	#	#

Details of the subscriber impact assumptions associated with the introduction of Prime Local together with the proposed SuperBasic price increase, broken out on a monthly basis, are provided in the CBL Applications Spreadsheet.

³ This subscriber figure is based on CBL customer survey findings.



2.9.2 Forecast PLS Revenues, Costs and Profit/Losses (Section 19.9.4)

Forecast revenues for PLS are based on the forecast demand for the new services, under the assumption that subscribers are paying \$10 per month for the service. In addition, new subscribers would be required to pay a one-off installation fee of \$40. Otherwise, the one-off fees would not apply in the case of existing SuperBasic subscribers who migrate to PLS. Forecast PLS revenues for the 2014, 2015 and 2016 are provided in Table 3 below.

Costs for Prime Local are estimated based on CBL's 2013 SuperBasic costs derived following the established AS Methodology. Using CBL's 2013 SuperBasic unit costs as a starting point, CBL made cost adjustments to reflect Prime Local's (i) lower content and regulatory fees, (ii) lower sales and marketing costs, and (iii) lower network capacity costs relative to SuperBasic. In 2013, SuperBasic unit costs (including the cost of capital) were determined to be \$ # . Based on the above-noted cost adjustments, CBL estimates that the PLS unit costs would be \$ # . Lower content costs for Prime Local account for the vast majority of the difference between the two unit cost figures.

It should also be noted that the SuperBasic and Prime Local unit costs apply to the existing subscriber base – i.e., existing SuperBasic subscribers who continue to subscribe to SuperBasic or otherwise migrate to Prime Local. New subscribers to PLS, on the other hand, would be expected to generate lower "incremental" unit costs. For this purpose, CBL has estimated an short-run incremental unit cost for new PLS subscribers which includes only variable costs such as cost of goods sold (primarily content costs) and certain operating expenses, but excludes capital-related costs that would be largely fixed for the short term. On balance, CBL estimates that short run incremental unit cost for new PLS subscribers would be \$ # . However, it is important to note that a long-run incremental unit cost estimate, which would include capital costs, for PLS would be higher.

The data, methodology and assumptions used to estimate both the above-noted average and short run incremental unit costs for PLS subscribers are provided in the CBL Applications Spreadsheet.

Table 3 provides a summary of forecast revenues, costs and earnings (i.e., return on mean capital employed or RoMCE) for the proposed new PLS for 2014, 2015 and 2016, assuming the new service is launched on November 1, 2014 and priced at \$10 per month, and also that the proposed SuperBasic price increase takes effect at the same time.



Table 3 – Forecast Prime Local Profit & Loss Results
(with the SuperBasic price increase in effect)

	2014F	2015F	2016F
Revenue	#	#	#
Operating Costs	#	#	#
Operating Income	#	#	#
MCE	#	#	#
RoMCE	#	#	#
Shortfall	#	#	#

As shown in Table 3, priced at \$10, the new PLS is estimated to generate a significant negative returns over the period 2014 to 2016. While the negative RoMCE of close to # in 2014 is largely due to start-up costs associated with the introduction of the new service; projected to improve only slightly to # in 2015, the first full year the new service would be available. As of 2016, the projected return declines further to # and the annual revenue shortfall for the service (i.e. the additional revenues required to reach the allowed rate of return of 10.86%) increases to roughly \$ # . All else equal, the revenue shortfall for the service can be expected to grow further in 2017 and beyond.

The methodology, data, assumptions used to derive the revenue, cost and earnings forecasts for the new PLS shown in Table 3 are provided in the CBL Applications Spreadsheet.

2.9.4 Description of Any Applicable Relevant Wholesale Services (19.9.5)

There are no applicable relevant wholesale services in the case of PLS.

