



**SETTING REGULATED INTERCONNECTION CHARGES OF  
BAHAMAS TELECOMMUNICATIONS COMPANY LIMITED  
(BTC) GOING FORWARD**

**STATEMENT OF RESULTS TO PUBLIC CONSULTATION AND  
FINAL DECISION**

**ECS 25/2012**

**Issue Date: 21 December 2012**

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# 1 Introduction

On July 27, 2012 the Utilities Regulation and Competition Authority (URCA) released for public consultation, “Setting Regulated Interconnection Charges of Bahamas Telecommunications Company Limited (BTC) Going Forward”.<sup>1</sup> The deadline for submission of responses was September 3, 2012, with a second round of comments on initial responses concluding on October 4, 2012.

The objective of the exercise was to set out URCA’s proposed approach on how to update BTC’s regulated charges for fixed and mobile call termination services, as set out in its reference access and interconnection offer (RAIO), dated June 2011.<sup>2</sup> In general, URCA believes there are merits in periodic reviews of BTC’s RAIO to ensure that it reflects the current market environment and the charges remain cost oriented and reflective of efficiently incurred costs only.<sup>3</sup> The need for this review of BTC’s current RAIO charges is based on the following developments:

- The availability of BTC’s second set of Accounting Separation (A/S) results (based on 2010 costing data);<sup>4</sup> and
- The conclusion of URCA’s efficiency study of BTC.<sup>5</sup>

Three companies submitted initial responses to the consultation, namely:

- BTC;
- Cable Bahamas Ltd., Caribbean Crossings Ltd. and Systems Resources Group Limited (hereinafter, “CBL”); and
- IP Solutions International Limited (“iPSi”).

BTC and CBL further made submissions as part of the second round, commenting on the initial responses.

URCA thanks all respondents for their written submissions and participation in the consultation process. The participation by all three companies was useful and constructive. Copies of all submissions may be downloaded from URCA’s website at [www.urbahamas.bs](http://www.urbahamas.bs).

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<sup>1</sup> ECS 21/2012, available at URCA’s website: [www.urbahamas.bs](http://www.urbahamas.bs)

<sup>2</sup> Available at BTC’s website: <http://www2.btcbahamas.com>

<sup>3</sup> The Access and Interconnection Guidelines (ECS 14/2010) require BTC, as an operator with Significant Market Power (SMP) to, amongst other, publish cost oriented interconnection charges which should only reflect efficiently incurred cost of providing these services.

<sup>4</sup> URCA notes that since concluding the consultation process, BTC’s third set of A/S results (based on 2011 costing data) has become available.

<sup>5</sup> ECS 20/2012, available at URCA’s website: [www.urbahamas.bs](http://www.urbahamas.bs)

This document summarizes the substantive comments and/or points of clarification raised by the respondents and duly takes into account all the comments and submissions received from respondents in presenting URCA's final results on this matter.

The consultation paper sought respondent's views on four questions:

**Consultation Question 1:** Do you agree with URCA's stated rationale for the need to review BTC's RAIO charges on a regular basis in the current market environment?

**Consultation Question 2:** Please comment on the options for setting BTC's RAIO charges going forward, including their merits in the context of the electronic communications market in The Bahamas.

**Consultation Question 3:** Please comment on URCA's proposed approach on setting RAIO charges going forward.

**Consultation Question 4:** Please comment on the expected level of RAIO charges up to 2014/15 based on URCA's proposed approach.

In this Statement of Results and Final Decision document, URCA has summarized all responses received from the three parties to the consultation questions in Section 2. Section 3 then presents URCA's final decision on how to set BTC's RAIO charges going forward and the resulting charges based on this approach. The main next steps are set out in Section 4.

## 2 Responses to the Consultation

All three respondents generally agreed with the need to review BTC's RAIO charges on a regular basis. However, there was some disagreement with URCA's proposed approach to setting BTC's RAIO charges going forward. In the remainder of this Section, URCA summarises and responds to these comments.

URCA's lack of response to a particular comment should not be taken to mean that URCA agrees with the comment, has not considered the comment or that URCA considers the comment is unimportant or without merit.

### **Consultation Question 1: Do you agree with URCA's stated rationale for the need to review BTC's RAIO charges on a regular basis in the current market environment?**

#### **Comments received**

There was a general consensus on the need to review BTC's RAIO charges on a regular basis.

#### **BTC**

BTC agreed that RAIO charges should be reviewed from time to time to ensure that other operators receive the correct build or buy pricing signals and BTC is adequately rewarded for interconnection services it provides. BTC however expressed the view that given the underlying implementation costs of revising RAIO charges, reviews should not be undertaken more than once a year and thereafter proposed a multi-year approach, where RAIO charges are set for three to four years. BTC further stated that such a multi-year approach should only be implemented once reliable costing information becomes available (i.e., once BTC's A/S unit cost results have stabilised).

