



Utilities Regulation and Competition Authority

Annual Report 2018

URCA 05/2019
30 April 2019

Contents

- About URCA 3
- From The Chairman..... 6
- From The CEO 8
- 2018 In Review..... 10
 - Market Review 11
 - Performance against 2018 Annual Plan 17
 - General Projects 18
 - Electronic Communications Sector Projects 19
 - Electricity Sector Projects 21
 - International Participation and Engagement..... 23
 - Building Regulatory Capacity and Human Capital 24
 - Educating and Supporting our Stakeholders..... 24
 - Legal..... 25
 - Summary of 2018 Outcomes 26
- Audited Financial Statements 2018 35

About URCA

On 1 August 2019, the Utilities Regulation and Competition Authority (URCA), will celebrate the 10th Anniversary of its formation as an independent regulatory body, initially established, through the passage the Utilities Regulation and Competition Authority Act 2015 (the URCA Act), and the Communications Act 2009 (Comms Act). On 1 September 2009, URCA assumed responsibility for the regulation of the Electronic Communications Sector (ECS) which comprises fixed and mobile telecommunications services, internet, PayTV, broadcasting and management of the radiofrequency spectrum. With the passage of the Electricity Act 2015 (EA) and consequent amendments to the URCA Act, URCA's regulatory responsibilities were expanded from 28 January 2016 to include the regulation of the Electricity Sector (ES), which comprises oversight of the generation, transmission, distribution and supply of electricity throughout The Bahamas.

In addition to the governing legislation, URCA's responsibilities as a regulator are guided by the government's policies applicable to each regulated sector, namely the Electronic Communications Sector Policy (ECSP) and the National Energy Policy (NEP).

Governance

URCA's corporate governance structure supports the key tenets of good governance namely transparency, fairness and accountability throughout the organization. URCA's activities are governed by a Board which comprises four (4) non-executive members, including the Board's chairperson, and three (3) executive members; namely the Chief Executive Officer (CEO), the Director of Utilities and Energy (DUE) and the Director of Electronic Communications (DEC). Non-executive members are appointed by the Governor General, while the executive members are appointed by the non-executive members following a competitive selection process.

The following persons are the current members of URCA's Board:

Neville Wilchcombe, Chairman

Serfent Rolle, Deputy Chairman

J. Paul Morgan, Member

Kendal Culmer, Member

Stephen Bereaux, Chief Executive Officer

Shevonn Cambridge, Director Energy and Utilities

Carlton Smith, Director Electronic Communications (appointed 3 December 2018)

The CEO has overall executive responsibility for URCA's day to day activities, including overall strategy, leadership of URCA's work in the two regulated sectors, and responsibility for URCA's four operational units namely: Legal; Human Resources and Administration; Finance; and Corporate and Consumer Relations.

URCA has the specific legal requirement to collaborate or report to the following Ministers of Government in relation to its mandate:

- The Attorney General, who has overall responsibility for Government's relations with URCA, and with whom URCA engages in respect of its operations including its budget and reporting, including financial statements and audit;
- The Minister with responsibility for the ECS in respect of matters outlined in the Communications Act which include the ECSP, and specific activities related to the allocation and pricing of spectrum, public service broadcasting, and universal services;
- The Minister with responsibility for the administration of the Electricity Act;

URCA is also required from time to time to engage with the Ministers of Government with responsibility for licensees owned and operated by Government, such as the Broadcasting Corporation of The Bahamas (BCB) and Bahamas Power and Light Ltd (BPL).

An additional key component of the organisation's governance structure is the Audit committee. Its work includes:

- Review of the monthly financial reports prepared by management;
- Review, monitoring and implementation of recommendations made by the internal and external auditors;

- Review of the annual financial statements, including the assessment of the accounting policies

The Audit Committee also has oversight of the work of the internal auditor, whose work during the year continued to focus on and ensure the organization's compliance with internal controls and external legal and regulatory requirements.

URCA is mandated to prepare and publish for consultation prior to the end of its fiscal year, its annual plan of its activities for the ensuing year. Following consideration of the responses to the plan, the plan is published along with this annual report, and the audited financial statements. The URCA Act mandates publication within four months of the year end. In furtherance of the requirement for accountability, URCA then arranges at least one oral hearing during which the annual plan and annual report is presented and questions from interested parties answered. A quarterly report is provided to the Minister responsible for relations with URCA and published on the Authority's website. These statutory requirements and practices ensure that URCA's work is at all times reflective of its core values: fairness, integrity, accountability, transparency, one-team, people-centred and professionalism, and that its activities are always *"Improving lives through effective utility regulation"*.

From The Chairman

On behalf of myself and fellow members of URCA's Board, I am particularly honoured to share with you this 2018 report and annual plan of the work of the Utilities Regulation and Competition Authority. Also included is the organization's planned activities for 2019, a special year for URCA as it celebrates 10 years as a premier utility regulator in the region.

2018 will be forever recorded as one of the most exciting years for the organization since its establishment. Following two years of coordinated networking and positioning of The Bahamas by URCA and other key government agencies, The Bahamas in its first bid, was elected to the Council of the International Telecommunications Union (ITU). The Council is the governing body of the ITU and the election took place during ITU Plenipotentiary 2018 held in Dubai, UAE from 28 October to 16 November.

URCA's team led by Minister of State in the Office of the Attorney General, the Hon. Elsworth Johnson, Parliamentary Secretary in the Office of The Prime Minister with responsibility for the Communications, the Hon. Pakesia Parker Edgecombe, and URCA's CEO Stephen Bereaux, culminated its hard work in Dubai, leveraging support from 14 fellow CARICOM member states as it reached out to delegations from around the world. The Bahamas now sits as one of the ITU's 48 council members, and one of only nine members from the Americas Region. This is not only a first for The Bahamas, but it is also the first representation by an English speaking member of CARICOM in two decades. The Bahamas gained the vote of 162 member states, out of a possible 177 present and voting. URCA will continue to represent The Bahamas as the permanent representative on ITU Council.

The Bahamas' election to the ITU Council is the second such election for the country for 2018. In March, URCA also became The Bahamas representative as an executive member of the Inter-American Telecommunications Commission (CITEL), the Organization of American States (OAS) body responsible for Information and Communications Technology (ICT) matters.

The Board commends the CEO for his unwavering commitment to and leadership in this process and looks forward to the country as a whole benefiting from URCA's leadership at the ITU.

The Board also recognizes the work of the organization in the electricity sector, (ES) particularly in reference to efforts to promote and advance the organization's mandate in regards to Small Scale Renewable Generation, SSRG and the completion of the licensing guidelines for any new applicants in the ES.

During the latter part of 2018, following a very competitive selection process, the Board appointed J. Carlton Smith, a veteran broadcaster with more than a decade of managerial experience, as Director of Electronic Communications. This appointment fills a critical role in the organization and provides significant strengthening of URCA's expertise in the area of broadcasting which will enhance URCA's work on matters such as the revision and implementation of the Content Code and design and implementation of a Public Broadcasting framework. On behalf of the Board I take this opportunity to thank Regulatory Manager Waldon Russell who provided leadership to the URCA ECS team as Acting DEC in the interim. During 2018 URCA was able to see the completion of several critical work in the sector including the completion of the FM Technical Standards and the completion of Aliv's licence coverage requirements.

During the latter part of 2018, URCA embarked on a critical piece of work, namely the development of consumer protection regulations for both the ECS and the ES. This body of work is expected to be completed in 2019 and will set the quality of service standards for both sectors. The Board as well as the general public look forward to the completion of this document.

On behalf of the Board, I take this opportunity to thank all of URCA's team members for their hard work, sacrifice and dedication to the mission and vision of the organization and to assure them of the Board's full support and commitment to all stakeholders - consumers, licensees, government and the country as a whole, as we champion the interest of consumers in the regulated sectors.