2.10 Combined Effects of the PLS Introduction and SuperBasic Price lincrease

Under CBL's AS Methodology, CBL's Basic TV business segment currently consists of a single basic pay TV service, namely SuperBasic. Under CBL's proposal, the segment would include two services: SuperBasic and Prime Local. Therefore, the financial impact on CBL's Basic TV business segment from the proposed Super Basic price increase and introduction of PLS can be broken out into two parts: (i) the impact of the SuperBasic price increase on SuperBasic revenues, costs and income and (ii) the additional revenues, costs and earnings associated with Prime Local. Adding the two together provides the combined impact on the profit and losses for CBL's Basic TV business segment as a whole.



Table 4 provides estimates of the combined revenue, cost and profit/loss impacts of the introduction of Prime Local and the SuperBasic price increase and on the overall Basic TV business segment. The table also provides forecast of the revenue shortfall for the Basic TV business segment as a whole. The assumptions and methodology used to generate the combined results are provided in the CBL Applications Spreadsheet.

Table 4 – Estimated Combined Impact on Basic TV Business Segment Profit & Loss Results
(Including the SuperBasic price and New PLS revenues and costs)

	2014F	2015F	2016F
Revenue	#	#	#
Operating Costs	#	#	#
Operating Income	#	#	#
MCE	#	#	#
RoMCE	#	#	#
Revenue Shortfall	#	#	#

As Table 4 shows, the combined effects of the introduction of the new PLS and the proposed SuperBasic price increase has little impact of the Company's forecast RoMCE for the current year, leaving it # . In 2015, the RoMCE for the Basic TV business segment is forecast to be # , # # short of its allowed rate of return of 10.86%. In 2016, the forecast RoMCE is forecast to # ## # . Moreover, the overall revenue shortfall for CBL's Basic TV business segment is projected to be roughly # in 2015 and increase to # in 2016.

While a higher SuperBasic price increase would be required to fully address the forecast Basic TV business segment revenue shortfall in 2015 and 2016, CBL is limiting its proposed price increase to \$8 in the case of residential subscribers in digitized areas. If both Applications are approved, CBL would assess the effects of the SuperBasic price and the introduction of the new PLS on the Company's Basic TV business segment and consider whether any other measures are required to further reduce or eliminate any remaining revenue shortfall.

3.0 AFFORDABILITY

Paragraph 57 of Part K of the Price Regulation Rules states that:

... the SMP operator must, within its application, demonstrate that the proposed new price remains affordable to consumers in The Bahamas, with such an assessment carried out in accordance with any regulatory or other



measure that URCA may publish from time to time as to how such assessments should be conducted.

The first part of this paragraph requires a demonstration that the price of the proposed PLS is "affordable to consumers in The Bahamas" and that any such demonstration or assessment should be "carried out in accordance with any regulatory or other measure that URCA may publish from time to time as to how such assessments should be conducted." CBL notes that in the proceeding which led to URCA's 2013 USO Framework Decision,⁴ URCA sought comments on contemplated criteria that could be used to assess affordability. In its USO Decision, it stated that URCA would issue appropriate guidelines for the assessment of affordability⁵ (the "Affordability Guidelines"). However, URCA is yet to issue such Affordability Guidelines. Consequently, at this time, there are no approved or formalized criteria for assessing affordability in respect of USO services.

In the absence of such Affordability Guidelines, and in order to complete this Application, the Company has reviewed past URCA positions on the affordability question in general to glean what factors URCA may consider in its assessment of affordability.

CBL notes that section 119(5) of the Comms Act requires that a designated USO service should be "affordable", but does not define the term. As just noted, the Price Regulation Rules state that a USO service should be "affordable to consumers in The Bahamas", but then points to yet to be issued guidelines intended to set out the criteria to be used to assess affordability.

URCA has of course suggested a variety of factors that may be relevant to an assessment of affordability of a basic telephony service in the context of the proceeding that led to the 2013 USO Framework Decision (such as subscription levels, size of local calling area, household income, cost of living and expenditure on service as a percentage of household income in different income groups).⁶ Also, in the context of the proceeding that led to URCA's Decision on CBL's 2011 SuperBasic Application,⁷ URCA suggested additional factors that may be relevant to an assessment of affordability specific to cable TV services, such as the existence of alternative pay TV services and customer billing arrears. However, no clear set of affordability assessment criteria was provided in either the 2013 USO Framework Decision or URCA's Decision on CBL's 2011 SuperBasic Application.