BTC further stressed the need for URCA to review the markets for call termination services on all networks to ensure that all SMP operators are subject to the same price regulation (i.e., symmetric termination rate regulation).

#### **CBL**

CBL strongly favoured regular reviews of BTC's RAIO charges to ensure that these are reflective of the latest available costing information and only reflect efficiently incurred cost of providing RAIO services. According to CBL, this is particularly important in an environment of falling service unit costs. However, CBL further pointed out that RAIO charges should not be set on unreliable costing information, as this would result in incorrect pricing.

In responding to BTC's call for symmetric termination rate regulation, CBL claimed that in Europe and elsewhere, it is common to adopt a delayed reciprocity approach, permitting small operators and new entrants to initially set different rates than those of the incumbent operator.

## iPSi

iPSi encouraged URCA to extend its review beyond BTC's termination charges. In particular, iPSi raised two issues on BTC's current RAIO charges: (i) alternative operators having to pay BTC a transit charge and a call termination charge; and (ii) the need to offer call termination services to emergency services for free.

### **URCA's response to the comments received**

URCA welcomes the feedback on its stated rationale for reviewing BTC's RAIO charges on a regular basis. URCA agrees with both BTC and CBL on the general merits of regular reviews to ensure cost-reflectivity of RAIO charges, but shares the respondents concerns on the risks of setting RAIO charges on unstable costing information. URCA further considers it important to ensure that BTC's A/S system provides reasonable estimates of unit costs which fully reflect the principles laid out in the A/S Guidelines.

URCA further agrees, in principle, with BTC that cost-oriented charges can constitute one of the regulatory requirements imposed on any operator which is deemed to have SMP in the relevant termination market. However, URCA reminds BTC that currently, BTC is the only SMP operator in the wholesale call termination markets. As such, imposing any new regulatory requirements will require URCA to carry out the necessary processes. URCA intended to launch a consultation on SMP in call termination during the fourth quarter of 2012. However, this process has been delayed. URCA will still proceed with the consultation and will communicate the revised timeframe for this review in its Annual Plan for 2013.

URCA reminds iPSi that call termination charges only reflect the cost of terminating calls on BTC's network (i.e., from the point of interconnection to the end user), whilst transit charges reflect the cost of BTC transporting the call on its network between two points of interconnection. As such, these charges cover different conveyance services offered by BTC and thus, may attract separate charges. URCA further reminds iPSi that the RAIO stipulates that further points of interconnection (POI) can be requested from BTC, as long as they are technically and economically feasible.<sup>6</sup> As such, any operator can, in principle, apply for additional POIs to reduce the transit requirements on BTC's network.

Concerning iPSi's comment on the RAIO charges for call termination services to emergency services, URCA refers iPSi to the Final Decision on BTC's initial RAIO, in which this matter was discussed in great detail.<sup>7</sup> In particular, at the time URCA concluded that in line with international precedent, any costs incurred from terminating calls to emergency numbers within The Bahamas need to be recovered from overall revenues.

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<sup>6</sup> See Annex B of BTC's RAIO

<sup>7</sup> See page 33 of ECS14 /2010, available at URCA's website: [www.urcabahamas.bs](http://www.urcabahamas.bs)

**Consultation Question 2: Please comment on the options for setting BTC's RAIO charges going forward, including their merits in the context of the electronic communications market in The Bahamas.**

**Comments received**

Only BTC and CBL commented on the three potential approaches to updating the RAIO charges set out by URCA in the consultation document.

BTC

Given the current drawbacks of the two alternative approaches, BTC considered setting RAIO charges based on benchmarking to be the most suitable way forward for now. It presented the following assessment of the three potential approaches set out by URCA:

- Annual updates based on the latest available A/S results would, in principle, allow URCA to set RAIO charges in line with BTC's actual cost (given its operating environment). However, due to the current instability of BTC's A/S results, these should not be used to set interconnection rates.
- Although applying a multi-year glide path to set RAIO charges has, in principle, clear merits, BTC disagreed with URCA's proposed approach to apply a glide path based on 2009 A/S results and an efficiency adjustment factor. BTC's stated disagreement is premised on two reasons. Firstly, BTC felt that the 2009 A/S results are dated and therefore unlikely to form a better basis for RAIO charges than the 2010 A/S results. Secondly, it is not possible to apply an efficiency adjustment based on these historic costs to inform an end-point of the glide path. BTC was of the view instead that the glide path needs to be set based on forward looking, efficient cost levels. In this regard BTC recommended delaying any introduction of a glide path approach until its separated accounts are considered to be sufficiently stable to form the basis of RAIO charges.
- Informing RAIO charges based on benchmarking analysis requires overcoming the issue of potential operational circumstances and resulting cost differences in the comparator countries to those of BTC. However, given the shortcomings of the other two approaches (and the expectation that it will take a few more years before BTC's separated accounts can provide predictable and stable results required for setting interconnection rates<sup>8</sup>), BTC considers adopting a benchmarking approach as the most suitable way forward for now as it would provide a more stable and predictable regulatory environment than under the alternative options. BTC further alluded to the fact that both URCA and several other regional regulators have used benchmarking to set regulated rates.