From The CEO

At the outset, I take this opportunity to thank our great team at URCA for continuing to put in the hard work and to support the organisation's diverse responsibilities during 2018 which was a year of great success for URCA. Our successes were achieved against a backdrop of further organisation building internally as we continue the search and upskilling necessary to ensure that our team efficiently completes the important work we are mandated to perform.

Internationally URCA was proud to be able to achieve great success on behalf of The Bahamas at the ITU with our election in November 2018 to its governing Council for the period from 2018 to 2022, and our election in March 2018 to the Executive Committee of CITEL for the period from 2018 to 2021. Membership and continued involvement in the governance of these key institutions will enable The Bahamas to have greater influence on their activities in this region bringing enhanced capacity building and other activities to The Bahamas and the wider Caribbean region, to advocate for issues of importance to us as a Small-Island Developing State (SID) and to improve our international profile as a centre of excellence in ICTs, improving our ability to attract investment in this key growth area. URCA will continue to represent and promote The Bahamas' ECS and ICT sectors in these important arenas.

In its local activities in 2018 we continued to exercise our mandate in our effort to *"improve lives through effective utilities regulation"*. At the organisation-wide level URCA began work on harmonising consumer protection regulation across the ECS and ES, which will culminate in publication of Consumer Protection Regulations for both sectors in 2019. We are also excited about the work done on our URCA App, which will enhance the way URCA interacts with all of its stakeholders and significantly increase the information available to the public about the ECS (initially). We also embarked on an ambitious plan to completely overhaul the way URCA measures its achievements with the engagement of a consultant to assist with the development of URCA's Organisational Performance Indicators.

We achieved key regulatory activities and reforms in the ECS focussing on the completion of roll-out obligations for The Bahamas' second mobile carrier, Aliv, and conducted work to reform the

technical framework within which FM radio services in The Bahamas are provided, with the completion of our FM Technical Standards. A significant volume of work was also completed towards a framework for IXPs in The Bahamas, and preparing new Regulations to govern the approach of our ECS stakeholders to preparation and management of their networks in the event of a natural disaster. These initiatives will be completed in 2019.

Our internal capacity building in our ES regulatory team continued in 2018, while we worked on several regulatory interventions for the ES which we intend to introduce in 2019. We completed our review of BPL's Consumer Protection Plan and used the lessons learned to inform our work on URCA's Consumer Protection Regulations. We also commenced work on a framework for renewable energy self-generation by government and small commercial enterprises, a framework for procurement of generation resources, and outlined our information gathering plans for the ES. These will be completed during 2019. We recognise that URCA's impact in the ES continues to be hampered by the recalcitrance of our key stakeholders (including the Grand Bahama Power Company which has sought the protection of the courts from URCA's regulatory activities) and to that end our preparations for the ES in 2019 have been made with a view to ensuring that the legal issues experienced are progressed as expeditiously and aggressively as URCA is able, to ensure that we are in a position to fully exercise our mandate in the shortest possible time.

Internally, we continue to experience challenges with attracting and retaining qualified and experienced staff, and in late 2018 we embarked on a process to enhance our recruitment, learning and development, and organisational design. We are also excited about the work we began in 2018 towards enhancing our offices at Frederick House as we seek to be a leader in taking care of our environment.

I thank the Board of URCA for its consistent support and encouragement to the executive team and staff in all of our efforts, and the confidence which it continues to repose in me as the CEO, and I look forward to even greater successes by URCA in 2019 as we continue our mission of *improving lives through effective utilities regulation*.

2018 In Review

The final version of URCA's 2018 Annual Plan was published on 30 April 2018 together with URCA's Annual Report for 2017. In the Annual Plan 2018 URCA set out several projects which would be undertaken with proposed timelines.

During 2018 URCA's primary goals as regulator of the ES were to engender a nationwide understanding and appreciation for the need to regulate the sector, and to deploy the critical framework to facilitate the regularization of pre-enactment service providers. Unfortunately URCA's work with regard to the latter has progressed slower than the statutory timelines stipulated in the EA, due to a lack of preparedness and, in some cases, willingness of those service providers to be regulated. During 2018, URCA has been required to revise its expectations regarding the assumption of regulation in the ES to take account of legacy system challenges experienced by key stakeholders which impact their ability to respond to regulatory mandates, and legal challenges to URCA's regulatory jurisdiction in Grand Bahama. Having regard to those difficulties, URCA now recognises that its approach in relation to grid stability and generation issues, particularly of BPL, will need to be approached incrementally. URCA is also keenly aware that it may have to rely to a greater extent on imposition of its legal powers in the ES, than initially anticipated, and URCA has revised its plans to take account of the increased time that may be required for legal proceedings to establish necessary regulatory measures.

In the ECS URCA's focus remained on cellular liberalisation, and significant milestones achieved in 2018 included the completion of work related to the monitoring of roll out of competitive cellular mobile services across The Bahamas. URCA also completed key recruitment activities in 2018 by filling the post of DEC, a post that has been vacant since March 2017. URCA takes this opportunity to recognise the members of its ECS team who have enabled the organisation to continue its work in the ECS during the vacancy of this important role, particularly Donavon Dorsett and Waldon Russell, both of whom acted as DEC, and to welcome Mr. Carlton Smith, who joined as URCA's DEC on 3 December 2018. Mr. Smith, a veteran journalist and broadcaster,

brings valuable leadership experience to URCA, particularly in the broadcasting sector, for which the DEC is responsible within URCA’s regulatory mandate.

Representation of the Government of The Bahamas at international organisations was another key area of activity for URCA, culminating in The Bahamas’ election to the Council of the ITU for the period from 2018 to 2022. The elections were held at the ITU’s Plenipotentiary Conference 2018, in Dubai, United Arab Emirates. This followed The Bahamas’ election to the Executive Council of CITELE in March 2018. The Bahamas’ increasing role in leadership on telecommunications and ICT matters internationally speaks to the Government’s commitment to ICT development in The Bahamas, and The Bahamas’ leadership as a centre of excellence in ICT regionally and globally.

Market Review

In considering URCA’s completion of work during 2018, it is useful to review the development of the markets in the regulated sectors as a backdrop to URCA’s performance. Presented below is a summary of the performance of the ECS. Information for the ES for 2018 is not currently available, however URCA expects to be in a position to include annual information regarding the ES in its next Annual Report.

ELECTRONIC COMMUNICATIONS SECTOR

The ECS is at the core of ICT in The Bahamas, and continues to make significant contributions to the development of economies worldwide. The ECS is a direct contributor to a country’s Gross Domestic Product and creates employment opportunities in this rapidly evolving and expanding sector. As mentioned in our 2017 Annual Report, ICTs are driving the revolution, introducing new concepts, products and services.

5G technology is no longer the future, it is a key feature of the technology landscape, dominating conversations on innovative developments like the Internet of Things (IOT), Artificial Intelligence (AI), Block chain technologies and enhanced mobile telephony services. Global technology

experts anticipate that 5G is going to significantly influence how people live in the 21st century. It is expected to change every industry, every business, and every consumer experience. It is expected to be the engine that fuels massive broadband applications and create unprecedented opportunities. These opportunities are considered the drivers for ECS expansion and global transformation.

In 2018, the ECS in The Bahamas generated approximately \$378 million in revenue, representing a decline from the previous year. Figure 1 reflects revenues earned by major licencees through the provision of telecommunications and broadcast services. Employment in the ECS grew slightly with over 1,200 persons working in the sector. Figure 2, shows that females continue to represent the greater number of ECS employees in The Bahamas.