⁴ URCA, *Framework for the Clarification and Implementation of Existing Universal Service Obligations (USO) under Section 119 and Schedule 5 of the Communications Act 2009*, Statement of Results and Final Decision, ECS 01/2013, January 23, 2013.

⁵ Ibid., page 30.

⁶ URCA, *Framework for the Clarification And Implementation of Existing Universal Service Obligations (USO) under Section 119 and Schedule 5 of the Communications Act 2009*, Consultation Document ECS 12/2012, 30 March 2012, page 8.

⁷ URCA, *Cable Bahamas Limited Application for Permanent Price Change for SuperBasic Cable Television Services*, Statement of Results and Final Decision ECS 02/2013, February 11, 2013



Based on the latter Decision,⁸ it would appear that URCA considers the following factors as relevant, although not necessarily determinative, of whether a price for a service can be considered affordable:

- i) Expenditure on the service as a percentage of median household income on average and for different income groups or deciles in The Bahamas;
- ii) Availability of alternative pay TV services to SuperBasic in The Bahamas; and
- iii) Pay TV subscription levels in The Bahamas.

In the first case, CBL notes that URCA relied on Department of Statistics income distribution data for the year 2011.⁹ The median income data relied on by URCA, in total and by household income decile, is provided in Table 5, along with annualized cost of PLS (at the proposed price of \$10) in each case. In addition, given that the PLS would be in effect for the first full year as of 2015, CBL has also provided in Table 5 a forecast of the annualized cost of PLS for median incomes for 2015, in total and by household income decile.

**Table 5 – Ratio of Annualized Cost of PLS to Median Household Income
in 2011 and Forecast 2015**

Household Decile	Number of Households 2011	Aggregate Income 2011	Median Income 2011	Annualized Cost of PLS at \$10 as Share of Median Income	
				2011	2015F*
1	10,075	25,390,647	2,856	4.2%	3.9%
2	10,070	85,551,643	8,760	1.4%	1.3%
3	10,115	140,430,824	14,000	0.9%	0.8%
4	9,920	196,592,197	20,080	0.6%	0.5%
5	10,640	279,463,778	26,400	0.5%	0.4%
6	9,625	319,848,409	33,400	0.4%	0.3%
7	10,095	418,829,783	41,600	0.3%	0.3%
8	10,050	525,962,060	52,200	0.2%	0.2%
9	10,245	710,516,284	70,000	0.2%	0.2%
10	9,595	1,165,126,875	100,476	0.1%	0.1%
Total	100,430	3,867,712,500	30,000	0.40%	0.37%

* The forecast annualized cost of PLS is based on projected median household incomes using information provided in the Department of Statistics, National Accounts Environment Review, issued May 30, 2014 which shows that annual GDP growth, measured in current prices, is expected to be 3.1% on average in 2012 and 2013 (page 24) and that annual population growth is expected to be 0.9% over the period 2010 to 2015 (page 11). Assuming household growth is roughly equal to population growth, CBL has roughly projected median incomes to grow by 2.2% per year over the period 2012 to 2015 (i.e., the difference between forecast GDP and population growth).

⁸ Ibid., page 58.

⁹ Ibid., reported in Table 4, page 60 (URCA provided no source for the data).



As shown in Table 5, the proposed PLS price of \$10 would have represented only 0.40% of the median income for the average household in The Bahamas in 2011. This figure would likely drop to 0.37% in 2015 (the first full year the service would be available to subscribers). Focussing more narrowly on the lowest household income decile, the proposed PLS price would represent between 3.9% and 4.2% of median household income depending on the base year selected. Taking the above into account, CBL considers that the proposed PLS price of \$10 is affordable.