Given the above, BTC provided, as part of its response, proposed benchmarking samples, containing fixed and mobile termination rates currently applied across the region. Based on these samples, BTC

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<sup>8</sup> See, for example, page 5 of BTC's second response.

proposed setting fixed termination rates at 1.55 BSD cent /min<sup>9</sup> and mobile termination rates at 7.60 BSD cent /min for 2013 (with both values representing the simple average of the relevant benchmarking samples). BTC provided no indication on how interconnection rates should be set beyond 2013.

### CBL

CBL expressed the view that rather than moving BTC's RAIO charges towards an efficient cost level, the current charges should be adjusted to reflective such an efficient cost immediately. Concerning the three potential approaches to updating RAIO charges set out by URCA, CBL made the following comments:

- Annual updates based on BTC's latest A/S results are not a valid option as long as there remain concerns about the underlying costing data, in particular if this could result in substantial fluctuations in RAIO charges.
- Multi-year glide paths are only valid if they target a forward-looking cost-oriented charge. As such, CBL does not consider URCA's proposed approach of setting a glide path based on 2009 cost data which is adjusted for efficiency considerations, as an appropriate approach.
- Setting RAIO charges based on benchmarks requires the determination of an adequate sample of comparator countries. These should only include countries which have recently conducted a cost study, in line with best practice considerations. It is important to also include only countries with similar market characteristics in the benchmarking sample. Given this, CBL considers a benchmarking approach not suitable for setting BTC's RAIO charges. This also includes BTC's suggested benchmarking study, as it does not meet the criteria for an adequate benchmarking sample, set out above.

### iSPi

iSPi did not comment on the options for setting RAIO charges going forward. Instead, it stated its support for a 'bill and keep' regime for interconnection service charges.

### **URCA's response to the comments received**

URCA welcomes the detailed feedback on the three potential approaches for updating BTC's RAIO charges going forward.

URCA agrees with CBL and BTC on the merits of undertaking an annual review based on the latest set of A/S results as well as their concern that this approach is only appropriate once stable and reliable A/S information is available. This also holds for the multi-year glide path approach, which also relies on BTC's A/S costing data.

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<sup>9</sup> BTC suggested informing termination rates for intra-island and inter-island fixed termination services based on the relevant traffic weighting of these services.



Since concluding this consultation process, BTC's third set of A/S results (based on 2011 data) has become available. Based on URCA's review to date, the latest set of A/S results are also not sufficiently reliable to be used as a basis for setting RAIO charges. There remain concerns about some of the key input data, in particular traffic volumes. Further, the unit cost results of several key services continue to fluctuate significantly, relative to those contained in previous submissions. Given the above, URCA has concluded that it is inappropriate to use BTC's A/S results to derive RAIO charges at this time, and finds it necessary to revert to benchmarking as a basis for setting BTC's RAIO charges. For the avoidance of doubt, in recognition of the potential limitations of benchmarked charges (including those highlighted by both CBL and BTC and in URCA's consultation document),<sup>10</sup> this approach is only considered to be an interim measure until more reliable costing information becomes available.

**Consultation Question 3: Please comment on URCA's proposed approach on setting RAIO charges going forward.**

### **Comments received**

Both BTC and CBL disagreed with URCA's proposed approach on setting RAIO charges, whilst iSPI commented on how to set a multi-year glide path for termination rates.

#### **BTC**

Overall, BTC considered benchmarking to represent the most suitable option for setting termination rates in The Bahamas at this point in time.

- Given the Receiving Party Pays ("RPP") regime in the Bahamian retail mobile market, mobile termination rates are only applicable to inbound international calls terminating on BTC's mobile network. As such, BTC claimed that the level of mobile termination rates does not impact the development of competition or the price levels in any domestic market. Lowering the mobile termination rate would therefore only benefit operators and end-users outside of The Bahamas, whilst operators in The Bahamas would receive lower wholesale revenues of approximately BSD 1-1.5 million per year, according to BTC. BTC stressed that it also faces charges for outgoing international calls terminating on networks abroad. By lowering the mobile termination rate in The Bahamas, URCA would therefore put BTC at a significant disadvantage to those foreign operators. As such, BTC suggests setting the mobile termination rates based on international benchmarks.
- As BTC considered two of the three possible approaches outlined by URCA (i.e., annual updates and glide paths) not to be feasible in The Bahamas at the moment, it argued that setting fixed termination rates based on benchmarks represents the most suitable option going forward.

