

PUBLIC ABRIDGED VERSION



APPLICATION FOR A PERMANENT PRICE CHANGE TO CABLE BAHAMAS LTD.'S SUPERBASIC SERVICE

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

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**Filed by
Cable Bahamas Ltd.**

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EXECUTIVE SUMMARY

Cable Bahamas Ltd. ("CBL") is seeking approval to increase the price of residential SuperBasic pay TV service (which is also marketed as "RevTV Prime") by \$8. The proposed price change would raise the monthly price for the service from \$30 to \$38. CBL is proposing to introduce a similar percentage increase to its commercial SuperBasic subscribers. The proposed effective date of the proposed price changes is November 1, 2014 or as soon as possible thereafter.

This proposed residential SuperBasic price increase would apply in areas served by CBL's digital cable network facilities which, as a result of concluding its multi-year network digitization initiative, now covers approximately 96% of the population of the Bahamas base. CBL is also seeking approval to introduce a new residential basic television service, "Prime Local", which would include 6 channels at a significantly lower price relative to SuperBasic. Prime Local would be available to all residential subscribers served by these same digital facilities. The introduction of Prime Local would thus, mitigate any effects of the residential SuperBasic price increase.

CBL's proposed SuperBasic price increases are intended to address the growing SuperBasic financial losses. The return on SuperBasic was # in 2013. Absent an increase in SuperBasic prices, SuperBasic financial losses will continue to grow in the coming years and, as a result, jeopardize the viability of the service.

The price of SuperBasic has been \$30 for almost 20 years now (since the service's launch in 1995). Over this period, the rate of price inflation of consumer goods and services in The Bahamas has grown by roughly 40% in total or 2% annually. Had the price of SuperBasic kept up with the rate of inflation since its launch, it would be about \$42 today. Consequently, compared to 1995, CBL's proposal leaves residential SuperBasic at a price level that is lower in real terms relative to other consumer goods and services in The Bahamas, on average.

In addition, based on a benchmarking analysis of cable TV services in 24 Caribbean jurisdictions, CBL found that the average price of SuperBasic-comparable residential basic cable TV package is currently \$37.55. This finding further suggests that CBL's proposed price increase for residential SuperBasic service to \$38 is fair and reasonable in view of the average price of comparable basic cable TV services in other Caribbean jurisdictions.

CBL submits that its proposed SuperBasic prices increase are fully justified and supported by the evidence provided in this Application. Therefore, CBL respectfully requests that the proposed price increases be approved expeditiously so that the price change can be implemented as proposed 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 permanent increase in the monthly price of "SuperBasic" pay TV service (which is also marketed as "RevTV Prime"). This Application is being filed simultaneously with a separate Application seeking approval to introduce a new residential basic television service, which would be branded as "Prime Local" pay TV service (referred to therein as "Prime Local" or "PLS"), at a significantly lower price point relative to SuperBasic and which would include fewer channels (i.e., the "PLS Application").

Under this Application, CBL is proposing to increase the monthly price of residential SuperBasic by \$8, which would raise the monthly price for the service from \$30 to \$38. This proposed price increase would apply in areas served by CBL's 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. Concurrent with the proposed price increase, Prime Local would be made available to all residential subscribers served by these same digital facilities. In addition, CBL is proposing to introduce a similar percentage increase to its commercial SuperBasic subscribers. The proposed effective date of the proposed price changes is November 1, 2014 or as soon as possible thereafter.

In its 2010 Final Decision on *Obligations imposed on Operators with Significant Market Power (SMP)* (the "SMP Decision"), URCA found that CBL's SuperBasic TV package falls into a "high level SMP market". As such, URCA classified SuperBasic as a Price Regulated Service.¹ URCA's *Regulation of Retail Prices for SMP Operators – Rules*² (the "Price Regulation Rules") set out the approval requirements for proposed permanent changes single Price Regulated Services. The following sections of this Application address each of these requirements in order to provide the required rationale and supporting evidence justifying CBL's proposed permanent price changes to its SuperBasic service.

2.0 PRICE REGULATION RULES REQUIREMENTS

Parts B and E of the Price Regulation Rules set out a number of specific informational and data requirements that must be included in an application submitted to URCA requesting a permanent price change to a Price Regulated Service, including but not limited to, information on the service in question, the current price and proposed price changes, the commercial

¹ URCA, ECS11/2010, 22 April 2010, pages 30-31.

² URCA, ECS06/2014, 22 April 2010.



rationale for making the proposed changes and data on the current and expected demand, actual and projected revenues and costs associated with the service.

In terms of additional guidance, Section 6 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 five years of historical demand, revenue and cost data in this Application, in addition to three years of forecast data (i.e., for the current year and the following two years: 2014, 2015 and 2016). While demand-related information is being 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. CBL is unable to provide a meaningful break out of forecast revenue and cost data on a monthly basis. In any event, in CBL's submission, the annual revenue and cost provided herein should provide URCA with an effective basis to review and assess the Application as was the case with CBL's previous SuperBasic Application filed December 1, 2011 (i.e., the "2011 SuperBasic Application").