Figure 1

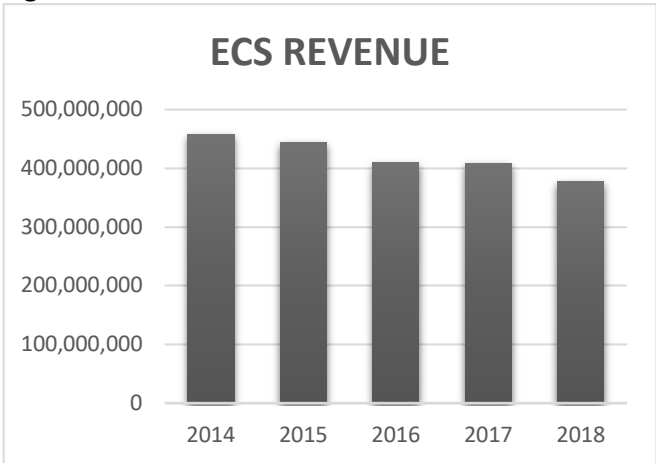
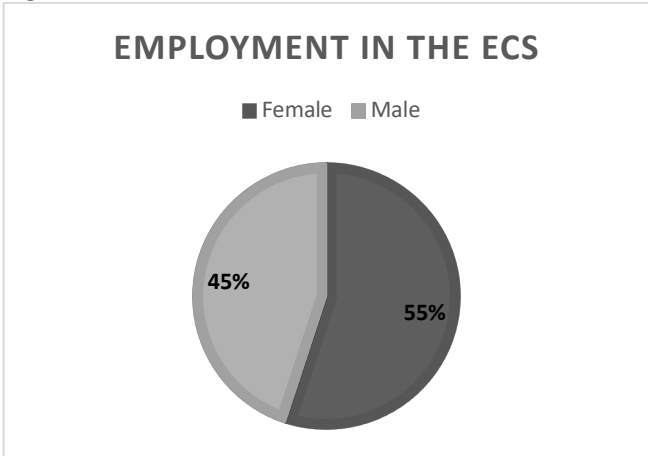


Figure 2



The major operators of Electronic Communication services within The Bahamas are:

- Be Aliv Limited (Aliv) - which provides mobile cellular voice and mobile data services;
- The Bahamas Telecommunications Company Limited (BTC) - which operates IPTV services, fixed voice and internet services and mobile cellular voice and mobile data services;
- Cable Bahamas Limited (CBL) - the operator of PAYTV, high speed data services and fixed voice services.

Fixed Voice Telephone Services

BTC and CBL are the providers of Fixed Voice Telephone Services within The Bahamas and BTC is designated as a Significant Market Power (SMP). BTC offers fixed telephone services throughout all of the islands of The Bahamas with such services as local, domestic long distance (inter-island) and international calls. CBL, including its affiliates Systems Resource Group Limited (SRG) and Caribbean Crossing Limited (CCL), also offers local, domestic long distance and international calls. However, these services only extend to the New Providence, Grand Bahama, Eleuthera and Abaco markets.

In 2018, the declining trend for fixed line subscribers continued. Figure 3 shows that there were 113,455 subscribers when compared to 113,852 in 2017. The penetration rate was estimated at 29.77 in 2017 and dropped slightly to 29.33 in 2018. These declines are reflective of global trends as consumers move to more modern voice communication devices and methodologies. Fixed telephone voice penetration rate also declined from 29.77 in 2017 to 29.33 per 100 subscribers in 2018. These declines are reflective of global trends as consumers move to more modern voice communication technologies.

Figure 3

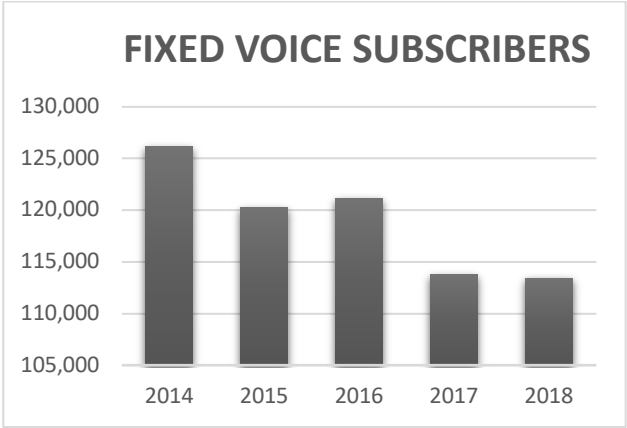
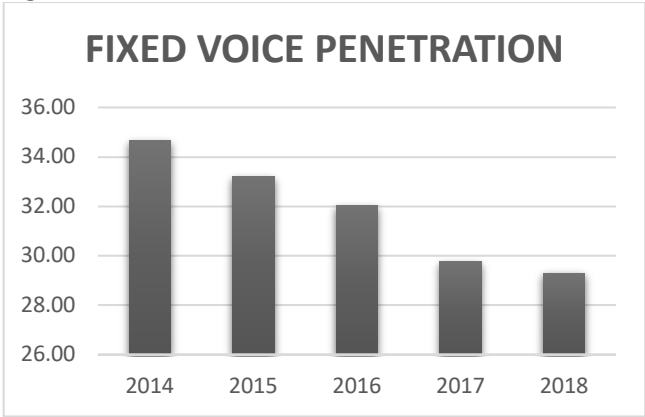


Figure 4



Fixed Broadband Subscribers

BTC, CBL and a number of smaller independent Internet Service Providers (ISPs) provide fixed internet services through broadband infrastructure in The Bahamas. CBL provides high speed internet services to New Providence, Grand Bahama, Eleuthera and Abaco and is designated SMP in those islands. BTC is the major provider of fixed broadband in the remaining islands and holds SMP in those markets.

Access to internet services continue to grow. The number of fixed broadband subscribers increased by approximately 0.2% in 2018 to 87,067 from 86,868 the previous year, with a corresponding penetration rate of 22.51 subscribers per 100 population.

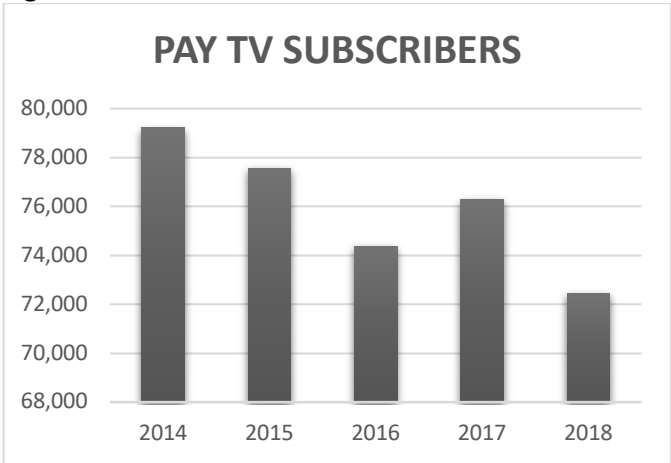
Figure 5

Fixed Broadband Subscribers	2014	2015	2016	2017	2018
	76,658	81,018	86,628	86,868	87,067
Penetration	21.06	22.26	22.81	22.71	22.51

PAY TV Services

CBL retains SMP designation for the provision of PAY TV services in The Bahamas. CBL offers PAY TV nationwide. However, BTC offers its FLOW TV product to selected islands. Both CBL and BTC offer on-the-go TV services by way of cellular mobile devices. Despite the availability of two Pay TV operators in the market there has been a net reduction in the number of subscribers. In 2018, there were 72,460 PAYTV subscribers, a reduction from 76,278 in 2017.

