



CABLE BAHAMAS LIMITED

**APPLICATION FOR PERMANENT PRICE
CHANGE FOR SUPERBASIC CABLE
TELEVISION SERVICES**

CONSULTATION DOCUMENT

ECS 23/2012

Issue Date: September 4, 2012

Response Date: October 19, 2012



Table of Contents

1	Introduction	1
1.1	Overview of CBL’s Price Application	1
1.2	How to respond to this Consultation	2
1.3	Structure of the remainder of this document	3
2	Regulatory Framework for SuperBasic services	4
2.1	Findings of SMP Applicable to CBL	4
2.2	Ex-Ante Retail Pricing Rules	4
2.3	Overall Objectives of the Comms Act and ECS Policy	5
2.4	CBL’s Universal Service Obligations	6
2.5	Other Relevant Factors	6
3	URCA’s Review of CBL’s Application	7
3.1	Completeness of CBL’s Application	7
3.2	Competition Tests	9
3.3	Review of the Analysis Presented in CBL’s Application	10
4	CBL’s Universal Service Obligation in Basic TV	12
4.1	CBL’s Submissions on Universal Service	14
4.2	URCA’s Comments on CBL’s Affordability Tests	20
4.3	Additional Measures of Affordability	21
5	Summary of URCA’s Analysis	25



1 Introduction

The Utilities Regulation and Competition Authority (URCA) issues this consultation paper in respect of Cable Bahamas Ltd.'s (CBL) request dated 1 December 2011 for URCA to approve an increase of \$8 to the monthly price (currently \$30) of its residential "SuperBasic" cable television package (currently marketed as "RevTV Prime"). The increase amounts to 27% of the current price. CBL similarly proposes that the monthly subscription (\$50) for commercial "SuperBasic" service (presently marketed as "RevTV Business Prime") will increase to \$63.50 in line with the proposed 27% price increase for the residential package.

A copy of CBL's application is exhibited at Annex 1 of this consultation paper. Interested persons should note that while the Annex comprises the bulk of CBL's original application, the document has been amended by CBL to remove any commercially confidential information.

The "SuperBasic" service falls within the economic market for pay TV services in which CBL has significant market power (SMP). Under the terms of URCA document reference number ECS 15/2010 "Regulation of Retail Prices for SMP operators – Rules" (the *ex ante* pricing "Rules"), CBL must first seek and obtain URCA's approval before implementing a permanent price change (Para. 13 of the Rules) for SuperBasic services. The submission of CBL's application dated 1 December 2011 constitutes CBL's request for URCA's approval in accordance with the Rules.

URCA, having reviewed CBL's application, is satisfied that under the terms of s. 11(1) and s. 13(1) of the Communications Act ("Comms Act"), CBL's request has wide public interest and warrants a public consultation before URCA makes its decision. To this end, URCA now seeks comment from members of the public on the proposed price increase pursuant to s. 11(1)(a) and (b) of the Comms Act and Paragraph 11.2 of the Rules.

1.1 Overview of CBL's Price Application

CBL has requested regulatory approval from URCA to increase the monthly subscription fee for residential "SuperBasic" cable TV service by \$8 (i.e., 27% above the current monthly price of \$30). In its application and related submissions to URCA, CBL emphasised that the price of residential SuperBasic has remained unchanged since the service was first launched in 1995. Similarly, CBL proposes that the monthly subscription for commercial "SuperBasic" service will increase in line with the price increase proposed for the residential package. In other words, CBL also proposes to increase the monthly price for commercial SuperBasic by 27% or \$13.50 over the current price of \$50.

CBL describes "SuperBasic" as a terrestrial cable TV service, which is distinguished from TV services transmitted via satellite, and traditional broadcasts (over-the-air). SuperBasic is the core pay television service customers must purchase prior to subscribing to CBL's other pay TV offerings such as pay-per-view, high definition channels and digital TV offerings. Within its application, CBL stated that the vast majority of SuperBasic subscribers in The Bahamas receive 54 television channels per

monthly subscription, but noted that *“in isolated, less populated islands where signal delivery is served via satellite subscribers may receive 48 channels.”*

CBL also currently provides an over-the-air multichannel TV service comprising six channels (i.e., *ZNS Channel 13, Parliamentary channel, ABC, NBC, FOX News, and CBS*) to customers in selected communities free of charge.¹ URCA considers that this six (6) channel offering would be consistent with CBL’s Universal Service Obligation (USO) in basic TV services under s. 119(1) and Schedule 5 of the Comms Act. However, it is worth noting that CBL does not currently offer a six-channel package to customers in New Providence and other Family Islands (e.g., Abaco, Andros, Berry Islands, Bimini, Eleuthera, Exuma, Grand Bahama, Inagua, Long Island, and San Salvador), where it operates either terrestrial cable TV infrastructures and services or signal delivery via satellite.

1.2 How to respond to this Consultation

URCA sets out in Section 5 of this document the particular areas where it is seeking public input.

Responses to this consultation should be submitted to URCA by 5 p.m. on or before October 19, 2012. Where a respondent believes that any of the arguments set out by URCA in this document is contrary to the Comms Act, relevant guidelines, regulatory objectives and principles, and/or obligations applicable to CBL, the respondent should clearly set out their reasoning for such objections, together with evidential information to substantiate his or her position.

Persons must send their written responses or comments to URCA’s Chief Executive Officer, either:

- by hand, to URCA’s office at UBS Annex Building, East Bay Street, Nassau; or
- by mail to P.O. Box N-4860, Nassau, Bahamas; or
- by fax, to (242) 393-0153; or
- by email, to info@urcabahamas.bs.

URCA reserves the right to make all responses available to the public by posting responses online on its website. If a response is marked confidential, reasons should be given to facilitate evaluation by URCA of the request for confidentiality. URCA may publish or refrain from publishing any document or submission, in its sole discretion.

URCA will review the responses received on or before October 19, 2012 and publish a Statement of Results on the consultation.

Persons may obtain copies of this document by downloading it from the URCA website at **www.urcabahamas.bs**.

¹ These communities are: (i) Cat Island – Arthur’s Town and The Bright; (ii) Moores Island; (iii) Farmer’s Cay, Exuma; (iv) Grand Cay, Abaco; (v) Guana Cay; (vi) North and South Andros; (vii) Crooked Island; (viii) Acklins Island; (ix) Mayaguana; (x) Grand Bahama (Basset Cove)- Sweetings Cay, Maclean’s Town, Water Cay, Walker’s Cay; (xi) Ragged Island; (xii) Rum Cay.

1.3 Structure of the remainder of this document

The remainder of this document:

- reviews the regulatory framework applicable to the pricing of SuperBasic services (Section 2);
- sets out URCA's review of the application, particularly focusing on compliance with the Pricing Rules (Section 3);
- considers the affordability of SuperBasic within the context of the legislative and policy requirements that basic TV services must be affordable (Section 4); and
- sets out a summary of URCA's initial analysis with respect to the application, and the specific areas in which URCA is seeking views from the public (Section 5).