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<sup>10</sup> A key drawback of adopting a benchmarking approach is that the resulting RAIO charges may not be fully reflective of BTC's cost of providing these services or an efficient cost level.

## CBL

In general, CBL disagreed with URCA's proposed approach to setting fixed and mobile termination charges, as the proposed glide-path is based on historic costs and efficiency adjustments for those historic costs. Instead, CBL argued that any glide-path should be set based on forward-looking costs and efficiency considerations. No alternative approach for setting RAIO charges going forward in light of the current situation was discussed.

As part of its second response, CBL stressed that BTC should not be rewarded for its failure to produce solid separated accounts with further delays in the review of RAIO charges. This would harm both consumers and BTC's competitors. Instead, URCA should provide stronger incentives to BTC to produce solid accounts.

## iSPi

iSPi stated that, if URCA were to choose a glide-path approach, then this should be set in a way to allow BTC to recover and amortise its cost over a three to five year period, after which all call termination and call transit charges should be set to zero.

## **URCA's response to the comments received**

In recognition of the feedback received on the proposed approach as set in the consultation document and the on-going limitations of BTC's A/S data, URCA will adopt an interim measure of setting RAIO charges based on benchmarking. This decision will be reviewed once more stable and reliable A/S information becomes available.

In order to incentivise BTC to improve the reliability of its A/S results in a timely manner, URCA will apply annual reductions of the benchmarked RAIO charges post 2012/13. This is further discussed in Section 3.

URCA agrees with BTC's observation that mobile termination rates currently only apply to incoming international calls terminating on BTC's mobile network. However, URCA disagrees with BTC's point that lowering these rates would only benefit operators and end users abroad. This is because of the following.

Alternative operators in The Bahamas may wish to compete with BTC on bringing international incoming calls into The Bahamas. These calls constitute two elements: (i) a transit element from the international gateway and (ii) a termination element to the mobile end user in The Bahamas. When terminating these calls on BTC's mobile network, the mobile termination rate applies. The price any operator is able to offer for this end-to-end service will depend on the cost of the transit and termination elements. To enable alternative operators to compete fairly with BTC therefore requires two conditions:

- Requiring BTC to offer the termination element on a non-discriminatory basis to other licensed operators in The Bahamas; and
- Setting cost oriented mobile termination charge.

Whereas, the former is a necessary condition to facilitate competition, absent cost oriented termination charges, alternative local operators may not be able to replicate BTC's pricing offer for the full service. This is because of BTC being able to reflect any difference in the mobile termination rate and its actual cost of terminating the call in its price to the foreign operator. However, the alternative local operator will not be able to do so, as the termination charge forms a fixed input to its pricing decisions. As such, in order to match BTC's offering, the alternative local operator would have to be able to provide the transit element at lower cost than BTC in order to compete on price with BTC.<sup>11</sup> In URCA's view, this unfairly distorts competition for these services.

Given the above and taking into account the results of URCA's efficiency study, trends in BTC's A/S unit cost data, and BTC's recent write-down of mobile assets,<sup>12</sup> URCA considers it necessary to reduce the current RAIO charges for mobile call termination services. Due to the absence of reliable costing information for this service, URCA will derive the revised charge based on international benchmarking.

**Consultation Question 4: Please comment on the expected level of RAIO charges up to 2014/15 based on URCA's proposed approach.**

**Comments received**

Only BTC and CBL responded to this question.

**BTC**

BTC reiterated its concern with URCA's proposed approach for setting RAIO charges. Given these concerns, BTC did not consider the proposed RAIO charges resulting from this approach to be acceptable.

Instead, BTC proposed that URCA use a regional benchmarking approach to set termination charges for 2013. BTC proposed to exclude any non-Caribbean countries from the sample presented in URCA's consultation paper, due to the underlying difference in operating environments (in particular, BTC argued that operators in these countries are likely to have lower unit costs due to larger networks leading to economies of scale and higher traffic volumes). In contrast, BTC submitted that the 12 Caribbean countries remaining in the benchmarking sample would constitute a good benchmark for efficiently incurred costs in The Bahamas due to similar economies of scale, income levels and cost of operations being close to those experienced in The Bahamas.

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<sup>11</sup> This is unlikely to be the case given relative traffic volumes and any resulting economies of scale available to BTC and any alternative operator.