Figure 6



Mobile Voice and Mobile Data Services

The use of mobile services has become an integral part of the lives of many people around the world. In fact, cellular phones are the primary source of social and business communication, and it is anticipated that the demand for the access to mobile services will continue to grow. The many communication options available on mobile phones, coupled with what appears to be an evolving, dynamic and competitive mobile telephone industry are contributing potential growth factors.

In the Bahamian economy, BTC holds SMP for the provision of mobile cellular services. However, Aliv appears to be a strong contender which should augur well for subscribers. This vibrant

competition continues to produce competitive prices and new offerings on voice and data packages for consumers and is resulting in growth. The total number of mobile voice subscribers totalled 381,591 in 2018, when compared to 353,540 in 2017, representing a 7.9% increase. Figure 8 shows the mobile voice penetration rate increased in 2018 to 98.64 from 92.44 in 2017.

Figure 7

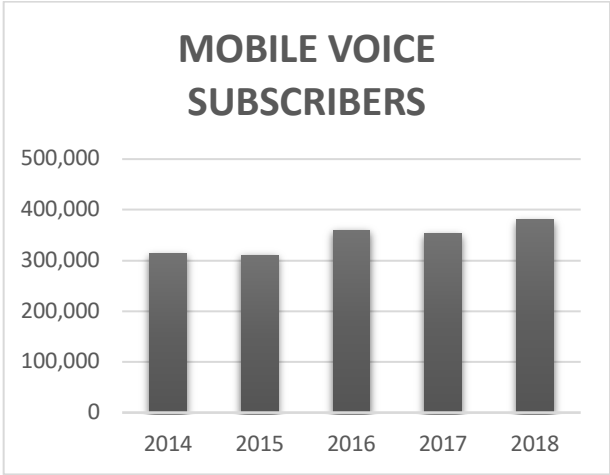
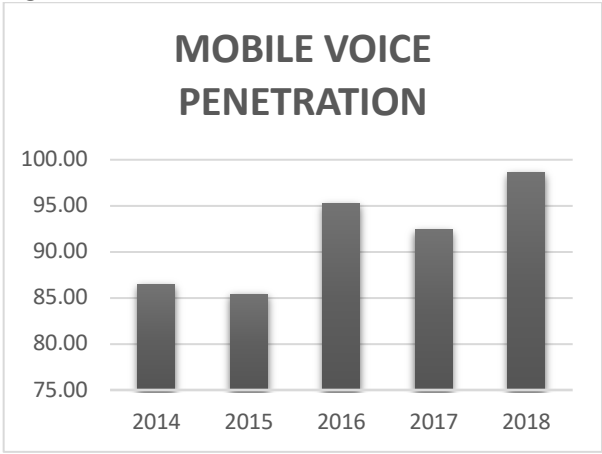


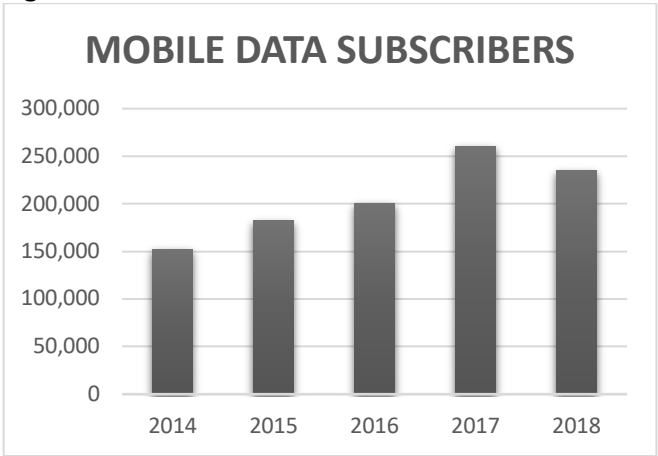
Figure 8



The revision of licensees’ data resulted in this amendment. There was a decline in the number of mobile data subscribers in 2018. The numbers reflect a reduction from 260,587 in 2017 to 234,654 subscribers in 2018 as illustrated in figure 9. Correspondingly mobile data penetration contracted by 10% to 60.65 in 2018 from 67.36 in 2017¹.

¹ It should be noted that the 2017 number of mobile data subscribers published in this 2018 Annual Report differs from that which was published in the 2017 Annual Report due to an error in the submissions for 2017. The revision of licensees’ data for 2018 resulted in the amendment.

Figure 9



Performance against 2018 Annual Plan

Beginning in the 2018 Annual Plan, URCA prioritised projects into three tiers (Tier I, Tier II and Tier III).

Those projects of the greatest importance and urgency to the regulated sectors were placed in Tier I, and for these projects URCA directed all available resources in an effort to achieve completion in accordance with scheduled dates during 2018.

Projects placed in Tier II were also of significant importance to the organisation or the regulated sectors, and URCA endeavoured to complete these projects in the shortest possible timeframe, though with lower priority than the Tier I projects and with the advance caveat that URCA could not commit to completion of Tier II projects during a specific period for one or more of the following reasons:

- Heavy dependence on external stakeholder inputs or approval outside of URCA’s control and/or
- The availability of adequate resources to complete the project in a specific timeline was uncertain

Those projects placed in Tier III addressed emerging regulatory or management issues which URCA is desirous of addressing and will complete as soon as resource availability dictates, but which are of lower priority than Tier I or Tier II Projects. URCA did not commit to any specific timeframe for completion of Tier III projects.

General Projects

While most of URCA's regulatory work related to a specific regulated sector, URCA is continuously seeking ways to achieve economies that can be realised through harmonised approaches between regulated sectors, reflected in regulatory measures which have "General" applicability to multiple regulated sectors. URCA's organisational initiatives, including its Annual Report and Annual Plan also fall into this "General" Category.

During 2018, URCA worked on the following General projects:

Review of Consumer Protection Regulations

On 30 December 2013, URCA published its Consumer Protection Regulations (CPR) which are applicable to the ECS only. In 2018 URCA began a Tier II project to review the existing CPR, to incorporate necessary provisions for the ES, and to review the provisions for the ECS where appropriate. URCA intends to complete the work during 2019 as a Tier I project.

Market and Consumer Satisfaction Surveys

URCA has identified that a significant hindrance to its regulatory effectiveness is a lack of adequate information about stakeholder sentiments and behaviours within the regulated sectors. During 2018 URCA carried out initial work on the commissioning of surveys to assess the markets in both the ES and ECS. This work will be furthered in 2019 as a Tier II project, with completion anticipated in 2020.

URCA Performance Indexes

One of the key outcomes of URCA's recent Strategic Planning process has been the recognition that URCA needs more relevant and meaningful methods of measuring its performance. To that end, URCA is developing a series of Key Performance Indicators (KPI) in the form of Indices, which

can be used to track URCA's performance, combining considerations such as market growth and performance, fiscal responsibility, consumer satisfaction and licensee performance. URCA commenced the process for the formulation of these indices during 2018 as a Tier II project and expects to complete the work as a Tier I project in 2019.

Electronic Communications Sector Projects

In 2018 URCA made significant progress in its identified ECS priorities, advancing both Tier I and Tier II projects identified in the Annual Plan.

Review of Retail Broadband Access

On 31 July 2018, URCA published *the Final Determination on the Review of the Resale Broadband Obligation imposed on BTC and CBL under Section 116 and Schedule 4 of the Communications Act, 2009* (ECS 09/2018). In the document, URCA reconfirmed the SMP designations of BTC and CBL in wholesale fixed broadband services and approved the price and non-price terms and conditions of BTC's, and CBL's resale offers.