2 Regulatory Framework for SuperBasic services

In this Section, URCA sets out the regulatory framework that applies to CBL's SuperBasic services. These include:

- Findings of SMP applicable to CBL;
- the Pricing Rules for SMP operators;
- the overall objectives of the Comms Act and the Electronic Communications Sector Policy;
- CBL's USO in pay TV; and
- other factors URCA must take into account in assessing the application.

2.1 Findings of SMP Applicable to CBL

Under Part XIX ("Transitional Provisions") and Schedule 4 of the Comms Act, CBL is presumed to have SMP in pay TV services, and high-speed data services and connectivity. Pursuant to s. 116(2) of the Comms Act, URCA confirmed CBL as having SMP in the relevant retail sub-market for the SuperBasic TV package for all categories of customers.²

2.2 Ex-Ante Retail Pricing Rules

Arising from URCA's Final Decision on SMP Obligations dated 22 April 2010 (URCA document reference number ECS 11/2010), URCA imposed specific *ex ante* retail pricing Rules on CBL's SuperBasic cable TV offerings, as follows:

- (i) SuperBasic cable TV service is a Price Regulated Service.
- (ii) CBL must first obtain URCA's written approval before introducing any price changes, both of a permanent and temporary nature, to SuperBasic TV service.
- (iii) Any bundle, tied product or package that includes SuperBasic cable TV (i.e., a "Price Regulated Bundle") is subject to regulatory oversight as per the Rules.
- (iv) Regulatory approval is also required before CBL can withdraw or discontinue SuperBasic cable TV services.

²See "Obligations Imposed on Operators with Significant Market Power (SMP) –Final Decision", 22 April 2010 (ECS 11/2010) at www.urbahamas.bs. CBL was also confirmed as having SMP in the relevant sub-markets for digital TV packages, national leased lines and broadband internet access.

URCA has also required CBL to:

- prepare separated accounts on an annual basis for the SuperBasic TV package, digital TV packages, national leased lines, and broadband internet access;
- provide wholesale access to the broadband network and services and access to the transmission network to other internet service providers; and
- untie pay TV and broadband packages for all existing and new customers.

The aforementioned regulatory measures imposed on CBL are intended to ensure fair, efficient and sustainable competition between operators; and to safeguard the public interest, thereby furthering the objectives of the Comms Act and the ECS Policy.

As stated in Section 1 above, CBL is seeking to implement (permanent) price increases for its SuperBasic cable TV services thereby triggering URCA's review and approval processes governing the application.

2.3 Overall Objectives of the Comms Act and ECS Policy

In considering CBL's application, URCA must also be mindful of the likely impact of the proposed new price on the achievement of the overall objectives of the Comms Act as well as the Electronic Communications Sector (ECS) Policy.

Section 4(a) and (b) of the Comms Act established the objectives of the Comms Act as:

“to further the interests of consumers by promoting competition and in particular –

- (i) to enhance the efficiency of the Bahamian electronic communications sector and the productivity of the Bahamian economy;*
- (ii) to promote investment and innovation in electronic communications networks and services;*
- (iii) to encourage, promote and enforce sustainable competition; and*

to further the interests of persons in The Bahamas in relation to the electronic communications sector by –

- (i) promoting affordable access to high quality networks and carriage services in all regions of The Bahamas;*
- (vi) promoting availability of a wide range of content services which are of high quality.”*

Section 5 of the Comms Act requires that “all policy measures, decisions and laws to take effect in the electronic communications sector in The Bahamas shall be made with a view to implementing the electronic communications policy objectives”.

2.4 CBL’s Universal Service Obligations

Section 119(1)(e) and paragraph (1)(b)(i) and (iii) of Schedule 5 of the Comms Act designate CBL as the universal service provider of “*affordable basic television services to all populated areas and specified institutions.*”³ For the purposes of paragraph (2)(c) of Schedule 5 of the Act, “*basic television services*” is defined as “*the provision of a multichannel television service comprising six channels, including ZNS Channel 13, and the Parliamentary channel.*”

The universal service obligation (USO) described above is a key element of the ECS Policy. In particular, paragraph 54 of the ECS Policy states that “*no person in The Bahamas who today benefits from electronic communications services provided under current USO and similar arrangements is left without service and that the services offered are no less than what is currently provided.*”⁴

2.5 Other Relevant Factors

In addition to CBL’s SMP obligations and the *ex ante* pricing Rules set out above, as part of this price review URCA is statutorily obliged to consider the implications of CBL’s price increase request on any other regulatory measures and/or obligations applicable to CBL.

Under s. 40 of the Comms Act, which governs SMP licensees, URCA shall ensure that any “*cost recovery mechanism or pricing methodology that is mandated promotes efficiency and sustainable competition and maximises consumer benefits*”⁵ and URCA may also “*take account of prices in comparable markets*”.⁶ Therefore, one of URCA’s key considerations in conducting its review has been its responsibility to protect consumers from unwarranted price increases: that is, ensuring the proposed price increase does not lead to prices above the competitive level and/or prices which are detrimental to particular persons or a particular description of persons, in relation to their ability to subscribe to the service.

³“Specified institutions” mean – all public and church operated schools; Public libraries; Public hospitals and public medical clinics; Institutions registered with URCA (namely, Senior citizens homes, Orphanages, Community centers); the College of The Bahamas; Bahamas Technical and Vocational Institute; Bahamas Hotel Training College; and Eugene Dupuch Law School. “Populated areas” mean - groups of permanent inhabited dwellings comprising ten or more households.

⁴Paragraph 54 of the ECS Policy dated 6th October, 2009.

⁵ s. 40(3)(a)

⁶ s. 40(3)(d)

3 URCA's Review of CBL's Application

In this Section, URCA:

- reviews CBL's pricing request against the minimum informational and data requirements specified in the Pricing Rules (Section 3.1 below);
- considers whether the requested price change gives rise to any anti-competitive concerns (Section 3.2 below); and
- examines whether the price proposed is reasonable relative to CBL's specific economic/financial information and in line with those for comparable products in relevant markets (Section 3.3 below).

URCA, in its review and analysis of CBL's application, has had regard to the following additional submissions:

- CBL's confidential letter dated 11 January 2012 in response to URCA's 6 January 2012 request for additional information and/or clarification in respect of the application, and confirmation of URCA's understanding of the data and calculations provided therein.
- CBL's confidential letter dated 27 January 2012 in response to URCA's comment that the requested price increase potentially raised concerns regarding the continued affordability of the service for some groups of customers (URCA's letter to CBL dated 19 January 2012).
- CBL's non-confidential submission of 11 May 2011 (Annex 2) in response to URCA's request (dated 20 March 2012) for a public version of the 27 January 2012 submission on the affordability of the proposed SuperBasic pricing.

3.1 Completeness of CBL's Application

Under the Pricing Rules, URCA is first required to consider whether the application is complete relative to the requirements of the said Rules. Paragraphs 16 to 20 of the Rules describe the minimum informational and data requirements that must accompany any request for a permanent price increase or decrease. In its application, CBL:

- (i) Provided a description of the service in question, stating that the requested price change is for CBL's basic cable TV offering known as SuperBasic.
- (ii) Indicated that the desired effective date to implement the proposed price change was 1 April 2012.
- (iii) Stated that the current price for residential SuperBasic is \$30 per month. The equivalent SuperBasic service for commercial customers is currently priced at \$50 per month.