With respect to the specific provision of cost data, section 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.

Section 8 adds that in the absence of such information, an applicant can provide benchmarking evidence and/or other verifiable financial management information in respect of providing the service.

CBL notes in this respect that, as per section 7, it is providing cost data in this Application which is fully compliant with the Accounting Separation and Cost Accounting Guidelines issued by URCA. Further, it is also providing benchmarking evidence on basic cable TV service rates in the Caribbean as further support for its proposed SuperBasic price increase.

Lastly, section 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 PLS Application which satisfies this requirement (i.e., referred to herein as the "CBL Applications Spreadsheet").



In what follows, each of the specific permanent price change application requirements set out in section 19 of Part E of the Price Regulation Rules is addressed.

2.1 Service Description (Section 19.1)

"SuperBasic" cable TV is currently marketed as "RevTV Prime". However, for the purpose of this Application, CBL refers to this service using its longstanding service name, SuperBasic.

When first launched in 1995, SuperBasic was provided using analogue cable TV technology. In recent years, CBL has upgraded its cable network to digital technology, which provides subscribers a much higher quality video and audio experience, along with other optional service features. Upgrading to a digital technology platform also facilitated the untying of cable TV and broadband Internet services, which is an SMP obligation imposed on CBL by URCA. Today, roughly 96% of CBL's SuperBasic subscribers are served on digital cable network facilities.

SuperBasic subscribers in areas served by CBL's digital cable network facilities receive 54 television channels.³ SuperBasic subscribers in areas where analogue cable TV facilities remain in use receive a somewhat lower number of television channels (i.e., 48 channels).

2.2 Targeted Customer Segment (Section 19.2)

CBL is proposing to increase the price of residential SuperBasic only for those residential subscribers served by CBL's digital cable network facilities and, hence, where the new PLS will be available. Thus, all such SuperBasic subscribers would have the option of subscribing to CBL's new PLS as an alternative to SuperBasic. As described in the PLS Application, the new Prime Local service would be launched in New Providence, Grand Bahama, Abaco and Eleuthera, and would be available to roughly 96% of the population of The Bahamas

In addition, all commercial SuperBasic subscribers would also be subject to a proposed SuperBasic price change. Note that the new PLS would only be available residential cable TV subscribers and, therefore, there is no need to differentiate between commercial subscribers who are within the footprint of the new PLS offering.

2.3 Proposed Effective Date of the Price Change (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 proposed SuperBasic price changes become effective November 1, 2014 or as soon as possible thereafter.

³ A list of available television channels is on CBL's website: <http://www.cablebahamas.com>.



2.4 Current Prices (Section 19.4)

The current monthly price of the CBL's residential SuperBasic service is \$30 per month. Additional current non-recurring fees include: installation (\$40), transfer/reconnection (\$40), late payment fee (\$5.50) and single service security deposit (\$100).

The current monthly price of the CBL's commercial SuperBasic service is \$50 per month. Additional current non-recurring fees include: installation (\$50), transfer/reconnection (\$50), late payment fee (\$5.50) and single service security deposit (\$100).

2.5 Proposed Prices (Section 19.5)

CBL is proposing to increase the monthly price of residential SuperBasic service by \$8. This would raise the price of the service from the current \$30 to \$38 per month, and would apply to all current and future residential subscribers of the service. As noted, this proposed price increase would only apply in geographic areas where SuperBasic subscribers would have the option of subscribing to CBL's new PLS.

Commercial SuperBasic prices would be increased by a similar percentage amount – i.e., which would increase the current commercial SuperBasic price of \$50 to \$64 per month.

All other SuperBasic-related non-recurring fees would remain unchanged.

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

Other than the noted changes in SuperBasic monthly prices, CBL is not proposing to change any of the existing terms and conditions for SuperBasic service.

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

CBL's commercial rationale for the proposed price increase is to ensure the revenues derived from SuperBasic more closely reflect the costs of provisioning SuperBasic service, including the cost of capital.

As the financial evidence provided with this Application demonstrates, over the last five years CBL's SuperBasic or "Basic TV" business segment has consistently earned less than its regulated rate of return of 10.86% as measured following approved Accounting Guidelines.⁴ In fact, CBL's return on mean capital employed ("RoMCE") for the Basic TV business segment has steadily declined over this period and, as of 2013, # # .⁵ Measured on a

⁴ URCA, *Final Determination on: The Cost of Capital for designated SMP Operators*, ECS 23/2009, 2 November 2009.

⁵ CBL, Regulatory Financial Statements, December 31, 2013.



revenue shortfall basis, CBL would require an increase in SuperBasic revenues of roughly # to reach its allowed RoMCE for the Basic TV business segment in 2013. This shortfall has been growing over the last five years and, absent any change in price, will continue to grow in the coming years and, thereby, jeopardize the viability of the service.