<sup>12</sup> An article published by The Tribune newspaper of The Bahamas on May, 26 2011 reported on statements made by Cable Wireless Communications (CWC) executives during an investors' presentation that would impact on the reporting of BTC's financial performance in its statutory accounts. According to the article, CWC has written-down the value of BTC fixed assets from a book value of BSD 384 million to BSD 259 million as at the acquisition date of April, 6 2011. In addition to the write-down on fixed assets, write-downs have also been recorded on the value of some BTC current assets, although the value of customer relationships and contracts, and trademarks, has been increased. Taken together, this has resulted in a write-down of BTC's total book value from BSD 401 million to BSD 273 million. CWC is quoted in the article as relating the write-downs to the amount of obsolete assets in BTC's network and inventories.

Based on these regional samples<sup>13</sup>, BTC proposed setting fixed termination rates at 1.55 BSD cent /min<sup>14</sup> and mobile termination rates at 7.60 BSD cent/min for 2013.

### CBL

CBL considered URCA's proposed fixed and termination rates to be excessive at all points along the glide path, arguing the following reasons for this view:

- The glide path is based on 2009 A/S costing data. Assuming termination costs reducing on a year-by-year basis, using outdated costing data is likely to over-estimate the cost-oriented termination rates along the glide path.
- The efficiency adjustments applied to BTC's fixed and mobile termination rates are too small since being based on too lenient 'median operator' efficiency target and the mobile efficiency analysis not taking into account BTC's lack of interconnection outpayments.
- There is no forward-looking efficiency adjustment applied within the glide path (but only an efficiency adjustment based on historic costs).
- The proposed RAIO rate rates for 2012/13 and 2014/15 are higher than those experienced in countries which have recently conducted cost studies.
- The five year glide path is longer than those commonly applied elsewhere (i.e. out of 15 countries CBL reviewed, only one had used a five year glide path, with the average length being three years).

CBL further commented on the current inefficiency of interconnection traffic routing, since BTC transits all fixed-to-mobile termination traffic via its fixed network. Instead, CBL requested an option to directly interconnect to BTC's mobile network as this would enable a more efficient traffic routing.

### iSPi

iSPi provided no further comments on the expected level of RAIO charges up to 2014/15, as set out in the consultation document.

### **URCA's response to the comments received**

URCA welcomes all responses received to this consultation question, including BTC's proposed benchmarking analysis and resulting fixed and mobile termination rates.

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<sup>13</sup> Barbados was excluded from the mobile termination rate benchmarking sample since representing an outlier.

<sup>14</sup> BTC suggested informing termination rates for intra-island and inter-island fixed termination services based on the relevant traffic weighting of these services.

As stated above, given the overall responses to this consultation, the continuing instability of BTC's A/S results and further deliberation, URCA considers it necessary to adopt a benchmark approach for setting BTC's RAIO charges going forward. In recognition of the potential limitations of benchmarked charges, this approach is only considered to be an interim measure until more reliable and stable costing information becomes available from BTC's A/S system.

The benchmarking approach and resulting RAIO charges are set out in Section 3.

URCA reminds CBL that additional points of interconnections on either BTC's fixed or mobile network can be requested, subject to them being technically and economically feasible.

### **3 URCA's Revised Approach for Setting RAIO Charges**

Given prevailing shortcomings of the available costing data for BTC, URCA has decided to adopt, as an interim measure, a benchmarking approach for setting BTC's RAIO charges for fixed and mobile termination rates for 2012/13.

URCA recognises that RAIO charges based on benchmarks may not allow URCA to achieve all of its objectives, set out in the consultation document. In particular, adopting a benchmarking approach may not ensure that the resulting RAIO charges are fully reflective of BTC's cost of providing these services or an efficient cost level. However, in the absence of any robust costing data, URCA has concluded that this approach is most suitable at the time as it (i) removes the uncertainty arising from the fluctuations in the A/S unit costs in RAIO charges, (ii) provides a clear policy statement for how RAIO charges will be set going forward, and (iii) limits the degree of regulatory burden on the sector.

Further, setting interconnection charges based on international benchmarking has been adopted in several countries in the region and elsewhere where no (reliable) costing data is available for the regulated operator.<sup>15</sup>

URCA's benchmarking study and resulting RAIO charges for 2012/13 are set out in Section 3.1 below.

Further, URCA considers it important that BTC does not benefit from a delay in the transition to RAIO charges based on an efficient cost level and that BTC is clearly incentivised to improve its A/S system in a timely manner to allow transition to an alternative approach for setting RAIO charges. URCA is of the view that this can be achieved by applying annual reductions to the termination rates from 2013/14 onwards. This is further discussed in Section 3.2 below.