- (iv) Proposed an \$8 (i.e., 27%) increase on the current monthly price of residential “SuperBasic”. CBL similarly proposes that the monthly subscription for commercial “SuperBasic” services will increase in line with the 27% price increase proposed for the residential package.
- (v) Emphasised that other than the price changes outlined in (iv) above, CBL is not proposing to change any of the existing terms and conditions governing the supply of SuperBasic services.
- (vi) Stressed that the current price of residential SuperBasic has remained unchanged since 1995 when CBL first launched terrestrial cable TV services in The Bahamas. CBL noted that since that time the retail Consumer Price Index (CPI) in The Bahamas has risen by 37% on a cumulative basis, or about 2% annually. CBL asserted that current prices will lead it to incur a loss on the SuperBasic service in 2011 and 2012.
- (vii) Considered that the price for the SuperBasic service should more closely reflect its costs (measured using an historic Fully Allocated Cost (FAC) approach, as per CBL’s separated accounts) including a Return on Mean Capital Employed (RoMCE) equal to the regulatory cost of capital (10.86%).
- (viii) Presented current and its own forecast of the demand for the underlying service, including:
 - o demand forecast for the ensuing year;
 - o number of existing subscribers likely to be impacted by the requested price increase;
 - o projected revenues for the underlying service for the period 2011 and 2012 along with the actual figures for 2009 and 2010; and
 - o the total cost of providing SuperBasic based on URCA’s Final Accounting Separation and Cost Accounting Guidelines for CBL (i.e., ECS 13/2010), inclusive of CBL’s cost of capital.
- (ix) Presented a price benchmarking study based on prices for cable TV services in markets having similar characteristics to The Bahamas. The benchmarking study showed that “the average current price for comparable cable packages from benchmarking jurisdictions in the Caribbean was \$37.60 [per month]”.
- (x) Submitted a signed declaration on relevant competition tests, stating that the application does not give rise to any anti-competitive concerns; in particular, that it does not result in predatory pricing or margin squeeze on others in the market.

URCA, having reviewed CBL’s application against the informational and data requirements, finds that the application is complete relative to the specified minimum informational and data requirements in the Rules.

3.2 Competition Tests

As mentioned in Section 1 above, “SuperBasic” cable TV services fall within the relevant economic market for pay TV services, in which CBL has SMP. As such, CBL has the power to behave anti-competitively in that economic market to the detriment of other operators and customers.

As part of the Pricing Rules, CBL is required to declare in its application that its proposed pricing is not anti-competitive. As described above, it has met this requirement, specifically declaring that the proposal:

- o does not result in predatory pricing, and
- o will not result in a margin squeeze on other operators.

Within the limited context of this price review, URCA has sought to assess the above declaration by CBL.

3.2.1 Predatory Pricing

By definition, and in line with standard competition analysis, predatory pricing occurs where a dominant licensee deliberately incurs short-term losses or foregoes profits in the short-term so as to foreclose (or be likely to foreclose) a competitor (or a potential competitor), with a view to strengthening or maintaining its market power. As such, the necessary condition for predatory pricing would be that the dominant operator reduces its price to drive competitors out of the market. However, as the application under review is for a price increase, concerns about price predation would not typically arise. Further, as set out in the SMP Determination, CBL faces no actual or potential competition in this relevant market.

3.2.2 Margin squeeze

URCA considers that CBL is not in a position to exert a margin squeeze on others. Under standard competition analysis, a margin squeeze may occur where the dominant licensee supplies an input to a downstream (retail) market in which it also competes.

Whilst CBL has SMP in pay TV services, URCA has not imposed any obligation requiring CBL to provide wholesale products and services to competing pay TV operators.⁷ Nor is URCA aware of any commercial or unregulated arrangements between CBL and other licensees for the provisioning of inputs to potential downstream competitors in the relevant market for pay TV (or licensees seeking

⁷ CBL’s exclusive Franchise Agreement in cable TV services expired on 13 October 2009, and under Government’s policy for the ECS, the pay TV market has been fully liberalised.

such arrangements with CBL).⁸ As such, and given that CBL's proposal is for a permanent increase in the retail price, URCA does not consider that potential margin squeeze should be a relevant consideration in this application.

3.3 Review of the Analysis Presented in CBL's Application

URCA has comprehensively examined the price increases requested by CBL taking into account CBL's specific financial data and prices for comparable products in relevant markets. Much of URCA's review of CBL's financial data cannot be disclosed due to reasons of commercial confidentiality. URCA therefore in this consultation presents only a summary of URCA's review.

3.3.1 Financial Analysis in CBL's Application

CBL considers that the price for the SuperBasic service should more closely reflect its costs (measured using a historic fully allocated cost approach, as per CBL's separated accounts) including a RoMCE equal to the regulatory cost of capital (10.86%). In response to a letter from URCA dated 6 January 2012, CBL provided clarifications on the data and calculations within its application (CBL's letter to URCA dated 11 January 2012). While URCA notes that there are a number of limitations in relation to CBL's calculations, URCA further notes that CBL appeared to have adopted a conservative approach and URCA therefore considers that there was sufficient information to support the analysis conducted by CBL.⁹

Based on its estimates of costs and revenues for SuperBasic services, CBL finds that the revenues it generated on this service were not sufficient to cover its fully allocated costs, including its cost of capital. This is supported by CBL's separated accounts for 2009 and 2010. Although URCA notes economically efficient pricing does not require prices to be set equal to fully allocated (average) cost (FAC), it accepts this as a reasonable cost benchmark in the context of this review, given the lack of available data using other measures and the reconciliation between this and CBL's regulatory accounts.

CBL's calculation of costs for 2011 and 2012 was based on forecasts of individual costs items which are then allocated to SuperBasic cable TV services based on the allocation factors used in its separated accounts in 2009 and 2010. In other words, the cost estimates for 2011 and 2012 were also based on a FAC methodology.

Cost data for 2011 was based on actual data for the first nine months and then forecasted for the remaining three (3) months (i.e., October/November/ December). URCA notes that for most cost categories, the forecast for the remaining three (3) months is a pro-rated estimate based on the previous nine (9) months. However, for some cost categories, there is a significant difference in the

⁸ For this reason, potential entrants to pay TV market must establish their own infrastructure and negotiate access to TV programming.

⁹ These limitations include the revenue and volume forecasts used in spreadsheets provided by CBL.

cost per month. Nevertheless, the forecasts for total costs in 2011 appear to increase by less than they do in 2010. The forecasts for overall cost increases in 2012 appear to be largely in line with those for 2011.