CBL's proposed residential and commercial SuperBasic price increases are intended to address the growing SuperBasic revenue shortfall. CBL notes that the proposed price increases will not fully eliminate the projected shortfall for next two years. CBL has nevertheless limited its price increase request to \$8 in the case of residential SuperBasic subscribers.

CBL's proposed price increase is based on several other important considerations.

- First, to mitigate the effect of the price increase on subscribers, CBL is simultaneously launching Prime Local, which is a new very low price, lower channel basic pay TV service. The introduction of Prime Local will provide those SuperBasic subscribers who decide not to retain SuperBasic at the new higher price, the option of subscribing to the lower priced PLS.
- Second, the price of SuperBasic has been \$30 for almost 20 years now (since the service's launch in 1995). Over that same period, the rate of price inflation of consumer goods and services in The Bahamas has grown by roughly 40% in total or 2% annually.⁶ Had the price of SuperBasic kept up with the rate of inflation since its launch, it would be about \$42 today. Thus, CBL's proposal leaves SuperBasic at a price level that is lower in real terms relative to other consumer goods and service services in The Bahamas, on average.
- Third, based on an benchmarking analysis of cable TV services in 24 Caribbean jurisdictions, CBL found that the average price of SuperBasic-comparable residential basic cable TV package is currently \$37.55. This finding is virtually identical to the result of the benchmarking analysis included in CBL's 2011 SuperBasic Application. These findings suggest that CBL's proposed price increase for residential SuperBasic service to \$38 is fair and reasonable in view of the average price of comparable basic cable TV services in other Caribbean jurisdictions.⁷
- Fourth, CBL's proposed price increase also leaves more than ample provision for any potential differences between the projected and future actual Basic TV business segment revenues and costs. In other words, CBL's proposed SuperBasic price changes

⁶ The Bahamas Bureau of Statistics, Key Statistics – CPI. See: <http://statistics.bahamas.gov.bs/key.php>.

⁷ The methodology, underlying data and results of the basic cable TV service benchmarking analysis are provided in Annex 1.



would pose negligible risk of the Basic TV business segment RoMCE exceeding the regulated RoMCE in 2015 or 2016, once the proposed price change takes effect.

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

The pricing principle that CBL considers should apply in the case of SuperBasic is that the service's price be cost-based. In other words, the price of SuperBasic should reflect as closely as possible the underlying costs of the service, including the Company's cost of capital, so that the RoMCE for the service should be close to or equal to the URCA-approved regulated RoMCE of 10.86%.

As noted above, and described in more detail below, the proposed SuperBasic price increases are intended to reduce rather than fully eliminate the projected Basic TV business segment revenue shortfall. CBL has chosen to limit the magnitude of the proposed SuperBasic price increases in this Application for the reasons noted above.

2.9 Relevant Data (Section 19.9)

CBL has now filed Regulatory Financial Statement results with URCA for a five year historical period covering the years 2009 to 2013 which follow URCA's established *Accounting Separation and Cost Accounting Methodology* (the "AS Methodology"). Under the AS Methodology, SuperBasic is captured in the "Basic TV" business segment. For the purpose of this application, CBL has relied in large part on the five years of available historical data to project separated revenues and costs for the Basic TV business segment.

In what follows, historical demand, revenue and cost data is shown for 2012 and 2013 and the three year forecast period: 2014, 2015 and 2016. More detailed data and information, including data for historical years 2009, 2010 and 2011 and specific assumptions relating to the projection of 2014, 2015 and 2016 demand, revenues and costs, is provided in the CBL Applications Spreadsheet.

2.9.1 Current and Projected Demand (Section 19.9.1)

Section 19.9.1 of the Price Regulation Rules requires that applications for permanent price changes include the volume of current and projected demand for the Price Regulated Service, where the projected demand should provide the operator's forecast of demand over the following two years.

Table 1 below provides the year-end average total number of residential SuperBasic subscribers as of 2012 and 2013, along with a "status quo" forecast for 2014 to 2016. The status quo



forecast is based on the assumptions that no changes in the monthly price SuperBasic are introduced and that Prime Local is not launched.

Table 1 – Status Quo Total Residential SuperBasic Subscriber Forecast
(With no change in SuperBasic price and excluding introduction of the New PLS)

	2012	2013	2014F	2015F	2016F
Year-end Average Subscribers	#	#	#	#	#
Percent Change	#	#	#	#	#

The market for basic cable TV service in The Bahamas is mature and has been for some time. This is reflected by the fact that the growth rate of SuperBasic subscribers has been very low for years. The average annual rate of growth in residential SuperBasic subscribers over the last five years is well below # per year and falling. Based on recent trends, CBL expects the number of residential SuperBasic subscribers to grow by # on average over the three year period 2014 to 2016.⁸

Total year-end average Basic TV service volumes (including residential and commercial SuperBasic subscribers), as reported in CBL's Regulatory Financial Statements, are provided in the CBL Applications Spreadsheet. As of 2013, total service volume was just over 75,041. Residential SuperBasic subscribers account for roughly # of total service volumes, and commercial subscribers account for the balance. CBL expects total service volumes to also grow by # on average over the three year period 2014 to 2016.

