Response to Consultation on

The proposed revision of the retail pricing rules for price regulated services not subject to price cap regulation (non price capped services)

ECS 16/2016

Submitted to

The Utilities Regulation & Competition Authority

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Filed by

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Introduction

CBL welcomes URCA's consultation that is seeking to make the regulatory regime for retail pricing suitable for the more competitive market that will result from NewCo's anticipated entry into the mobile telecommunications market in The Bahamas.

NewCo2015 Limited, CBL's subsidiary has been awarded the second mobile licence as per Section 114 of The Communications Act, 2009 (as amended) has separately made a submission to the same consultation. CBL fully supports NewCo's submission and this separate submission by CBL should be seen as supplementary to NewCo's.

In this document, CBL sets out its concerns on BTC's pricing of fixed to mobile calls. In relation to such calls, historically a receiving party pays (RPP) billing protocol has been applied by BTC where:

1. For local (on-island) calls, fixed line customers do not get charged for making such calls
2. For long distance (off-island) calls, a retail rate of 18 cents per minute applies to fixed customers making such calls (these are BTC's standard charges, different treatment may apply in calling plans)
3. Pre-paid mobile subscribers[1] receiving calls from fixed lines are charged a flat rate of 33 cents per minute and then charged incrementally on a per second basis during the peak hour, both for local and long distance calls.[2]

All the above charges are based on the first minute being a flat rate and then charged incrementally on a per second basic. Our estimate is that effective rates are 20-25% higher than the rates presented, depending on call duration. The overall BTC retail charges therefore (covering both the fixed and mobile charge applicable to the call) are as follows:

- For a local fixed to pre-paid mobile call during the peak hour a flat rate charge of 33 cents for the first minute applies, charged to the mobile subscriber (inbound airtime). The effective rate per minute for such calls may be 40-41 cents per minute depending on call duration
- For a long distance fixed to pre-paid mobile call an unrounded overall charge of 51 cents per minute applies (18 cents to the fixed customer and 33 cents to the mobile customer). The effective overall rate per minute for such calls may be 61-64 cents per minute depending on call duration.

CBL's primary concern relates to the level of the inbound airtime charge levied by BTC to its mobile subscribers. In its response to the RAIO consultation (ECS 09/2016), BTC indicates that a wholesale rate of 4.61 cents should apply to traffic terminating on its mobile network. This wholesale rate would therefore, in BTC's view, be sufficient to cover the network costs to terminate a call on its mobile network. If 4.61 cents is sufficient to cover any network costs, this raises the prospect that an effective peak hour rate of 40-41 cents is excessive relative to underlying costs. Rates during off-peak and weekend are lower but still high relative to the 4.61 cent reference point.

Next to network costs, there may be retail costs incurred for such calls, but in our experience these are relatively minor. For example, the sector regulator in Curaçao, BT&P, estimates these retail costs

[1] Off-peak rates of 15 cents/minute, weekend rates of 20 cents/minute apply, see: http://btcmobile.me/prepaid

[2] The vast majority of BTC customers are pre-paid customers, for post-paid customers effective rates vary by bundle

to amount to 20% of retail revenues. This implies that BTC recovers its relevant network costs (by its own estimate) around 7 times over[3] on peak hour fixed to mobile calls. It is CBL's view that mobile termination costs set on the basis of efficiently incurred costs are substantially lower than 4.61 cents, this would of course increase this ratio further.

CBL believes the inbound airtime charge levied by BTC to be excessive and detrimental to the development of the fixed market because it restricts call volumes to mobile customers. Mobile customers are much less likely to answer calls from fixed subscribers when they are charged excessive rates and this makes fixed line services less attractive to customers. This is a material issue in a market where mobile penetration exceeds fixed penetration by a factor of 2.5 to 1[4].

The charges are also discriminatory because they do not apply to mobile calls. These inbound airtime charges therefore affect the evolution of the fixed market in a way that is detrimental to fixed consumers; traffic between fixed and mobile customers is likely to be depressed and fixed line penetration is likely to be reduced.

CBL's primary concern on the proposed changes to the retail pricing rules is that the above issue needs to be addressed as part of any change to the rules. The easiest way to address this issue is, of course, to remove all inbound airtime charges as part of a move to calling party pays (CPP) for fixed to mobile calls. This would be the preferred approach should a CPP billing protocol also apply in the mobile market. In a scenario where receiving party pays continues to apply to fixed to mobile calls, BTC's inbound airtime charges need to be aligned with costs and fixed to mobile calls should continue to be subject to ex ante price controls to prevent further price increases in future.

CBL is therefore of the view that BTC's existing pricing approach on fixed to mobile calls should be reviewed and the implications for the fixed market should be clearly identified. Only after this has happened should changes to the retail pricing rules be considered.

Respectfully submitted

Cable Bahamas Ltd.

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[3] 40-41 cents minus 20% divided by 4.61 cents

[4] ITU Statistics for 2014 - http://www.itu.int/en/ITU-D/Statistics/Pages/stat/default.aspx