CBL forecasted that if prices for SuperBasic remained the same in 2011 and 2012, SuperBasic revenue would be less than the estimated FAC, including the cost of capital. Indeed, based on the cost and volume information CBL provided to URCA, the proposed price increase from 1 April 2012 is not sufficient to remove the estimated difference between revenue and costs. This is because CBL suggests that the price increase should be limited to take account of “several other important considerations”. These include the current economic climate in The Bahamas affecting demand for the service. Further, CBL states that it is following what it considers is a conservative approach, which will limit the potential for CBL to earn above the regulatory cost of capital for this service (again based on the FAC measure of cost).

3.3.2 Benchmarking Analysis in CBL’s Application

In its application, CBL outlined its benchmarking methodology and results for SuperBasic services (Annex 1).

The price benchmarking study (based on the prices in markets suggested by CBL as having similar characteristics to The Bahamas) provided by CBL appears to be based on a reasonable methodology. The benchmarking study showed that “the average current price for comparable cable packages from benchmarking jurisdictions was \$37.60 [per month]”. As such, the benchmarking study *prima facie* appears to support CBL’s application to increase the monthly price for residential SuperBasic cable service from \$30 to \$38.¹⁰ URCA notes, however, that CBL’s benchmarking of the prices for comparable cable packages in markets purporting to have similar characteristics to The Bahamas does not provide any indication as to the degree to which charges for cable TV in those other jurisdictions are cost oriented.

In the next Section, URCA reviews CBL’s application within the context of the overall objectives of the Comms Act, the Electronic Communications Sector (ECS) Policy and the requirements imposed on CBL under s. 119(1)(e) and paragraph (1)(b)(i) and (iii) of Schedule 5 of the Comms Act to provide “affordable basic television services to all populated areas” in The Bahamas.

¹⁰The benchmarking study includes the following jurisdictions: Anguilla, Antigua and Barbuda, Aruba, Barbados, Bermuda, Bonaire, British Virgin Islands, Cayman Islands, Curacao, Dominica, Dominican Republic, Grenada, Guadeloupe and Martinique, Jamaica, Montserrat, Puerto Rico, St Kitts and Nevis, St Lucia, St Maarten, St Martin, St Vincent, Trinidad and Tobago, Turks and Caicos Islands, and Virgin Islands (US).

4 CBL's Universal Service Obligation in Basic TV

URCA, in its review of CBL's application, considered the impact of the proposed price level on consumers in The Bahamas, in particular any impact which implementation of the proposed price increase would have on achieving the objectives of both the Comms Act and the Electronic Communications Sector (ECS) policy. For those reasons, URCA has expressed concerns to CBL that in the absence of CBL having a specific package which fulfils the requirements imposed by s. 119(1)(e) of the Comms Act to provide "affordable basic television services to all populated areas" in The Bahamas, CBL's proposed price increase or price level may have the effect of lessening the extent to which CBL fulfils its universal service obligation by making its existing SuperBasic offering less affordable.¹¹ Given those concerns, URCA stressed that it must address the issue of whether CBL's price application would have the effect of reducing the extent to which CBL can be said to provide "affordable basic television services to all populated areas" in The Bahamas.

Alongside affordability, URCA believes it is important to consider the likely response of consumers to the proposed price increase. Indeed, the responsiveness or sensitivity of subscribers to changes in the price of SuperBasic is particularly important as consumer benefits from this service may be widespread given the disparities in access to free-to-air TV in The Bahamas, and the important role that access to basic television services plays in disaster management and preparedness, as well as social inclusion.

Standard economic theory and international experiences suggest to URCA that the price change requested by CBL is likely to have one or more of the following effects on Bahamian consumers:

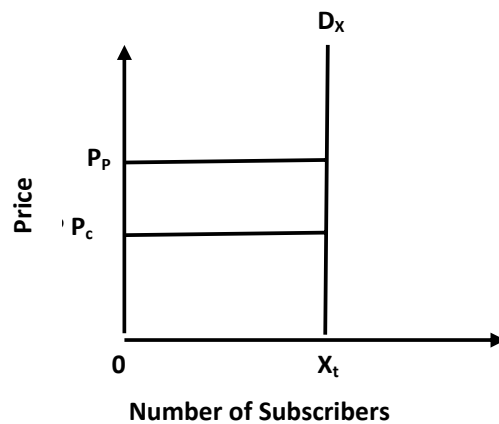
- **Churn and spin-down:** A 27% price increase to the SuperBasic services would likely cause some existing residential and commercial subscribers to cancel their subscriptions, or, if it was available, spin-down to a less-inclusive package such as the USO basic television service. URCA considers that, in light of the proposed price increase, not all subscribers to the SuperBasic package will place value on the current content included in the package, or attribute sufficient value to that content to pay the higher proposed price for the SuperBasic package. Accordingly, a price increase may cause some of them to cancel their subscription or, if the option was available, switch to other, lower-priced packages.
- **Reduction in acquisition of new subscribers:** A 27% price increase in the SuperBasic services is likely to deter some potential residential subscribers from taking up a subscription to the current SuperBasic package.
- **Customer (and potential customer) perceptions:** Consumers' perceptions of a company play an important role in their propensity to become or remain its customers. The imposition of a 27% price increase, particularly during recessionary or difficult economic times, is likely to have an effect on those perceptions.

¹¹URCA's Letter to CBL dated 19 January 2012.

In this regard, URCA notes CBL's assumption that there will be no change in volume of residential and commercial subscribers in response to the proposed price change (i.e., zero price elasticity).

Figure 1 below illustrates CBL's assumption of a zero price elasticity of demand for the service (i.e., as the price for SuperBasic increases from P_c (\$30) to the proposed level P_p (\$38), the number of residential subscribers remains unchanged at X_t).

Figure 1: Zero Price Elasticity of Demand



For a number of reasons, URCA does not consider that this assumption is likely to reflect the true nature of the demand for pay TV services in The Bahamas.

The proportion of income that is devoted to a product or service affects the price elasticity of demand for that product or service. Where a product or service accounts for a significant share of income, customers are more responsive to price changes. In this case, even a relatively small price change can trigger a significant difference in consumers' decision to purchase the service and may induce relatively large changes in demand.

Secondly, URCA noted significant seasonal variations in CBL's subscriber numbers reflecting how, according to CBL, some households subscribe to SuperBasic only over the holiday period. This could indicate that those households are not able, or willing, to subscribe for a longer period of time. Thus, the price increase could be a cause for concern if it caused other households to move into this group.

Given the above, in its letter to CBL dated 19 January 2012, URCA commented that:

- URCA was hard pressed to accept CBL's assumption of a zero price elasticity;
- any proposal to raise the price of the current SuperBasic package must consider the likely potential impact of the increase and new price level on vulnerable customers, especially where that price increase may lead to the service becoming less affordable to some customers;
- "... some customers may find the new monthly price of \$38 unaffordable and discontinue their subscriptions";

- Schedule 5 of the Comms Act imposed an obligation on CBL to provide affordable “*basic television services to all populated areas and specified institutions*”¹²; and
- CBL’s SuperBasic offerings appear to be the default universal service TV package.