2.9.2 Subscribers affected by the Proposed Price Change (Section 19.9.2)

As noted, only residential subscribers in areas served by CBL's digital cable network facilities would be subject to the proposed SuperBasic price change. This includes subscribers in New Providence, Grand Bahama, Abaco and Eleuthera who have access to CBL's new PLS. As also noted, these subscribers represent roughly 96% of CBL's total residential SuperBasic subscriber base. All commercial subscribers would be subject to the proposed change in commercial SuperBasic prices.

2.9.3 Current and Projected Revenues (Section 19.9.3)

Residential and commercial SuperBasic monthly charge revenues for 2012 and 2013 along with a status quo forecast for 2014 to 2016 are provided in Table 2. The forecast in SuperBasic

⁸ Note that the "status quo" projections do not take into account the expected launch of an IPTV service by the Bahamas Telecommunications Company ("BTC"), nor do they take into account the effect of the introduction of the Value Added Tax ("VAT") in 2015.



revenues for 2014, 2015 and 2016 is based on the expected growth in total service volumes over the same period (as shown in Table 1).

Table 2 – Status Quo SuperBasic Monthly Charge Revenue Forecast
(With no change in SuperBasic price and excluding introduction of the New PLS)

	2012	2013	2014F	2015F	2016F
Residential	#	#	#	#	#
Commercial	#	#	#	#	#
Total	#	#	#	#	#
<i>Percent Change</i>	#	#	#	#	#

Table 3 provides "separated" Basic TV business segment revenues for 2012 and 2013 along with forecasts for 2014 to 2016 consistent with the established AS Methodology. The tables includes residential and commercial SuperBasic monthly charge revenues as well as one-off (e.g., installation and reconnection) and other (e.g., late payment fee) revenues allocated to the Basic TV business segment. Status quo forecasts of one-off and other revenues allocated to the Basic TV business segment were based on growth trends for these services over the past five years.

Table 3 – Status Quo "Separated" Basic TV Segment Revenue Forecast
(With no change in SuperBasic price and excluding introduction of the New PLS)

	2012	2013	2014F	2015F	2016F
Monthly Charges	#	#	#	#	#
One-Off Charges	#	#	#	#	#
Other	#	#	#	#	#
Total	#	#	#	#	#
<i>Percent Change</i>	#	#	#	#	#

Overall, under the status quo forecast, total Basic TV business segment revenues are expected to # # .

2.9.4 Total Cost of providing SuperBasic Service (Section 19.9.4)

Section 19.9.4 of the Price Regulation Rules requires that applications for permanent price changes include current year and a two-year forecast of total cost of providing the service in question – showing separately network (wholesale) and downstream costs, and inclusive of the operator's cost of capital, as may be applicable.



Table 4 below provides CBL's "separated" operating costs for 2012 and 2013 – including cost of sales, retail specific, other operating expenses and depreciation and amortization.

Table 4 – Status Quo "Separated" SuperBasic Operating Cost Forecast
(With no change in SuperBasic price and excluding introduction of the New PLS)

	2012	2013	2014F	2015F	2016F
Cost of Sales	#	#	#	#	#
Retail Specific	#	#	#	#	#
Other	#	#	#	#	#
Depr. & Amortization	#	#	#	#	#
Total	#	#	#	#	#
<i>Percent Change</i>	#	#	#	#	#

CBL faces significant upward pressure on the operating costs for the provision of SuperBasic or Basic TV service. SuperBasic content costs, for instance, have increased # # # # . Content costs account for over # of the Company's SuperBasic operating costs. CBL also faces upward cost pressures due to rising regulatory fees (under the Communications Act and the Utilities Appeal Tribunal Act) as well as business licence fees. In addition, the Company also faces upward pressure with respect to its sales and marketing as well as network maintenance, operations and services costs relating to the provision of SuperBasic service. However, at the same time, CBL expects the growth in the individual cost categories, which make up the total operating costs of Basic TV business segment costs, to grow this year and over the next two years at rates # # # # . As well, CBL expects depreciation and amortization cost to # # # # . Overall, the Company expects SuperBasic related operating costs, including depreciation and amortization, to increase at a rate of roughly # on average over the years 2014 to 2016, which are # # .

The details of the operating cost forecast methodology and assumptions are provided in the CBL Applications Spreadsheet.

2.9.5 Description of Any Applicable Relevant Wholesale Services (19.9.5)

There are no applicable relevant wholesale services in the case of CBL's SuperBasic service.