Second, consumers in The Bahamas have a growing range pay TV options including CBL's SuperBasic service, satellite TV services and, soon, the Bahamas Telecommunications Company's ("BTC") IPTV service.¹⁰ Consequently, CBL's proposed new PLS will provide consumers with a more affordable new very low priced pay TV option.

Third, pay TV subscription levels and penetration in The Bahamas is very high. CBL currently has close to 69,000 residential pay TV subscribers. CBL estimates that there are as many as 25,000 satellite TV service subscribers in The Bahamas, # of which also subscriber to CBL's cable TV services. The number of households in The Bahamas was just over 100,000 in 2011 (see Table 5 above) and is no doubt somewhat higher today.¹¹ This suggests that pay TV subscribership in The Bahamas is well over 90%, which is very high. Such high subscribership levels suggest that existing pay TV prices are generally affordable. At a price of \$10 (one third the current SuperBasic price), PLS can only be viewed as affordable.

Therefore, based on the above-noted factors, CBL considers the proposed PLS price of \$10 to be affordable and therefore compliant with the USO affordability requirement under section 119(5) of the Comms Act and paragraph 57 of the Price Regulation Rules.

Paragraph 57 of Part K of the Price Regulation Rules also states that:

Where the financial information provided by the USP shows that the proposed price is above the cost the USP incurs in provisioning the service, the USP must also provide a detailed justification to URCA for the proposed price change.

CBL notes that the financial information provided in this Application (in section 2.9.2 above) shows that the proposed price of PLS would not generate sufficient revenue to cover the full cost of the service, including the Company's cost of capital. Therefore, addressing this provision is not necessary in the case of the present Application.

¹⁰ The Guardian, *BTC to offer TV package by spring 2015*, September 1, 2014.

¹¹ See Table 4, page 60 of URCA's Decision on CBL's 2011 SuperBasic Application.



4.0 OTHER REQUIREMENTS

Section 19.10 of the Price Regulation Rules indicate that along with an application for a permanent price change, an applicant must submit a declaration signed by an authorised officer confirming that its application complies with the Price Regulation Rules, the Communications Act, its operating licence, the Sector Policy and any other relevant documents. The Price Regulation Rules further indicates that the signed declaration must further state that the proposed price change is not anticompetitive and, in particular, that it:

- a. does not result in a margin squeeze, and
- b. will not result in undue discrimination.

In addition, the Price Regulation Rules indicate state that the above-noted declaration, to the extent possible, should be supported with evidence that satisfies the requirements set out in the Price Regulation Rules, which should also be provided to URCA.

DECLARATION

CBL submits that its proposed SuperBasic price increase does not raise any potential anticompetitive concerns, including those noted above. The objective of this Application is to increase the price of SuperBasic so that the revenues generated better reflect the costs of providing the service, including CBL's cost of capital. In CBL's submission, approving the proposed price increase cannot in any way be construed as raising an anticompetitive pricing concern. In addition, in view of the fact that CBL does not and is not required to provide a wholesale SuperBasic service, there is no potential concern relating to a margin squeeze on other operators.

In view of the fact that CBL is introducing the new PLS to comply with USO provisions set out in section 119(1) and Schedule 5 of the Comms Act and, accordingly, set the price of the proposed service below cost on affordability grounds, CBL submits that these provision particularly the predatory pricing provision under section 19.10 of the Price Regulation Rules should not apply to PLS.

That said, CBL notes that given it is not required to provide a wholesale cable TV service, there is no potential concern relating to a margin squeeze on other operators. In addition, CBL notes that, in areas served by its digital cable network facilities, CBL proposes to offer the new PLS to all residential subscribers for the same price; therefore, CBL considers that the proposed PLS price does not raise any concerns regarding potential undue discrimination.



CBL hereby declares that it believes this Application is fully compliant with the requirements of the Price Regulation Rules, the Communications Act, its operating licence, the Sector Policy and any other relevant documents, being provided in conjunction with this Application.

Barry Williams
Senior Vice President, Finance