As a separate issue, URCA believes that it must also consider whether the proposed price level would have the effect of reducing the extent to which CBL can be said or seen to provide “affordable basic television services to all populated areas” in The Bahamas in breach of s. 119(1)(e) of the Comms Act (i.e., either in the form of a new breach, or the exacerbation of an existing and/or continuing breach) and also whether the requested price change breaches the requirements in Paragraph 54 of the ECS Policy and consequentially s. 4(b)(i) of the Comms Act (i.e., that no persons in The Bahamas who today benefits from electronic communications services provided under current USO and similar arrangements is left without service and that the services offered are no less than what is currently provided, and the promotion of affordable access to high quality networks and carriage services in all regions of The Bahamas).

4.1 CBL’s Submissions on Universal Service

In its 11 May 2012 non-confidential response to URCA, CBL:

- (i) reiterated the key principles and rationale underpinning the requested price increase and price level;
- (ii) rejected URCA’s supposition that the rate application may give rise to affordability concerns for customers;
- (iii) asserted that the rate application should be considered on its merit with reference to the Pricing Rules only;
- (iv) commented that its price application is cost justified, affordable and long overdue. CBL explained that pursuant to Condition 37.1.2 of CBL’s Individual Operating Licence (IOL) “... *CBL is not only allowed to recover its costs in providing pay TV services but is, in fact, required to do so*”; and
- (v) acknowledged that while one of URCA’s statutory objective is to foster affordable access “in all regions of the Bahamas”¹³:
 - CBL is not required to operate its pay TV business at a loss; and

¹² ECS 12/2012, issued 30 March 2012 “ Framework For The Clarification and Implementation of Existing Universal Service Obligations Under Section 119 and Schedule 5 of the Communications Act, 2009” and available at www.urbahamas.bs.

¹³ Section 4(b)(i) of the Comms Act.

- URCA has a statutory obligation under s. 4(b)(vi) of the Comms Act to promote the availability of a “wide range of content services which are of a high quality” but this does not empower URCA to impose a requirement on CBL to provide pay TV services at an overall loss.

URCA also notes that CBL stated in its letter that it “... would be willing to discuss with URCA a reasonable phase-in or glide-path approach that factors in any additional costs that are expected over the glide-path period.”

URCA notes CBL’s submissions on the key principles and rationale underpinning the proposed price for residential SuperBasic. Relative to the second point (ii), URCA disagrees with the argument presented by CBL and is confident that the application raises affordability concerns for customers. In reviewing the application, URCA considers that it must give serious consideration to this issue. In response to the third point (iii), URCA rejects CBL’s urging that the application should be considered on its merit with reference to the Pricing Rules only. This is because URCA by virtue of its price setting role in respect of those services for which a licensee is designated as having SMP must consider the impact of the proposed price change, and URCA considers that the possibility that a price change might impact compliance by a licensee with its statutory obligations is a relevant factor in the consideration of the price change application. Regarding points (iv) and (v), URCA assures CBL that URCA in its review and analysis of CBL’s application will at all times adhere to all relevant principles and objectives, including relevant licence conditions. Specific to item (iv), URCA also wishes it to be stated that it has not mandated CBL to provide basic cable TV service below, at or above cost. At this time, URCA is not in possession of relevant information on what it would cost CBL to launch a pay TV package that meets CBL’s universal service basic TV obligation. As such, URCA is not in a position to comment on whether the resulting retail price for this basic TV package would pose affordability difficulties for some customers at this time. As part of this consultation, URCA proposes in Section 5 below to request such information from CBL. URCA proposes to analyse such information and determine whether the resulting price would be unaffordable for some customers and might thus require universal service funding support.

URCA acknowledges CBL’s proposal for a phase-in or glide-path to the requested new price for the SuperBasic packages. URCA considers that this is a matter to be determined after it has reached a final decision on the requested price change.

Within its response, CBL explained that its use of a zero-price elasticity in the price application was motivated:

- by the absence of relevant studies of basic cable TV price elasticities in either The Bahamas or regionally;
- by the lack of experience on customers’ responsiveness to price changes (i.e., the price of SuperBasic has remained unchanged since service was launched in 1995);
- by CBL’s desire to simplify the application; and
- on the basis that the assumption of zero price elasticity mitigates the magnitude of the required price increase (because it does not take into account any potential loss of revenue

from customers disconnecting from the service, and hence further price increases to mitigate this).

URCA has carefully considered the arguments presented above. However, URCA is of the view that none of these arguments provides conclusive evidence that the proposed price increase - or the absolute price level - would not impose a hardship for some existing subscribers of SuperBasic or make the service less affordable for existing or potential subscribers.

4.1.1 The Importance of Affordability

CBL stated that the current price of \$30/month was a condition in its 1994 Licence¹⁴ and *“must have been considered as not only fair and reasonable, but it must have also been considered “affordable” for the general public.”* It submits that the concept of “affordability” is not defined anywhere in either the Comms Act or regulatory frameworks applicable to The Bahamas and CBL is not aware of any widely accepted definition or criteria to test the affordability of a given product or service.

CBL has not, however, included in its submission any evidence in support of its argument that the current price (\$30) must have been deemed affordable for the general public when it was first established in 1994. URCA would welcome any evidence CBL may wish to provide in support of this point. URCA’s predecessor, the PUC (Public Utilities Commission), did not regulate the cable TV industry (prior to enactment of the Comms Act) and no information exists within URCA on the extent to which the current SuperBasic price was deemed *“affordable”* in 1994. URCA reminds CBL that the requirement for carriage services such as CBL’s SuperBasic service to be affordable was only introduced in the Comms Act when it was enacted in 2009, and there was no requirement in the legacy legislative or regulatory framework for basic cable TV prices to be affordable.

Indeed, URCA emphasizes that the obligation to provide affordable basic television service has been placed directly on CBL in the current legislation. URCA is therefore of the view that CBL must satisfy URCA that an affordable multichannel package has been provided in all populated areas of The Bahamas in compliance with the provisions in the Comms Act. In assessing the affordability of that obligation, URCA’s starting point is to note that the minimum universal service requirement is a multichannel package comprising of six channels including ZNS-TV and the Parliamentary Channel.

Affordable service/access to certain specified services that are considered “basic” for all residents is part of practically every country’s electronic communications sector goal/policy. Even in industrialized high-income economies the evidence suggests that affordability is a key barrier to the take-up of Internet and other services and this issue remains a major concern for regulators and policymakers. The concept is equally applicable to other essential social services (i.e., clean water, electricity, postal services). As such, there is established precedents and guidance internationally on appropriate definitions of “affordability” for “basic services”.

¹⁴ Licence issued by The Bahamas Government on 13 October 1994.

Whilst acknowledging that a definition of “affordability” is not specified in the existing legislative or policy framework, URCA considers that “affordability” is a concept capable of definition by reference to its plain English meaning, and/or international precedent. Reputable regulatory bodies from around the world along with the World Bank and other international organizations (including the ITU) have published several discussion papers and/or decisions on definitions of affordability in network industries.