3.0 FORECAST "SEPARATED" PROFIT/LOSS RESULTS

3.1 Status Quo – No Change in the SuperBasic Price and No PLS

In this section, the above-noted "separated" revenues and costs are used to determine the profit/loss results for the Basic TV business segment under the assumption that the price of SuperBasic remains unchanged and that the new PLS is not introduced – i.e., the "status quo" forecast.

In order to forecast profits/losses for the Basic TV business segment, a forecast of mean capital employed ("MCE") is developed for the years 2014 to 2016. The main driver of MCE is the net book value ("NBV") of the non-current assets allocated to the Basic TV business segment. CBL is expecting a year-over-year # the NBV assets allocated to this business segment. This same rate # was applied to depreciation and amortization costs for the Basic TV business segment. Other working capital components of MCE were assumed to grow at rates comparable to long-term trends. On average, over the three year forecast period, Basic TV business segment MCE is expected to # per year. Details of the MCE forecast, including underlying assumptions, are provided in the CBL Applications Spreadsheet.

Table 5 provides a summary of the profit/loss results of SuperBasic for the years 2012 and 2013 along with forecasts for 2014 and 2016 with the status quo assumptions of no change to the SuperBasic price and excluding the introduction of a new PLS. The "revenue shortfall" shown in the table is calculated as the difference between actual/forecast operating income and the income level required to generate the approved regulated RoMCE of 10.86%.



Table 5 – Status Quo "Separated" SuperBasic Profit & Loss Forecast
(With no change in SuperBasic price and excluding introduction of the New PLS)

	2012	2013	2014F	2015F	2016F
Revenue	#	#	#	#	#
Operating Costs	#	#	#	#	#
Operating Income	#	#	#	#	#
MCE	#	#	#	#	#
RoMCE	#	#	#	#	#
Revenue Shortfall	#	#	#	#	#

The Basic TV business segment RoMCE was # in 2012 and # in 2013. The corresponding revenue shortfalls in these two years were # , respectively. Under the status quo forecast shown in Table 5, CBL expects the Basic TV business segment RoMCE to fall further and the revenue shortfall to grow significantly. Absent an increase in the price of SuperBasic, losses will grow and the viability of SuperBasic would be undermined.

3.2 Estimated Impact of CBL's Proposal

Under CBL's proposal, the monthly residential SuperBasic price would increase by \$8.00 effective November 1, 2014, raising the current monthly price from \$30 to \$38 in those areas served by CBL's digital cable network facilities and hence where the new PLS will be available. The new PLS, which would be available only to residential subscribers, would be introduced simultaneously on the same date. In addition, a similar percentage increase would apply in the case of all commercial SuperBasic subscribers.

With the increase in the SuperBasic price along with the simultaneous introduction of the new significantly lower priced PLS, CBL expects that the number of residential SuperBasic subscribers to decline considerably due to migration to Prime Local. As described in the PLS Application, CBL expects that in the order of # SuperBasic subscribers would likely migrate to the new PLS. Further, CBL expects that this subscriber migration would likely be spread over the course of at least 18 months, with over half of the migration effect occurring in the first 6 months. In the case of commercial SuperBasic subscribers, CBL does not expect any drop-off due to the proposed increase in the commercial SuperBasic price.

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



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, however, 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 the new 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 new 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.

In what follows, therefore, CBL provides a estimate of the effect of the SuperBasic price increase on SuperBasic revenues, costs and profit/losses along with an estimate of the combined impact on the revenues, costs and profit/losses for CBL's Basic TV business segment as a whole of CBL's proposals. Estimated revenues, costs and profit/losses associated with Prime Local are provided in the PLS Application.

3.2.1 Estimated Impacts on SuperBasic Profit/Losses

Table 6 shows the estimated effect of the proposed increases in the price of SuperBasic on CBL's Basic TV business segment revenues, costs and profit/loss results for the current year as well as the two next years, 2015 and 2016. It includes the effects of the residential and commercial SuperBasic price increases as well as the estimated residential SuperBasic subscribers losses due to migration to the new PLS. As noted, the price changes are assumed take effect November 1, 2014 and, given the new PLS would be available as of that date, reductions in residential SuperBasic subscribers would begin at the same time due to migration effects.

The revenue and cost effects shown in Table 6 are measured relative to the "status quo" forecast for the Basic TV business segment for the period 2014 to 2016. CBL has included cost volume and asset volume elasticity assumptions in its analysis to recognize the fact as residential SuperBasic subscriber counts decline, SuperBasic service costs would normally decline in a less than proportionate manner. However, in the case at hand, since residential SuperBasic subscribers are expected to migrate to the new PLS rather than drop-off CBL's network, CBL has relied on volume and asset volume elasticities # # . Under this assumption, SuperBasic service costs are assumed to # # # . As SuperBasic service costs decline, the costs of providing the new PLS service would increase as SuperBasic subscribers migrate to the new PLS (as shown in the PLS Application and in the CBL Applications Spreadsheet).