The current approach for setting call termination rates will be revisited as soon as URCA is satisfied that BTC's A/S results are sufficiently robust to use them as a basis for setting RAIO charges or prior to that, at its discretion, depending on whether representations are received on why the RAIO charges are no longer appropriate. As part of Section 4 below, URCA sets out the main next steps it intends to undertake to help improve BTC's A/S results going forward.

#### **3.1 Revised RAIO charges for 2012/13**

The fixed and mobile call termination charges for 2012/13 will be set in reference to international benchmarks. Below, URCA sets out the underlying benchmarking sample, followed by the revised RAIO charges for 2012/13.

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<sup>15</sup> Benchmarking has recently been used to set interconnection rates in, amongst others, Anguilla, the British Virgin Islands, Turks and Caicos Islands and several European countries including Bulgaria, Estonia, Ireland, Gibraltar and Latvia.

## Benchmarking sample

The consultation document contained a comparison of the indicative, revised RAIO charges for fixed and mobile termination services (based on URCA's previous approach) to those currently in place across a range of countries in the region and beyond (in particular across Europe).

In its consultation response, BTC proposed to adopt a benchmarking approach for setting RAIO charges for 2013 based on the average rates currently experienced within the region (i.e., to exclude any European or other countries from the benchmarking sample presented by URCA). BTC argued that the focus on a regional benchmarking sample only was necessary as the operators in the other countries are likely to have lower unit costs relative to BTC due to (i) them operating larger networks leading to economies of scale, (ii) higher income levels in these countries resulting in higher traffic volumes, and (iii) none of these countries being archipelagos. As part of its second response, CBL criticised BTC's proposed benchmarking sample for being mainly based on outdated regulatory decisions and costing data.

URCA recognises that any benchmarking sample will not fully reflect the operating environment and thus, the cost structure of BTC. As such, when selecting the benchmarking sample aims to facilitate setting the resulting RAIO charges as close as possible to an efficient level of costs, whilst still allowing BTC to earn a reasonable return. URCA is of the view that this is best achieved by selecting a benchmarking sample which includes:

- Countries across the region which have set interconnection rates based on cost models;<sup>16</sup> and
- Smaller countries<sup>17</sup> elsewhere which have set cost-oriented interconnection rates which are publicly available.

This has resulted in the following benchmarking samples, as set out in the table below.

**Table 1.** Fixed and mobile benchmarking sample

Regional comparators <sup>18</sup>	Other smaller countries
Barbados	Bahrain
Cayman	Cyprus
Dominica	Guernsey

<sup>16</sup> Although some of the cost models within the region (i.e., the ECTEL LRIC model) were developed a few years ago, the resulting interconnection charges can still be considered to approximate cost-oriented charges and the LRIC standard being in line with costing standards applied elsewhere.

<sup>17</sup> In terms of total population, number of households, and/or total geographic area.

<sup>18</sup> Note this excludes countries within the region which have used benchmarking to set interconnection rates.

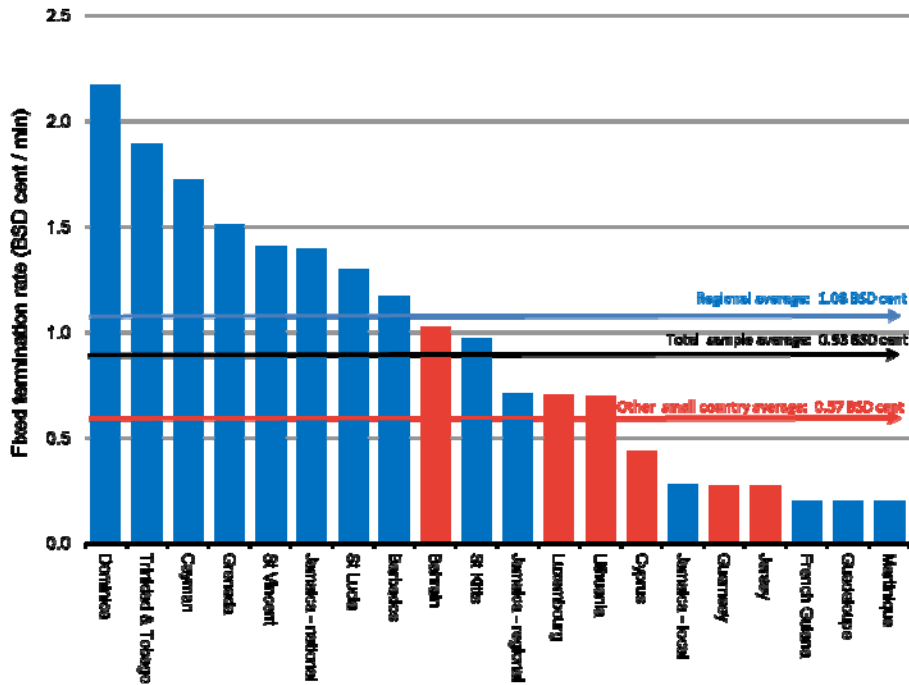
French Guiana	Jersey
Grenada	Lithuania
Guadeloupe	Luxembourg
Jamaica	
Martinique	
St. Kitts	
St. Lucia	
St. Vincent	
Trinidad & Tobago	