Most national policy statements and/or regulations stress the need for universal service to be affordable, especially for low-income users. At a basic level, “affordability” is understood to mean having enough money to purchase a good or service without getting into financial difficulty. Thus, how much a person can afford depends very much on their individual circumstances (i.e., how much they earn and how much disposable income they have). As such, what is affordable for customers with a large income is, of course, very different for those with more limited earnings.

It is standard ECS industry practice where, for example, a telephone service package is considered affordable if: “*The package allows a **household in the lowest income decile** [emphasis added] to make socially necessary use through sustainable expenditure i.e., expenditure which is without detriment to other essential spending.*”¹⁵ In reference to the affordability of mobile broadband services in Latin America and Caribbean, the Inter-American Development Bank (IDB) in a recent report noted that the “Lowest prices are a good benchmark for the **affordability of broadband of lower income quintiles of the population**”¹⁶ [emphasis added]. Article 9(2) of Directive 2002/22 of the European Parliament and Council, entitled ‘Affordability of tariffs’, provides that “*Member States may, in the light of national conditions, require that designated undertakings provide tariff options or packages to consumers which depart from those provided under normal commercial conditions, in particular to ensure that those on **low incomes** ... are not prevented from accessing or using ... the service*”¹⁷ [emphasis added]. The UK government requires the postal regulator “... to ensure that universal postal services are affordable, particularly to those on **low incomes** [emphasis added].”¹⁸ Further, as noted by one UK industry group “... when we speak of affordability ... the group we have in mind is people with **low incomes**, or who are vulnerable or disadvantaged for some other reasons”¹⁹ [emphasis added].

From the standpoint of statutory interpretation or construction of the word “affordable”, URCA proposes to proceed on the basis of giving the word its common or natural and ordinary meaning as found in any common dictionary. The Encarta English Dictionary gives one definition of “affordable”

¹⁵ See Section 2.5 “Are Telecommunications Services Universally Affordable Across the EU? An Independent Assessment for Vodafone” (October 2010) by Plum Consulting of the UK at http://www.vodafone.com/content/dam/vodafone/about/public_policy/affordability_plum.pdf.

¹⁶ “Bridging Gaps, Building Opportunity – Broadband as a Catalyst of Economic Growth and Social Progress in Latin America and the Caribbean, A View from the Industry” IDB March 2012.

¹⁷ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX::62008J0222:EN:HTML>.

¹⁸ The building for a sustainable postal service: universal Service – Discussion paper on affordability, February 2011, POSTCOMM.

¹⁹ http://www.antelope.org.uk/affordability/PUAF_affordability_discussion_paper.pdf.

as “to be able to meet the cost of something without unacceptable difficulty”. Conversely, an alternative approach to “affordability” would be that the basic television service is ‘unaffordable’ if an existing or potential residential or small business customer was entirely excluded from purchasing it or faced significant hardship to purchase it because of the price.²⁰

4.1.2 CBL’s Measures of Affordability

CBL asserted that “... neither the proposed permanent SuperBasic price increase of \$8 (roughly 27%) nor the resulting proposed SuperBasic price of \$38 would raise serious affordability concerns for CBL’s customers.” Under the heading “Affordability Perspectives”, CBL presented a number of complementary approaches to assess the affordability of CBL’s requested price increase (\$8) and price level (\$38), as follows:

- General Consumer Price inflation since 1995;
- GDP Growth since 1995;
- Share of SuperBasic in an Average Household Budget; and
- International benchmarking studies.

General Consumer Price Inflation since 1995

CBL noted that the requested rate increase of 27% is 10% less than the 37% increase in the All Bahamas CPI since 1995. This led CBL to conclude that both the proposed price increase (\$8) and price level (\$38) are lower in real terms than the average price change for other consumer goods and services²¹ and concluded that a price of \$30 per month is 37% more affordable relative to 1995.

GDP Growth since 1995

CBL notes the expansion in the national economy since 1995 and expressed the annualized cost of residential SuperBasic as a percent of GDP per head for the period 1995 through to 2010 (See Table 1 below).

Table 1: Ratio of the Cost of SuperBasic to GDP per Capita

	1995 (E)	1997	2010	2010
SuperBasic Price/Month	\$30	\$30	\$30	\$38
GDP/Capita	\$15,931	\$17,226	\$21,777	\$21,777
Price as a percentage GDP/capita	2.3%	2.1%	1.7%	2.1%

Source: CBL letter to URCA dated 11 May 2012

²⁰ The building for a sustainable postal service: universal Service – Discussion paper on affordability, February 2011, POSTCOMM.

²¹ This is because the price increase (27%) is 10% below the 37% increase in the All Bahamas CPI since 1995.

As shown in Table 1 above, the annualized cost of the current SuperBasic package (whether priced at \$30 or \$38 per month), declined relative to GDP per head compared to the 1995 ratio of 2.3%. CBL noted the expansion in the size of the Bahamian economy since 1995 and stressed that the resulting growth in GDP per head makes the current and proposed price more affordable today for someone of average income than in 1994.

Share of SuperBasic in an Average Household Budget

CBL noted that at \$38 per month the annualized cost of the current SuperBasic package represents only 1.18% of mean annual household income/budget for 2011 (\$38,512) versus 0.93% assuming the current price of \$30. In CBL's view, both the current and proposed price represents a minimal share of average annual household income/budget.

International Benchmarking

CBL complemented the foregoing analysis with three additional measurements of the affordability of basic cable TV services in comparable Caribbean markets (including The Bahamas):

- Average basic cable TV prices;
- Basic cable TV prices and relative income; and
- Basic cable TV cost relative to GDP per capita.

Under the first bullet, CBL concluded that "the average current price for comparable cable packages from benchmarking jurisdictions was \$37.60 [per month]" which CBL believes support its application to increase the monthly price for residential SuperBasic cable service from \$30 to \$38.²² CBL then commented that it presumed pricing for basic cable TV services in the Caribbean to be "*... not only fair and reasonable, but also generally affordable*".

Relative to the second bullet, CBL submitted comparative ratios on the share of GDP per head spent on basic TV services in the Caribbean. These ratios demonstrate that on average the price of basic TV services across the region represent 3% of GDP per head versus 1.7%²³ and 2.15%²⁴ for The Bahamas.

Regarding the third measure, CBL presented a regression analysis showing the pricing of cable TV services in the region against GDP per capita. Based on the estimated regression trend line, CBL

²²The benchmarking study includes the following jurisdictions: Anguilla, Antigua and Barbuda, Aruba, Barbados, Bermuda, Bonaire, British Virgin Islands, Cayman Islands, Curacao, Dominica, Dominican Republic, Grenada, Guadeloupe and Martinique, Jamaica, Montserrat, Puerto Rico, St Kitts and Nevis, St Lucia, St Maarten, St Martin, St Vincent, Trinidad and Tobago, Turks and Caicos Islands, and Virgin Islands (US).

²³ Based on the current price of \$30 per month (\$360/year).

²⁴ Based on the proposed price of \$38 per month (\$456/year).

predicted that current and proposed pricing levels for SuperBasic services both fall below the price level predicted by the regression, given the GDP per head in Bahamas.