Monitoring the Roll-out of Competitive Cellular Mobile Services

On 17 July 2018, Aliv reported to URCA that it had completed all coverage and service requirements of Aliv's Individual Spectrum Licence. URCA has reviewed the Coverage Report and issued Aliv with a Certificate of Completion on 30 November 2018, certifying that Aliv had completed all of its roll-out requirements by 17 July 2018, seventeen days past the deadline required by its licences. It should be noted that in respect of Phase 1b roll-out URCA levied a penalty of \$735,000 as a result of Aliv's delayed roll-out of Phase 1b (in particular, completion of roll out on Exuma, Andros and Bimini), however URCA decided that delays by Aliv in meeting certain other deadlines were not wholly within Aliv's control due to challenges in obtaining sharing on facilities owned by BTC.

Position on Net Neutrality and Regulation of OTT Services

On 13 April 2018 URCA issued a consultation document which sets out URCA's preliminary Position on Net Neutrality and Regulation of Over-The-Top Services in The Bahamas. On 26 November 2018 URCA concluded its work with the publication of the Statement of Results and

Final Position as ECS /2018, which set out URCA’s rationale for refraining from issuing ex ante regulations at this time.

FM Broadcasting Technical Standards

On 13 July 2018, URCA published a “Second Consultation on *Technical Standards Framework for FM Radio Broadcasting in The Bahamas – ECS 08/2018*” (“the Second Consultation”). The Second Consultation closed on 13 August 2018 and URCA concluded its work on this project in December 2018. However, with the engagement of the new DEC in December 2018, and having regard to the DEC’s experience in broadcasting matters, the decision was taken to delay publication until 2019².

ICTs for Disaster Preparedness and Management

URCA has drafted a public consultation document for “ICTs for Disaster Preparedness and Management Regulations for the Electronic Communications Sector in The Bahamas.” URCA will now seek to engage The National Emergency Management Agency (NEMA), The Royal Bahamas Police Force and Royal Bahamas Defence Force, as well as the Department of Meteorology, among others, which URCA considers can significantly increase the effectiveness of the final regulatory measure. URCA will consult with the mentioned agencies before engaging the wider public. This enhanced consultation initiative necessitated carrying the project over into 2019.

Review of the Electronic Communications Sector Policy

URCA commenced work on the ECSP in the first trimester of 2018 as a Tier II project, and is on schedule to complete the draft for submission to the Government in 2019.

Market Implementation of Price Caps

In 2017, URCA resumed work on this project, but in 2018 no substantive progress was made on the project as there are questions from stakeholders on the appropriateness of the proposed remedies having regard to the fast pace of change in the sector, and the underlying assumptions regarding market dominance were brought into question. URCA intends to review the need for

² URCA’s Statement of Results and Final Decision, and the FM Radio Broadcasting Technical Standards were published on 25 March 2019 as ECS 03/2009 and ECS 04/2009 respectively.

this project through further consultation and engagement with various stakeholders, in early 2019.

Review of the National Spectrum Plan

Under section 31 of the Comms Act, URCA is required to publish a new spectrum plan which is consistent with any applicable international treaties, commitments or standards including those of the ITU. URCA has completed its work on the Revised NSP, and submitted same to the Minister for review and approval on 12 December 2018.

Identification of Spectrum for Digital Switchover

URCA considers that the implementation of a framework for Digital Switchover will further the objectives of the ECSP by preparing The Bahamas for the adoption of new digital services. URCA published a draft Framework for Digital Switchover for consultation on 26 May 2018 as ECS 10/2018, but there were no comments and indications in the daily newspapers suggested that there were some misconceptions among stakeholders as to the effect of the document. As such, URCA will publish the consultation document again for public consideration, and will publish its Final Decision in early 2019.

Review of Wholesale Internet Access

In 2014, URCA conducted a full market review of the key retail communications services in The Bahamas, including retail broadband services (ECS 14/2014). URCA at that time did not review the competitive dynamics in the relevant wholesale markets. Hence, URCA commenced a review of the wholesale markets in 2018, which URCA intends to conclude in 2019.

Electricity Sector Projects

URCA's work schedule for the ES for 2018 was also separated into Tier I, Tier II and Tier III projects. A brief summary of URCA's progress on its Tier I and Tier II ES projects is set out below.

Review of BPL Consumer Protection Plan

BPL's Consumer Protection Plan was developed by BPL to comply with section 40 of the EA. The BPL plan was submitted to URCA on 5 May 2017 which, following review and revision, was

published as a Consultation Document on 29 May 2017. In addition to written submissions, URCA received comments from the general public during town meetings held in New Providence, Abaco and Eleuthera, which were considered in the production of the Statement of Results and Final Decision published on 22 August 2018 as ES 06/2018.

Licensing Guidelines for the ES, and Licensing of Public Electricity Suppliers

The ES Licensing Guidelines provide guidance to potential licensees on the information required from applicants, and URCA's approach to assessing applications in relation to issuing a prescribed licence for regulated activities in the ES. The Licensing Guidelines for Service Providers in The Bahamas' Electricity Supply Regime was published on 31 May 2018, as ES 03/2018.

Review of BPL Renewable Energy Plan

BPL's obligation to furnish a Renewable Energy Plan to URCA stems from s25 of the EA. It is noted that the EA states that the REP was to be provided within six months of the coming into operation of the Act. However, BPL has advised URCA that it lacked the internal capacity/resources to develop the Utility Scale portion of the plan and requested an extension to 31 August 2019. Provided that BPL meets the revised timeline, URCA has re-scheduled the completion of this project to be completed by T3 of 2019.

BPL Efficiency Assessment

In response to ongoing concerns and its general regulatory mandate, URCA deems it necessary to perform a comprehensive management and operational audit of BPL to determine the entity's overall efficiency in relation to BPL's statutory mandate to provide a safe, reliable, and affordable supply of electricity. The proposed audit would examine, inter alia, the management of human, financial, and technical resources with a view to providing objective assessments to remedy any deficiencies discovered. It is envisioned that the Efficiency Assessment will provide a comprehensive and global view of BPL's operations, thereby, enabling BPL to align itself with the industry's best practices.

International Participation and Engagement

During 2018 URCA continued its work to cement The Bahamas as an integral part of the international discussion on ICTs and to do its part toward establishing The Bahamas as the regional centre of excellence for ICTs. URCA's participation in these international organisations serves a twofold purpose. URCA's representation of the Government of The Bahamas at the ITU and CITEC serves to ensure that The Bahamas' treaty obligations are performed in the best interests of The Bahamas and URCA's regulated sectors, but these organisations also provide a critical source of learning and development on current regulatory and policy issues for URCA's team members.

As noted above, highlights of 2018 culminated in The Bahamas' election to the Council of the ITU for the period from 2018 to 2022 in elections held on 5 November 2018 at the ITU's Plenipotentiary Conference 2018 in Dubai, United Arab Emirates. The Bahamas was elected as one of nine (9) member states representing the Americas region, on the ITU's 48 member Council.

During 2018, The Bahamas was also elected to the Executive Committee of CITEC at its Assembly, held in Buenos Aires, Argentina in March 2018. CITEC is the telecommunications arm of the OAS and The Bahamas is one of thirteen (13) member states on the Executive Committee.

The Bahamas' increasing role in leadership on telecommunications and ICT matters internationally speaks to the Government's commitment to ICT development in The Bahamas, and The Bahamas' leadership as a center of excellence in ICT regionally and globally.

URCA continued its participation in the Organisation of Caribbean Utilities Regulators (OOCUR), of which URCA is a founding member. URCA was elected as a member of the Executive Council of OOCUR at its General Assembly held in Tobago in October 2017.

URCA also participated in conferences, fora and other activities conducted by several other relevant international organisations during 2018.