### **Fixed termination rates**

Figure 1 presents the current fixed termination rates across the overall benchmarking sample. The current charge for on-island and off-island fixed call termination services contained in BTC's current RAIO (1.98 BSD cent/min and 2.65 BSD cent/ min, respectively) exceeds all three sub-sample averages.



**Figure 1.** Fixed termination rate benchmarking sample (BSD cent /min)



Source: URCA based on publicly available information

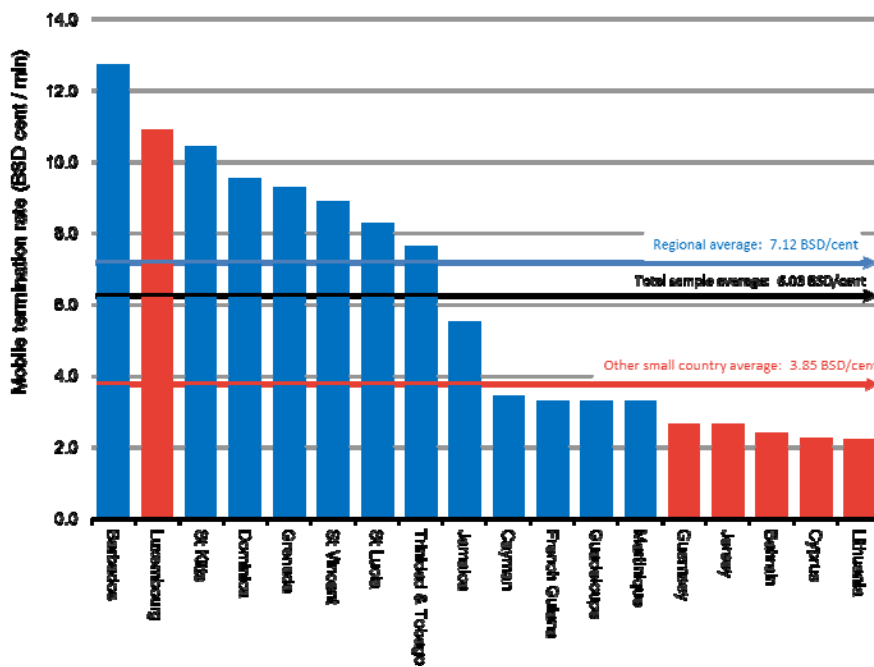
Given this, URCA considers it reasonable to align BTC’s RAI0 charge for on-island fixed call termination services with the the overall average of the regional and other small country benchmarking sample (i.e., 0.93 BSD cent /min) for 2012/13. The RAI0 charge for off-island fixed call termination services will be set at 1.40 BSD cent/ min for 2012/13.<sup>19</sup>

<sup>19</sup> The differential between the on-island and off-island fixed termination charges is informed by the current differential in those RAI0 rates, BTC costing data and intra-jurisdiction differentials observed in other countries.

## Mobile termination rates

Figure 2 presents the current mobile termination rates across the overall benchmarking sample. The current charge for incoming international mobile call termination services contained in BTC's current RAIO (7.24 BSD cent/min) again exceeds all three sub-sample averages.

**Figure 2.** Mobile termination rate benchmarking sample (BSD cent /min)



Source: URCA based on publicly available information

Given the above, URCA considers it reasonable to align BTC's RAIO charge for mobile call termination services with the overall average of the regional and other small country benchmarking sample ( i.e., 6.05 BSD/cent) for 2012/13.

## Revised RAIO charges for 2012/2013

Table 3 sets out the RAIO charges for 2012/13 based on the benchmarking analysis set out above. As shown in the table, BTC's RAIO charges are expected to fall by up to 45%, relative to their current values. URCA considers the significant (one-off) reduction in fixed termination charges justified given the methodological issues identified with A/S unit cost data underlying the current RAIO charges<sup>20</sup>, the results of the efficiency study of BTC,<sup>21</sup> and the fact that the current RAIO charges have

<sup>20</sup> For example, a key issue identified with the 2009 A/S results underlying the current RAIO charges was the POI unit costs. Based on information provided by BTC, correcting this could have led to reduction in RAIO charges by 0.84 BSD cents. See ECS 21/2012 for further details.