Table 6 – Estimated Price Increase Impact on SuperBasic Profit & Loss Results
(Including the SuperBasic price increase, but excluding New PLS revenues and costs)

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

Given the proposed increases in SuperBasic rates would only take effect late this year, the price increase would have limited impact of the SuperBasic rate of return in 2014. As Table 6 shows, the SuperBasic RoMCE would # # . The price increases would be in full effect in 2015 and, in that year, would bring the SuperBasic RoMCE towards the allowed rate of return of 10.86%, # # . The estimated revenue shortfall in 2015 would be roughly # . However, given forecast cost trends and the continued migration of SuperBasic subscribers to the new PLS, the SuperBasic RoMCE is forecast to # # # .

The assumptions and methodology used to generate the results in Table 6 are provided in the CBL Applications Spreadsheet.

3.2.2 Estimated Combined Impacts on Basic TV Business Segment Profit/Losses

Table 7 provides estimates of the combined cost, revenue and profit/loss impacts of the proposed SuperBasic price increases and the introduction of the new PLS on the overall Basic TV business segment. Again, the assumptions and methodology used to generate the combined results are provided in the CBL Applications Spreadsheet.

Table 7 – 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 7 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. 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.

4.0 SUPPORTING BENCHMARKING EVIDENCE

Section 8 of the Price Regulation Rules states that in the absence of costing information that satisfies the Accounting Guidelines, other information may be provided to support a proposed price change, including:

- Benchmark study of prices in comparable jurisdictions along with supporting information covering amongst others: a detailed overview of the data sources, the approach underlying the analysis, and the justification for adopting the approach; and;
- Verifiable financial management information in respect of providing the service.

CBL notes that it has provided costing information in this Application that is compliant with the Accounting Guidelines. While not strictly required in this case, CBL is also providing a benchmarking study of comparable basic cable TV package prices in the Caribbean region as further support for this Application. A detailed description of the benchmarking methodology and results is provided in Annex 1.

As described in Annex 1, the average current price for SuperBasic-comparable cable TV packages in the 24 Caribbean jurisdictions included in CBL's benchmarking analysis is \$37.55. This is well above the current price of \$30.00 for residential SuperBasic. Consequently, CBL's proposed increase to \$38.00 would be in line with this benchmarking average.



It is also worth noting that the current benchmarking results are virtually the same as those found in CBL's benchmarking analysis included in its 2011 SuperBasic Application. At that time, CBL found that average price for SuperBasic-comparable cable TV packages was \$37.60. Thus, in spite the passage of time (almost 3 years), change in exchange rates and market developments such as the entry and exit of cable TV operators and the revision/elimination/introduction of packages the average price of SuperBasic-comparable cable TV packages has remained virtually unchanged. These results are indicative of the robustness of the benchmarking results.

In summary, the benchmarking analysis indicates that CBL's current price for SuperBasic is well below the average price of comparable cable package. Further, CBL's proposed price increase to \$38.00 for residential SuperBasic would simply bring the price to a level which is consistent with the Caribbean benchmarking average.

5.0 OTHER REQUIREMENTS

Section 19.10 of the Price Regulation Rules indicates 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.

Further, CBL submits that the proposed SuperBasic price increase does not raise any concerns regarding potential undue discrimination. CBL currently charges all residential SuperBasic subscribers the same price for the service, namely \$30. Under CBL's proposal, residential SuperBasic subscribers who are able to subscribe to the proposed new lower-priced PLS would be subject to the proposed price increase of \$8. All other subscribers would continue to pay the existing rate for SuperBasic. Consequently, the distinguishing factor determining the price differential for SuperBasic (i.e., \$30 versus \$38), assuming CBL's proposal is approved, would be the availability of the PLS service. In CBL's submission this does not raise any substantive concerns relating to potential undue discrimination.

In the case of commercial SuperBasic, all commercial subscribers would face a similar percentage increase in price. Therefore, since there would be no change in relative prices for commercial SuperBasic subscribers under CBL's proposal, in CBL's submission no concerns relating to potential undue discrimination arise.

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



ANNEX 1 – SuperBasic Benchmarking Methodology and Analysis

Introduction

This Annex describes the benchmarking methodology and results for SuperBasic service. It uses the same benchmarking methodology carried out by CBL in 2010 and 2011 in the context of CBL's 2011 SuperBasic Application.

The benchmarking information summarized below was collected during the period July 23-31, 2014 from cable TV company websites (and through direct inquiries when websites did not offer complete information) for each of the 25 Caribbean jurisdictions included in the analysis.