Building Regulatory Capacity and Human Capital

In 2018 URCA completed its third year as a multisector regulator, balancing its regulatory responsibility between the Electronic Communications and Utilities and Energy sectors. URCA's mission statement "improving lives through effective utilities regulation" is also indicative of the organization's commitment to continuous development of its people and investing in building its regulatory capacity. The organization's Strategic Plan continued to drive efforts especially in the area of learning and development, employee engagement and records management.

URCA's staff complement saw some key changes in 2018. A new Director of Electronic Communications was introduced and the Human Resources and Administration department was restructured to accommodate the organisation's growing needs. Also a new position, Consumer Relations Assistant, was created within the Corporate and Consumer Relations department. The purpose of this role is to provide first point of contact assistance to consumers.

Learning and development opportunities focused on upskilling in the areas of energy regulation, electronic communication regulation and leadership continued, as well as the Records Management implementation project.

Educating and Supporting our Stakeholders

URCA continued its efforts to ensure that all stakeholders are educated and informed concerning the matters within its remit. A significant accomplishment for 2018, was the establishment of the URCA Consumer Help Desk during the latter part of 2018.

Efforts to be more innovative and creative in reaching consumers resulted in the introduction of new initiatives such as URCA Unplugged, an informal "pop up" desk in a public space providing information and material about URCA while at the same time receiving complaints from members of the public. Four URCA Unplugged events were held, two in New Providence at the General Post Office and the Mall at Marathon, and two in Grand Bahama.

URCA being mindful of the universal goal to ensure access to information and communication technology for all, with emphasis on women, girls, and differently able individuals, hosted the

2018 observation of 'Girls in ICT Day 2018' in Freeport, Grand Bahama. As a result of the change of venue, there was a significant increase in the number of participants from the northern Bahamas. Almost 200 students from six islands including New Providence, attended the 4th observation of this ITU initiative to promote the ICT sector as a career option for women. URCA was supported by the generous sponsorship of industry partners and students.

Internally URCA's new mission "*Improving lives through Effective Utilities Regulation*" became more visible within the office with the placement of plaques and presentation of personalized mugs to all team members.

While URCA appreciates that a critical component of our work is the fostering of good relationships with all stakeholders, this is especially so with the media. Efforts to continue to build that relationship continued with the hosting of the second Media Breakfast. Internally, the first in a series of Media Coaching workshops was held to better prepare team members for engaging with the media.

In 2018, URCA travelled to the Southern Bahamas to share with residents what they should know about their rights and obligations in the regulated sectors. School visits, walkabouts and Town Hall meetings were held in Crooked Island, Acklins, Long Cay and Inagua. Close to 200 residents including students received valuable information on how to file complaints and how URCA's role as regulator impacts their everyday use of the essential services.

Legal

URCA's legal team was focussed on three matters filed against URCA in 2016 and 2017 which continued during 2018.

The three actions continuing from 2017 are:

- Cable Bahamas Ltd, et al v URCA (2016 Action);
- Grand Bahama Power Company Ltd v URCA (2016 Action; and
- Navette Broadcasting & Entertainment Co. Ltd (Navette) v URCA (New Judicial Review Proceedings).

The Cable Bahamas action commenced on 7 July 2017 and seeks to determine inter alia whether telephony and internet services within the Port Area of Grand Bahama provided by CBL are subject to URCA’s licencing requirements. The Grand Bahama Power Company (GBPC) action was filed by GBPC in 2016 and seeks declarations that certain provisions of the EA 2015 requiring the GBPC to obtain a licence, is in contravention of provisions under the Hawksbill Creek Agreement. Both of these actions are ongoing.

In early 2018, Navette filed Appeals in the Court of Appeal against the 2017 Supreme Court and Utilities Appeal Tribunal decisions. The company also filed a new Judicial Review Action in 2018 in the Supreme Court. These actions concerned URCA’s authority as regulator to approve an application to amend the Individual Spectrum Licence and the Class Operating Licence and ultimately URCA’s licensing of the frequency formerly operated by Navette. All Appeals and Actions have been dismissed in URCA’s favour, with costs.

Summary of 2018 Outcomes

URCA performance in respect of the Tier I and Tier II projects in the 2018 Annual Plan is set out in Table 1 and Table 2 below.

Table 1 - Performance, 2018 Tier I Projects

Project	Start Period	End Period	Status
URCA Annual Plan 2018	T3, 2017	T1,2018	Completed 30 April 2018
Review of Retail Broadband Access	T2, 2017	T2, 2018	Completed 31 July 2018
Monitoring the Roll-Out of Competitive Cellular Mobile Services	T3, 2016	T2, 2018	Completed 30 November 2018
Position on Net Neutrality and Regulation of OTT Services	T1, 2016	T3, 2018	Completed 23 November 2018
Review of BPL Consumer Protection Plan	T2, 2016	T2, 2018	Completed 22 August 2018

Project	Start Period	End Period	Status
FM Broadcasting Technical Standards	T2, 2014	T1, 2019	Completed Publication delayed to 2019
Licensing Guidelines for the ES, and Licensing of Public Electricity Suppliers	T2, 2016	T3, 2018	Completed 31 May 2018
ICTs for Disaster Preparedness and Management	T1, 2017	T3, 2019	Carried-over to 2019
Draft Annual Plan 2019	T3, 2018	T1, 2019	Completed 20 December 2018
Campaign for ITU Council	T3, 2017	T3, 2018	Completed 5 November 2018
Review of ECS Policy	T1, 2017	T3, 2019	On-Schedule Completion scheduled for T2 2019
Market Review – Implementation of Price Caps	T1, 2015	T3, 2019	Project Review
Review of BPL Renewable Energy Plan	T2, 2016	T3, 2018	Delayed to T3 2019
Review of National Spectrum Plan	T1, 2018	T3, 2018	Completed 12 December 2018

Table 2 - Performance, 2018 Tier II Projects

Project	Start Period	End Period	Status
Market and Consumer Satisfaction Surveys	T1, 2018	TBC	Scheduled for T3 2019 as Tier I
ICTs for Persons with Disabilities	T1, 2018	TBC	Scheduled for 2019 as Tier II
Identification of Spectrum for Digital Switchover	T1, 2017	2019	Commenced in 2018 Scheduled for T2 2019 as Tier I

Project	Start Period	End Period	Status
Review of Wholesale Internet Access	T1, 2018	2019	Commenced in 2018 Scheduled for T3 2019 as Tier I
Review of Consumer Protection Regulations	T2, 2018	2019	Commenced in 2018 Scheduled for T3 2019 as Tier I
URCA Performance Indices	T2, 2018	2019	Commenced in 2018 Scheduled for T3 2019 as Tier I
BPL Efficiency Assessment	T2, 2017	2019	Scheduled for 2019 as Tier II

Table 3 below presents URCA's actual expenditure against its budgeted expenditure for 2018.