<sup>21</sup> ECS 20/2012, available at URCA's website: [www.urcabahamas.bs](http://www.urcabahamas.bs)

remained unchanged since 2011. URCA notes that the below charges, in particular the fixed call termination charges, are similar to the RAIO charges for 2012/13 contained in the consultation paper.

**Table 2.** Revised RAIO charges for 2012/13 (BSD cent / min)

	Current RAIO	2012/13	Difference
<b><i>Fixed call termination*</i></b>			
On-island service	1.98	0.938	-53%
Off-island service	2.65	1.40	-47%
<b><i>Mobile call termination</i></b>			
International traffic	7.24	6.03	-17%

*\*On-island and off-island fixed termination charges for 2012/13 are derived on the same traffic split as assumed by BTC in its response to the consultation*

### 3.2 Potential RAIO charges for 2013/14 and beyond

The benchmarked RAIO charges set out in Table 2 above are only considered to represent an interim measure until more robust costing information becomes available. URCA remains hopeful that this will be the case with BTC's next A/S submission (based on 2012 data), expected in the second half of 2013.

However, in the event that the currently observed concerns with the A/S data remains unsolved, URCA will apply the following annual reductions to the RAIO charges for fixed and mobile call termination services from 2013/14 onwards:

- Fixed call termination charges will reduce by 10% per year; and
- Mobile call termination charges will reduce by 15% per year.

These annual reductions are intended to ensure that BTC continues to be incentivised to achieve further efficiencies, and does not benefit from the lack of robust, stable A/S results. URCA notes also that this approach is consistent with regulatory decisions in a number of other jurisdictions. For example, in 2006, the Spanish regulator CMT imposed a two and half year glide path for mobile termination rates, entailing an annual average rate reduction of circa 15%. Similarly, in 2008, EETT the Greek regulator introduced a three year glide path, requiring mobile termination rates to fall by 15% on average.<sup>22</sup>

Similar glide paths have also been applied across the region. For example, the PUC Anguilla has recently set a three year glide path for regulated interconnection charges, where fixed and mobile termination rates will reduce by 11% and 17% on average per year over the three year period.<sup>23</sup> Similarly, in 2009, ECTEL recommended a three year glide path for mobile interconnection rates, resulting in average annual reductions in between 8% and 13% in each member state.<sup>24</sup>

#### Potential RAIO charges for 2013/2014 and beyond

**Table 3** sets out the potential RAIO charges up to 2014/15 under this interim measure. As shown in the table, BTC's RAIO charges would fall by up to 56% (relative to their current values) over the next three years. For example:

- On-island fixed call termination charges would reduce from 1.98 BSD cent to 0.75 BSD cent in 2014/15, a 62% overall reduction.
- Off-island fixed call termination charges would fall by 57% from 2.65 BSD cent to 1.13 BSD cent in 2014/15.

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<sup>22</sup> Note that in both examples, the costing standard remained unchanged during the glide path (i.e. they did not entail a transition from FAC to LRIC or from LRIC+ to pure LRIC termination rates).

<sup>23</sup> <http://www.pucanguilla.org/Downloads/Decision2012-102.pdf>

<sup>24</sup> <http://www.ectel.int/pdf/Interconnection/LRIC%20Implementation%20Cover%20Note%20to%20NTRCs.pdf>

**Table 3. RAIO charges for the period up to 2014/15 (BSD cent / min)**

	Current RAIO	2012/13	2013/14	2014/15
<b><i>Fixed call termination</i></b>				
On-island service	1.98	0.93	0.83	0.75
Off-island service	2.65	1.40	1.26	1.13
<b><i>Mobile call termination</i></b>				
International traffic	7.24	6.03	5.13	4.61

## 4 Next steps

Below URCA sets out the two main next steps arising from the discussion set out in the previous Section.

### **BTC to reflect revised charges in its RAIO**

BTC is required to reflect the revised charges for fixed and mobile termination services, as set out in Table 2 above, in its RAIO. BTC must then publish the revised RAIO on its website by no later than **January 14, 2013**.

### **Review of current approach once next A/S results are available**

Once available, URCA will review the next set of A/S results (based on 2012 data) to validate whether they are sufficiently stable and robust in order to form the basis for RAIO charges going forward. If this is not the case, the RAIO charges will be revised downwards, based on the annual reductions set out in Section 3.

URCA would then conduct a wider review of BTC's A/S requirements to support using the A/S results for regulatory purposes. Potential amendments may include, amongst others:

- Changing the methodology and reporting requirements for BTC's separated accounts.
- Amending the audit standard applied to BTC's separated accounts.
- Revising BTC's A/S Guidelines to reflect any of the above.

As part of this review, URCA may further assess the merits of moving from a historic cost to a current cost accounting approach.