Methodology for Selection of Benchmarking Jurisdictions

Residential SuperBasic service is a terrestrial cable TV service provided in The Bahamas, a Caribbean island-jurisdiction. With a view to maximizing the comparability of the benchmarking sample to that of the conditions that hold in The Bahamas, the following criteria were used for the selection of the benchmark sample jurisdictions:

1. **Regional Geography:** Only jurisdictions in the Caribbean Region were included. This criteria ensures a reasonable degree of comparability because cable TV operators are providing service in relatively comparable geographic and climatic conditions.
2. **Physical Geography:** Only island-jurisdictions were included. This criteria ensures a reasonable degree of comparability because cable TV operators face comparable cost conditions specifically related to island-jurisdictions that may be different from those cost conditions that apply to continental jurisdictions.
3. **Terrestrial TV Service:** Only terrestrial Cable TV operators were included. This criteria excludes satellite TV companies.
4. **Availability of Information:** Only jurisdictions where detailed information required for benchmarking purposes is readily available and independently verified were included. This criteria excludes jurisdictions where the pertinent information was not readily available.

A total of 25 jurisdictions met all the above criteria. In terms of benchmarking observations, however, some of these jurisdictions have been aggregated. In particular, the French West Indies ("FWI") territories of Guadeloupe and Martinique are aggregated to form a single benchmark observation because even though they are different islands, they are both part of



the same political entity and served by the same cable TV operator. The other FWI jurisdiction that meets the selection criteria, St. Martin, is included as a separate benchmarking observation because it is served by a different cable TV operator. The same analysis holds for the corresponding former Dutch-speaking colonies of Aruba, Bonaire, Curacao and St. Maarten, all of which are served by different cable TV operators, and hence included as different benchmarking observations. Therefore, the following are the 24 benchmarking observations:

- | | |
|----------------------------------|---|
| 1. Anguilla | 13. Guadeloupe and Martinique |
| 2. Antigua and Barbuda | 14. Jamaica |
| 3. Aruba | 15. Montserrat |
| 4. Barbados | 16. Puerto Rico |
| 5. Bermuda | 17. St. Kitts and Nevis |
| 6. Bonaire | 18. St. Lucia |
| 7. British Virgin Islands | 19. St. Maarten |
| 8. Cayman Islands | 20. St. Martin |
| 9. Curacao | 21. St. Vincent and the Grenadines |
| 10. Dominica | 22. Trinidad & Tobago |
| 11. Dominican Republic | 23. Turks and Caicos Islands |
| 12. Grenada | 24. Virgin Islands (US) |

The following jurisdictions did not meet at least one of the criteria listed above and therefore were not included in benchmarking observations

- 1. Cuba** (did not meet selection criteria #4 – detailed information not readily and publicly available)
- 2. Haiti** (did not meet selection criteria #4 – detailed information not readily and publicly available)
- 3. Saba** (did not meet selection criteria #4 – detailed information not readily and publicly available)
- 4. St. Bartholomew** (did not meet selection criteria #3 – no terrestrial cable TV service)
- 5. St. Eustatius** (did not meet selection criteria #3 - no terrestrial cable TV service)



6. **Other Jurisdictions in the Caribbean Region** (e.g. Guyana, Belize, Suriname, etc. - did not meet selection criteria #2 - not island-jurisdictions)
7. **Other Island-Jurisdictions not in the Caribbean Region** (e.g. U.K., Malta, Cyprus, Singapore, etc. – did not meet selection criteria #1 - not in the Caribbean Region)

In summary, CBL is of the view that these selection criteria provide a reasonable basis for establishing an appropriate and representative sample of comparable jurisdictions for SuperBasic benchmarking purposes. CBL considers that these criteria allow it to establish a sample of 24 benchmarking observations of reasonable breadth (thereby limiting the influence on the results on any one jurisdiction) while at the same time maintaining an appropriate degree of comparability.

Methodology for Selection of Cable TV Operators

In the vast majority (17 of 24) of benchmarking jurisdictions there is only one cable TV operator providing service. In 7 instances, however, more than one operator provides service. These may be classified in 2 categories:

- The first category includes two benchmarking observations: St. Kitts and Nevis, Trinidad and Tobago. In this instance, one operator provides service in the more populous islands (St. Kitts and Trinidad) and another operator provides service in the less populous islands (Tobago and Nevis). In this instance the analysis included the data for the operator providing service in the more populous islands.
- The second category includes five benchmarking observations: Antigua and Barbuda, Barbados, Curacao, Dominica and St. Lucia. In this instance, two or more operators provide service on the same island. In this instance, the analysis included the data for one larger representative operator per benchmarking observation.

In summary, CBL is of the view that the methodology for the selection of cable TV operators provides a reasonable basis for the selection of cable TV operators in the minority of instances (7 of 24) where there are more than two operators in the benchmarking observation.

Methodology for Selection of Cable Packages

Only cable TV packages available to residential subscribers were selected.

In a few of the benchmarking observations (6 of 24: Antigua and Barbuda, Bonaire, Dominica, Grenada, St. Kitts, St. Martin) the respective cable TV operators offered only one cable TV package and thus this was the one included in the benchmarking analysis.