4.2 URCA's Comments on CBL's Affordability Tests

URCA notes the supporting information on affordability of SuperBasic presented by CBL and summarized in Section 4.1.2 above. URCA could not validate CBL's statement regarding the affordability of comparable cable TV packages in various other markets in the Caribbean. URCA is unaware of any requirement in those markets that the benchmarked packages must be affordable, whilst it understands that most, if not all, of the countries mentioned in CBL's benchmarking study benefit from over-the-air TV services provided on a nationwide basis. Over-the-air TV services provide an alternative system for disseminating information during times of national disasters and emergencies and fosters national awareness and social cohesion amongst the population. In this regard, it may be the case in these markets that cable TV services are thought of more as a luxury rather than as an essential social service that should be affordable for all.

In contrast, URCA perceives that the landscape in The Bahamas is very different. Here, there is only one free-to-air television station that covers only a small percentage of the populated areas (geographically) in the country, only one population centre and less than 75% of the population. As a result, the policy and regulatory framework in The Bahamas places a statutory requirement (introduced in the 2009 legislation) for CBL to provide "*affordable basic TV services to all populated areas and specified institutions.*"

CBL appeared to have acknowledged the fundamental difference noted above between The Bahamas and its regional counterparts when it stated that "*In St. Vincent and the Grenadines, which has a similar topology to The Bahamas, the quasi-Government entity, Broadcasting Corporation, operates one television station and five repeater stations that provide near total coverage in that multi island state*" [emphasis added].²⁵ URCA reiterates its understanding that in many parts of the region one or more entities provide free-to-air TV service, and unlike The Bahamas there is no statutory requirement in these countries for basic cable TV services to be affordable for all.

Standard economic theory suggests that subscriber income levels should be among the factors considered when assessing the affordability of services. URCA also recognizes that a positive correlation exists between income level and the ability to afford universal service, including basic cable TV services. However, a tariff that is affordable to affluent and high income (or even "average") customers may not be affordable to lower income quintiles or deciles of the population.

As such, URCA considers that neither the mean annual household income/budget nor GDP per head used in CBL's analysis appropriately represents the actual level of income or purchasing power

²⁵ See p. 29 "Framework For The Clarification and Implementation of Existing Universal Service Obligations Under Section 119 and Schedule 5 of the Communications Act, 2009", ECS 12/2012 Submitted by Cable Bahamas Ltd. June 29, 2012.

across Bahamian households. Indeed, any assessment of affordability based on national average household income or GDP per head would be inequitable because of income disparities across the population. This would tend to overestimate the price at which services are affordable when applied to a household where income level is significantly below the national average.

Notwithstanding the growth in GDP per capita as noted by CBL above, the level of household income inequality in the Bahamas has increased since 1999, thus making GDP per capita an inaccurate indicator of purchasing power across the total of Bahamian households. Information obtained from the Department of Statistics confirms that a relatively large number of Bahamian households earn less than the mean annual household income/budget or GDP per head assumed in the CBL analysis.²⁶

The mean annual household income in The Bahamas is \$38,512, \$8,512 less than the median. This means that half of the households in The Bahamas have annual income below \$30,000 and the other half above it. Further, approximately 40%, or 40,180 households, have annual median income of \$20,000 or less. As such, measuring affordability against GDP per head or mean household income would not address the extent to which the SuperBasic service is affordable to these households.

As stated above, CBL concludes that neither the proposed price increase or price level would present affordability difficulties for households and customers at or above the mean income levels in The Bahamas. URCA agrees with this conclusion. However, URCA notes that the analysis presented by CBL fails entirely to address the significant percentage of households which fall below that level of income. URCA is not aware of any assessment of affordability of basic essential services anywhere that focuses exclusively on those segments of the population having the greatest ability to pay and where the price charged constitutes an insignificant or negligible share of income.

For the reasons described above, URCA considers that the focus of CBL's analysis is inappropriately narrow. URCA strongly believes that any assessment of the affordability of CBL's proposed price increase should consider its impact on lower income households and other vulnerable members of the population (i.e., those with the least ability to pay the new price without presenting undue financial hardship, or reducing the ability to finance a minimum level of consumption of other goods). For example, CBL made no attempt within its analysis to determine the potential impact of the price increase on persons in The Bahamas earning below the annual GDP per capita or mean household income. URCA believes that this omission is significant, given the legislative and policy requirement for basic television services to be affordable for the general public in The Bahamas.

4.3 Additional Measures of Affordability

Given the shortcomings in CBL's approach to affordability, UCA has sought to complement CBL's affordability measurements with other indicators or factors that URCA believes may influence a consumer's decision to subscribe to SuperBasic services, namely:

²⁶ Median income is a more suitable basis for measuring affordability than mean income because it is not affected by outliers.

- Median household income;
- Customer billing arrears;
- Existences of alternative pay TV services for SuperBasic; and
- Subscription levels.

4.3.1 Median Household Income

URCA expressed the annualized cost of residential SuperBasic service (whether priced at \$30 or \$38 per month) as a percent of median household income for decile 1 through to decile 10 households (see Table 2 below). The common expectation is that low income households are usually the unconnected and find it hardest to afford basic services. Given that URCA’s intent is to determine whether the price proposed could present financial hardship or serious detriment for the general public in The Bahamas, URCA must also consider the impact of the new price on households, including the poorest and most vulnerable segment of the population.

Table 2: Ratio of Annualized Cost of SuperBasic to Median Household Income (2011)

Household Decile	Number of Households	Household Income Distribution (B\$)			Annualized Cost of SuperBasic as Share of Median Income (%)	
		Aggregate Income	Mean Income	Median Income	Current Expenditure (\$30 x 12)	Proposed Expenditure (\$38 x 12)
1	10,075	25,390,647	2,520	2,856	12.61	15.97
2	10,070	85,551,643	8,496	8,760	4.11	5.21
3	10,115	140,430,824	13,883	14,000	2.57	3.26
4	9,920	196,592,197	19,818	20,080	1.79	2.27
5	10,640	279,463,778	26,265	26,400	1.36	1.73
6	9,625	319,848,409	33,231	33,400	1.08	1.37
7	10,095	418,829,783	41,489	41,600	0.87	1.10
8	10,050	525,962,060	52,335	52,200	0.69	0.87
9	10,245	710,516,284	69,352	70,000	0.51	0.65
10	9,595	1,165,126,875	121,431	100,476	0.36	0.45
Total	100,430	3,867,712,500	38,512	30,000	1.20	1.52

From Table 2 above, URCA notes that:

- there are significant disparities in income across Bahamian households, thus the mean household income or GDP per head is not representative of the range of income across the population;
- the bottom 10% (decile 1) of Bahamian households have median income of \$2,856 per annum (or \$238 per month);
- decile 1 households account for 10% of aggregate households but less than 1% of annual median household income;

- both the current and proposed prices for SuperBasic represent a sizeable share (12.61% and 15.97%) of median income for households in decile 1; and
- neither the current price nor proposed price level pose affordability concerns for households earning the average income.