Table 3 - Actual vs. Budgeted Expenditure

Consolidated			
Category	Actual FY-2018	Budget FY-2018	Inc/(Dec)
Revenue	5,824,700	6,978,737	(1,154,037)
Other income	134,367	-	134,367
Total Income	5,959,067	6,978,737	(1,019,670)
Expenses:			
Staff Costs	2,244,809	2,405,714	160,905
Non-Executive Compensation	192,481	229,000	36,519
Executive Compensation	368,500	478,652	110,152
Professional Services	617,311	1,536,000	918,689
Conference, training and travel	484,269	553,400	69,131
Premises Costs and Utilities	286,147	304,900	18,753
Consumer education and Public Relations	77,779	202,000	124,221

Office Services	291,797	322,600	30,803
Information Technology	107,968	103,300	(4,668)
General and Administrative Expenses	624,215	370,830	(253,385)
Depreciation	416,814	472,342	55,528
Total Operating Expenses	5,712,090	6,978,738	1,266,648
Re-measurement of pension asset	95,990	-	95,990
Comprehensive Income	342,967	(1)	342,968
Capital Expenditure	238,785	491,300	252,515
Electronic Communications Sector			
Category	Actual FY-2018	Budget FY-2018	Variance
Revenue	4,124,377	4,879,604	(755,227)
Other income	96,847	-	96,847
Total Income	4,221,224	4,879,604	(658,380)
Expenses:			
Staff Costs	1,338,382	1,495,484	157,102
Non-Executive Compensation	141,473	141,855	382
Executive Compensation	155,776	230,800	75,024
Professional Services	523,650	1,256,000	732,350
Conference, training and travel	385,669	400,350	14,681
Premises Costs and Utilities	197,302	204,134	6,832
Consumer education and Public Relations	39,629	148,470	108,841
Office Services	241,480	209,111	(32,369)
Information Technology	86,375	82,640	(3,735)
General and Administrative Expenses	502,835	343,194	(159,641)
Depreciation	321,450	367,566	46,116

Total Operating Expenses	3,934,021	4,879,604	945,583
Re-measurement of pension asset	70,553	-	70,553
Comprehensive Income	357,756	-	357,756
Capital Expenditure	191,028	393,040	202,012
Utilities and Energy			
Category	Actual FY-2018	Budget FY-2018	Variance
Revenue	1,700,323	2,099,133	(398,810)
Other income	37,520	-	37,520
Total Income	1,737,843	2,099,133	(361,290)
Expenses:			
Staff Costs	906,427	910,230	3,803
Non-Executive Compensation	51,008	87,145	36,137
Executive Compensation	212,724	247,852	35,128
Professional Services	93,661	280,000	186,339
Conference, training and travel	98,600	153,050	54,450
Premises Costs and Utilities	88,845	100,766	11,921
Consumer education and Public Relations	38,150	53,530	15,380
Office Services	50,317	113,489	63,172
Information Technology	21,593	20,660	(933)
General and Administrative Expenses	121,380	27,636	(93,744)
Depreciation	95,364	104,776	9,412
Total Operating Expenses	1,778,069	2,099,134	321,065
Re-measurement of pension asset	25,437	-	25,437
Comprehensive Loss	(14,789)	(1)	(14,788)
Capital Expenditure	47,757	98,260	50,503

Tables 4 through 11 set out URCA’s results against its established Key Performance Indicators for 2018.

Table 4 - Key Performance Indicators

Ref.	Category	Description	KPI Result 2018
S1	Statutory	Draft Annual Plan and Strategy published before end of financial year	Draft Annual Plan 2019 published on 20 December 2018
S2	Statutory	Annual Report and final Annual Plan published within four months of year end	Annual Report 2017 and Annual Plan 2018 published on 30 April 2019
R1	Regulatory	Final determinations to be published within one (1) month from closing date for comments on Preliminary Determination	Seven (7) Final Determinations issued during 2018. 0 in 1 month
R2	Regulatory	Percentage of public consultations started within period stated in Annual Plan	50%
R3	Regulatory	Time to publish results, decisions, and other regulatory measures after close of consultation: <ul style="list-style-type: none"> • 45 – 60 days • 60 – 90 days • >90 days 	2 1 7
R4	Regulatory	Licenses issued within: <ul style="list-style-type: none"> • 30 days – individual licences • 45 days – class licences 	16 80
R5	Regulatory	Volume of licences processed in the year	96
CR1	Consumer Relations	No of Complaints	48
CR2	Consumer Relations	Percentage of Complaints Resolved	87.50%
CR3	Consumer Relations	Average time taken to resolve complaints	18
F1	Finance	Cost of Finance (% of Opex)*	6.21%

Ref.	Category	Description	KPI Result 2018
F2	Finance	Period end Cycle time (Working days)*	15
F3	Finance	Year end Cycle time	31
F4	Finance	Budgeting Accuracy *	18.15%
F5	Finance	Cost of license invoice	\$98.53
F6	Finance	Debtor Days	38.9
F7	Finance	Number of Adjustments	-
F8	Finance	Value of Adjustments	\$0
F9	Finance	Long outstanding Debt	99.74%
HR1	Human Resources	Cost of HR function (as a % of total operating expenses)	5.89%
HR2	Human Resources	Cost of HR function per employee	\$11,742.31
HR3	Human Resources	Ratio of employee to HR staff	5.6 : 1
HR4	Human Resources	Annual average learning and development days per employee	8.0
HR5	Human Resources	Turnover rate	7%
HR6	Human Resources	Annual average sick days per employee	3.9
HR7	Human Resources	Investment in learning and development as a % of payroll	8.0%
HR8	Human Resources	Cost of advisors as a % of total payroll	0.53%

Ref.	Category	Description	KPI Result 2018
HR9	Human Resources	% of roles held by permanent employees	89.3%
HR10	Human Resources	Average length of vacancy	104
HR11	Human Resources	Average cost of recruitment per vacancy	\$2,391.63
HR12	Human Resources	% of new employees still in their post after 12 months of service	100.0%
HR13	Human Resources	% of eligible employees receiving an annual performance appraisal	100.0%
IT1	Information Technology	Percentage of overall organizational cost spent on Information and Communication Technology support annually.	1.3%
IT2	Information Technology	Percentage of overall organizational cost invested in Information and Communication Technology annually (upgrades, new equipment etc.)	0.8%
IT3	Information Technology	The average dollar amount Invested in Information Communication and Technology per employee/user annually.	\$1,531.93
IT4	Information Technology	Percentage of employees with the ability to access URCA's network remotely when out of the office.	100%

Table 8 – Time to Issue Licences – Individual Spectrum Licences

Total Number of Applications	Total Number of Applications Processed	Average Processing Time (Days)	Percentage Processed in 30 Days	Pending	Incomplete	Rejected/Dropped	Total Number of Licenses Issued
17	16	16	100%	1	0	2	16

Table 9 - Time to Issue Licences – Class Spectrum Licences Requiring Registration

Total Number of Applications	Total Number of Applications Processed	Average Processing Time (Days)	Percentage Processed in 45 Days	Pending	Incomplete	Rejected/Dropped	Total Number of Registrations
81	80	21	100%	6	0	2	80

Table 10 – Time to Issue Licences – Individual Operating Licence

Total Number of Applications	Total Number of Applications Processed	Days to Respond to Rejected Applications	Average Processing Time (Days)	Percentage Processed in 30 Days	Pending	Incomplete	Rejected / Dropped	Total Number of Licenses Issued
0	0	0	0	100%	0	0	0	0

Table 11 – Time to Issue Licences – Class Operating Licenses Requiring Registration

Total Number of Applications	Total Number of Applications Processed	Days to Respond to Rejected Applications	Average Processing Time (Days)	Percentage of Applications Processed in 45 Days	Pending	Incomplete	Rejected/ Dropped	Total Number of Licenses Issued
0	0	0	0	100%	0	0	0	0

Please note that no separate table is provided for licences issued in the Electricity Sector. There were three licenses issued and they are reflected in the table and the licencing KPI. One (1) under 30-day KPI and Two (2) under 45-day KPI.