In most benchmarking observations (18 of 24), however, the respective operators offered multiple cable packages. In this instance, on a jurisdiction-by-jurisdiction basis, the available stand-alone cable packages were analyzed to determine which cable package was most comparable to CBL's residential SuperBasic service. Cable packages were compared based on the number of TV channels offered. By jurisdiction, the single stand-alone package with the closest number of channels (could be higher or lower) to SuperBasic's 54 TV channels was selected.

In most instances, the difference (up or down) between the packages selected for the benchmarking analysis and the "target" of 54 channels was modest. In a few instances the difference is relatively large because of the specific availability of packages in the jurisdiction. For instance, in Guadeloupe and Martinique the lowest-number-of-channels stand-alone cable package is 74 channels. On the other hand, in St. Kitts the highest-number-of-channels stand-alone cable package is 17 channels.

In Virgin Islands (US) the situation was slightly different in that no close-to-the-target packages were available, but there were much higher and much lower channel packages available. In this case, so as not to bias the benchmarking, the analysis included the average of these "surrounding" packages – i.e., the average of a 19 and a 101 channel package.

Methodology for Currency and Tax Treatment

All monthly subscription prices (fees) were converted from their quoted local currencies into U.S. dollars, based on the prevailing trend foreign exchange rate during the month of July, 2014. All prices are inclusive of any applicable taxes (such as VAT).

Summary Results

The Company has now applied the above-described methodology on three occasions, in May 2010, in September/October 2011 and now in July, 2014.

The average price for comparable cable packages from the benchmarking jurisdictions for May 2010 was \$36.03 and for September/October 2011 it was \$37.60.

The results presented in Table B1 show the benchmarking results for July, 2014 and indicates that the average current price for comparable cable packages from the benchmarking jurisdictions is \$37.55. This is well above the current price of \$30.00 for residential SuperBasic. Further, CBL's proposed increase to \$38.00 would generally be in line with this benchmarking average.

The results for July, 2014, at \$37.55 are virtually the same as those for September/October, 2011, at \$37.60. This is in spite the passage of time (almost 3 years), change in exchange rates



and market developments such as the entry and exit of cable TV operators and the revision/elimination/introduction of packages. These results are indicative of the robustness of the benchmarking methodology and of the results.

In conclusion, the benchmarking analysis indicates that CBL's current price for SuperBasic is well below the average price of comparable cable package. Further, CBL's proposed price increase to \$38.00 for residential SuperBasic would simply bring the price to a level which is consistent with the benchmarking average.

Table B1 – Summary of Benchmarking Results for July, 2014

Jurisdictions	Cable Company	Package	Monthly Fee (USD)	Channels	Fee / Channel
Anguilla	Carib Cable	Tier Service	\$54.56	96	\$0.57
Antigua and Barbuda	CNS	Basic	\$34.07	104	\$0.33
Aruba	Setar	Digital Basic	\$38.01	72	\$0.53
Barbados	Multi-Choice TV	Basic	\$33.50	63	\$0.53
Bermuda	Bermuda Cablevision	Super Tier	\$57.50	62	\$0.93
Bonaire	Flamingo TV	Digital Package	\$37.50	60	\$0.63
British Virgin Islands	BVI Cable	Basic Plus	\$40.00	70	\$0.57
Cayman Islands	WestStar TV	Classic Package	\$87.12	51	\$1.71
Curacao	Flow Curacao	Flow Basic	\$36.73	70	\$0.52
Dominica	Marpin 2K4	Basic	\$29.81	52	\$0.57
Dominican Republic	Telecable (Tricom)	Plan Basico	\$16.22	91	\$0.18
Grenada	Flow Grenada	Flow Classic	\$25.92	42	\$0.62
Guadelupe & Martinique	Le Cable Caraibes	Prima	\$47.25	74	\$0.64
Jamaica	Flow Jamaica	Watch Starter	\$10.05	66	\$0.15
Montserrat	Carib Cable	Tier Service	\$35.93	55	\$0.65
Puerto Rico	Liberty	Espanol de Primera	\$28.88	67	\$0.43
St. Kitts and Nevis	The Cable	Basic Cable	\$16.03	15	\$1.07
St. Lucia	Karib Cable	Basic	\$29.81	102	\$0.29
St. Maarten	SXM Cable	Basic	\$40.95	63	\$0.65
St. Martin	St. Martin Cable TV	Basic*	\$48.20	95	\$0.51
St. Vincent	Flow	Basic	\$37.04	80	\$0.46
Trinidad and Tobago	Flow Trinidad	Analog Basic Pacake	\$35.28	65	\$0.54
Turks & Caicos	WIV Cable	Basic	\$39.99	42	\$0.95
Virgin Islands (U.S.)	Innovative Cable TV	Avg. of 2 packages**	\$40.81	60	\$0.68
Average			\$37.55	67	\$0.61
Notes: * Not feasible to update; same data as from the Septmber/Ocotber 2011 benchmarking exercise.					
** Average of "Expanded Service" (\$69.51 / 101 channels) and "Basic Service" (\$12.11 / 19 channels)					