URCA is without information on the characteristics of Bahamian households, but based on international studies²⁷, URCA understands that low-income households are typically characterized by irregular employment and income, and limited discretionary spending power. As such, emergencies, even quite small ones, are more challenging financially than for households in higher income deciles. It is also likely that Bahamians in low-income households may perceive cable TV services differently from those in high-income households and may therefore wish to subscribe to a package comprising less than 54 channels.

Given the above, URCA considers there is a good chance that some households in lower income deciles (in particular decile 1) would find the current price (\$30/month) for the SuperBasic package unaffordable. This could be one reason why a number of customers appear only to subscribe to the service for a limited part of the year. Additionally, faced with a 27% rise in the price of the service, some existing customers might retain the service but at the cost of a reduced standard of living, because other types of expenditure would be displaced. Alternatively, they may choose to disconnect from the service which would also imply a reduction in welfare and living standard. Further, the proposed price increase may lead to currently unconnected customers deciding not to take up the service in the foreseeable future. One of URCA's primary objectives is to prevent these outcomes and thereby promote universal service (i.e., basic television services at an affordable price to all populated areas and specified institutions).

Apart from income and cost of living, URCA accepts that there are other complementary factors to consider the affordability of CBL's SuperBasic price change request, including customer arrears, the existence of alternatives to SuperBasic, and subscription levels.

4.3.2 Customers Arrears

How often households fall into arrears can be a reasonable indicator of the affordability of the service and can complement the evidence based on income and other indicators. However, URCA has no information on customer arrears and invites CBL to provide information on customer arrears for SuperBasic services for residential and commercial customers separately. CBL should provide this as part of a confidential response to the consultation document.

4.3.3 Alternatives to SuperBasic

In its 30 September 2009 Preliminary Determination, URCA concluded that pay TV offerings from satellite companies, and internet streaming are not reasonable substitutes for CBL's SuperBasic

²⁷"Affordability of Telephony and Internet: An International Overview", Claire Milne, May 2009; and "Portfolios of the Poor", Collins, Morduch, Rutherford, and Ruthven, 2009, Princeton University Press.

service. URCA notes that free to air TV is not widely accessible to populated regions of the country. Further, the existing six multichannel services which URCA considers to be compatible with CBL's USO is not available in New Providence, which represents 69% of Bahamian households and more than 70% of the total population. This lack of available substitutes for SuperBasic reinforces the importance to URCA of ensuring that CBL provides an affordable basic cable TV package to all Bahamians in compliance with its USO.

4.3.4 Subscribership Levels

SuperBasic presently attracts approximately 70,000 subscribers. URCA considers that subscribership levels could provide relevant information on whether customers have the financial means to subscribe to universal service and, thus, represent an important measure in evaluating affordability of prices. However, URCA notes that some customers may subscribe to electronic communications services irrespective of whether the price charged imposes hardship and therefore high subscribership rates do not ensure that price levels are affordable.

5 Summary of URCA's Analysis

This Section of the consultation paper contains a summary of the key issues arising in URCA's analysis of CBL's application to increase:

- the current monthly price for residential SuperBasic TV service by \$8/27%; and
- commercial SuperBasic in line with the percentage price increase proposed for residential SuperBasic.

As described in Section 2 of this consultation paper, URCA's key considerations in conducting this review are consumer protection and ensuring that the price increase does not lead to prices above the competitive level. In this regard, URCA comprehensively reviewed the application, taking into account evidential support, points of clarification and additional data/information provided by CBL along with relevant regulatory principles and measures, other relevant obligations applicable to CBL and URCA's core objectives, in particular:

- s. 4(a)(i) to (iii) and b(i) and (vi) of the Comms Act;
- s. 119(1)(e) and Schedule 5 of the Comms Act which explicitly designate CBL with an existing USO for "basic television services" to all populated areas and specified institutions in The Bahamas; and
- provisions of the *ex ante* Pricing Rules on requests for permanent price increases by SMP operators.

URCA's initial analysis of the application notes that:

- The application is complete relative to the minimum information requirements specified in the Rules.
- It appears that the level of the price increases requested by CBL is designed to align the overall revenue from SuperBasic with the underlying fully allocated costs incurred by CBL in provisioning the service.
- The underlying costing information provided by CBL appears to be in line with CBL's accounting separation methodologies and principles.
- The proposed price increase appears reasonable relative to CBL's specific financial information and supporting information from other relevant markets.

Further, URCA is satisfied that the new monthly prices for residential and commercial SuperBasic packages are unlikely to raise anti-competitive concerns in the marketplace including those effects specified under paragraph 20 of the *ex ante* Pricing Rules (as set out in Section 3 above).

Notwithstanding the foregoing, as set out in Section 4 above, CBL's price application raises significant concerns for URCA. URCA's major concern is that, in the absence of compliance by CBL with the universal service obligations in the Comms Act to provide affordable basic television

services to all populated areas and specified institutions in The Bahamas, there is no lower-priced, less inclusive package available to those existing or potential customers who are unlikely to afford an \$8 (27%) proposed price increase in the SuperBasic services or are deterred from subscribing to the service because of the proposed price increase/price level.

Within the context of this price review, URCA proposes to invite CBL to submit for URCA's consideration a proposed tariff plan that satisfies CBL's universal service basic television obligation. For the elimination of any doubt, the proposal contemplated must be a multi-channel service comprising, at a minimum, six channels including ZNS Channel 13 and the Parliamentary channel affordable to the general public in The Bahamas and must state:

- o the initial connection or installation fee;
- o the minimum monthly subscription fee, and value of the required deposit, if any; and
- o other terms and conditions of the service, including the duration of the contract period, penalty for late payment and disconnection policy.

CBL must also provide all relevant supporting information that will enable URCA to develop a proper understanding of CBL's proposal. Given CBL's SMP status in the pay TV market, URCA will review the proposed price plan within the context of the Pricing Rules and the Individual Operating Licence granted to CBL.

URCA is resolute in its approach that any proposed price increase in the current SuperBasic package must take account of the likely potential impact on vulnerable customers and households. In this regard, URCA remains committed to working with stakeholders in ensuring that the best interest of the Bahamian public is served.

Accordingly, URCA is inviting consumers and other stakeholders to provide views on the likely residential and commercial consumer groups that may be most affected if the price increase applied for by CBL is approved. URCA also seeks proposals from stakeholders on how this impact may be mitigated (e.g., through ensuring affordable access for certain groups). Where possible, stakeholders should seek to quantify the impact of any proposals they make, particularly in the following areas:

- o The likely residential and commercial consumer groups that may be most affected if the price increase applied for by CBL is approved. Where possible, stakeholders should seek to quantify any views they put forward.
- o Proposals on how this impact may be mitigated (for example, through ensuring affordable access for certain groups).
- o Comments on CBL's proposal and URCA's analysis and proposed intent on the application.
- o Comments on where a stakeholder believes that any of the positions set forth by URCA in this document are contrary to relevant regulatory objectives, principles and/or obligations applicable to CBL. In any such comments, a respondent should set out clearly its reasoning for such objections, together with evidential information to substantiate its position.