Audited Financial Statements 2018

**THE UTILITIES REGULATION
AND COMPETITION AUTHORITY**

**Financial Statements For The
Year Ended December 31, 2018
And Independent Auditors' Report**

THE UTILITIES REGULATION AND COMPETITION AUTHORITY

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1 - 3
FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018:	
Statement of Financial Position	4 - 5
Statement of Income Over Expenditure and Other Comprehensive Income	6 - 7
Statement of Changes in Equity	8
Statement of Cash Flows	9
Notes to Financial Statements	10 - 26

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Utilities Regulation and Competition Authority:

Opinion

We have audited the financial statements of The Utilities Regulation and Competition Authority (the Authority), which comprise the statement of financial position as at December 31, 2018, and the statement of income over expenditure and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Authority in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management and those charged with governance are responsible for the Other information. The Other information comprises all the information in The Utilities Regulations and Competition Authority 2018 annual report other than the financial statements and our auditors' report thereon ("the Other Information"). The Utilities Regulations and Competition Authority 2018 annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the Other Information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Other information identified above when it becomes available and, in doing so, consider whether the Other Information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. When we read The Utilities Regulations and Competition Authority 2018 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

A handwritten signature in purple ink that reads "Deloitte & Touche". The signature is written in a cursive style, with a large, stylized "D" at the beginning.

April 29, 2019

THE UTILITIES REGULATION AND COMPETITION AUTHORITY

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2018

(Expressed in Bahamian dollars)

	Notes	2018	2017
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	7	\$ 5,084,923	\$ 5,262,952
Pension asset	6	<u>195,219</u>	<u>101,806</u>
Total non-current assets		<u>5,280,142</u>	<u>5,364,758</u>
CURRENT ASSETS:			
Cash on hand and at banks	10	1,838,781	1,474,340
Accounts receivable, net	4,10	166,302	793,215
Prepaid expenses and other assets		<u>411,456</u>	<u>213,208</u>
Total current assets		<u>2,416,539</u>	<u>2,480,763</u>
Total assets		<u>\$ 7,696,681</u>	<u>\$ 7,845,521</u>

(Continued)

See notes to financial statements.

THE UTILITIES REGULATION AND COMPETITION AUTHORITY

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2018

(Expressed in Bahamian dollars)

	Notes	2018	2017
LIABILITIES			
CURRENT LIABILITIES:			
Current portion of long term debt	8	\$ 87,420	\$ 83,788
Accounts payable and accrued expenses	10	<u>392,312</u>	<u>800,331</u>
Total current liabilities		<u>479,732</u>	<u>884,119</u>
NON-CURRENT LIABILITY:			
Long term debt	8	<u>788,270</u>	<u>875,690</u>
Total liabilities		<u>1,268,002</u>	<u>1,759,809</u>
Net assets		<u>\$ 6,428,679</u>	<u>\$ 6,085,712</u>
NET ASSETS REPRESENTED BY:			
Contributed capital	9	\$ 1,537,891	\$ 1,537,891
URCA Fund:			
- Not immediately required	9	3,039,888	2,692,026
- Immediately required	9	<u>1,850,900</u>	<u>1,855,795</u>
Total equity		<u>\$ 6,428,679</u>	<u>\$ 6,085,712</u>

(Concluded)

See notes to financial statements.

These financial statements were approved by the Board of Directors on April 25, 2019, and are signed on its behalf by:



Chairperson



Chief Executive Officer

THE UTILITIES REGULATION AND COMPETITION AUTHORITY

STATEMENT OF INCOME OVER EXPENDITURE AND OTHER COMPREHENSIVE INCOME

YEAR ENDED DECEMBER 31, 2018

(Expressed in Bahamian dollars)

	Notes	2018	2017
REVENUE:			
Electronic communications operating licence fees	9, 10	\$ 4,124,377	\$ 5,500,279
Energy sector licence fees	9, 10	1,700,323	1,965,797
Telecommunications, radio communications, energy and other fees	9, 10	<u>52,587</u>	<u>35,676</u>
Total revenue		<u>5,877,287</u>	<u>7,501,752</u>
EXPENSES:			
Salaries and benefits	6, 10	2,781,453	2,497,986
Legal, professional and consultancy fees		617,311	1,053,367
Depreciation	7	416,814	399,752
Travel		318,905	229,979
Professional membership		291,971	223,982
Office services		291,797	249,622
Training		202,118	134,980
Premises occupancy costs	10	157,082	227,405
Loss allowance	4	143,396	(5,268)
Premises repairs and maintenance		129,065	81,986
Information technology		107,968	99,638
Communications	10	79,342	64,364
Advertising and public relations		77,779	252,190
Donations	10	56,784	17,042
Interest charges	8	39,155	20,949
Automotive maintenance		13,567	9,055
(Recovery of) Conference hosting	12	<u>(12,417)</u>	<u>1,364,592</u>
Total expenses		<u>5,712,090</u>	<u>6,921,621</u>

(Continued)

See notes to financial statements.

THE UTILITIES REGULATION AND COMPETITION AUTHORITY

STATEMENT OF INCOME OVER EXPENDITURE AND OTHER COMPREHENSIVE INCOME

YEAR ENDED DECEMBER 31, 2018

(Expressed in Bahamian dollars)

	Notes	2018	2017
OPERATING INCOME		\$ 165,197	\$ 580,131
OTHER INCOME AND EXPENSES:			
Fines		81,573	735,000
Other income		207	-
Gain on disposal of assets		-	9,378
Interest income		-	6,330
Total other income		<u>81,780</u>	<u>750,708</u>
INCOME OVER EXPENDITURE		246,977	1,330,839
OTHER COMPREHENSIVE INCOME:			
Item that will not be reclassified subsequently to profit or loss:			
Remeasurement of pension asset	6	<u>95,990</u>	<u>41,344</u>
COMPREHENSIVE INCOME FOR THE YEAR		<u>\$ 342,967</u>	<u>\$ 1,372,183</u>

(Concluded)

See notes to financial statements.

THE UTILITIES REGULATION AND COMPETITION AUTHORITY

STATEMENT OF CHANGES IN EQUITY

YEAR ENDED DECEMBER 31, 2018

(Expressed in Bahamian dollars)

		URCA Fund		
		(Not	(Immediately	
	Contributed	immediately	required)	Total
Notes	Capital	required)	required)	
Balance as of December 31, 2016	\$ 1,537,891	\$ 666,093	\$ 2,509,545	\$ 4,713,529
Excess of income over expenditure-ECS	-	892,810	-	892,810
Excess of income over expenditure-ES	-	438,029	-	438,029
Funds not required for immediate use	-	653,750	(653,750)	-
Other comprehensive income	-	41,344	-	41,344
Balance at December 31, 2017	1,537,891	2,692,026	1,855,795	6,085,712
Excess of income over expenditure- ECS	-	287,203	-	287,203
Excess of income over expenditure- ES	-	(40,226)	-	(40,226)
Funds not required for immediate use	-	4,895	(4,895)	-
Other comprehensive income	-	95,990	-	95,990
Balance at December 31, 2018	\$ 1,537,891	\$ 3,039,888	\$ 1,850,900	\$ 6,428,679

See notes to financial statements.

THE UTILITIES REGULATION AND COMPETITION AUTHORITY

STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2018 (Expressed in Bahamian dollars)

	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:			
Excess of income over expenditure		\$ 246,977	\$ 1,330,839
Adjustments for:			
Depreciation	7	416,814	399,752
Remeasurement of loss allowance	4	143,396	(5,268)
Interest income		-	(6,330)
Interest expense		39,155	20,949
Gain on disposal of property, plant and equipment		-	(9,378)
Increase in operating assets and liabilities:			
Accounts receivable		483,517	(224,062)
Prepaid expenses and other assets		(198,248)	101,274
Energy sector recoverable		-	234,669
Pension asset		2,577	12,961
Accounts payable and accrued expenses		<u>(408,019)</u>	<u>250,753</u>
Net cash from operating activities		<u>726,169</u>	<u>2,106,159</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment	7	(238,785)	(3,805,270)
Proceeds from sale of property, plant and equipment		-	15,900
Interest received		-	<u>6,330</u>
Net cash used in investing activities		<u>(238,785)</u>	<u>(3,783,040)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Funds received from long term debt		-	1,000,000
Long term debt principal repayments		(83,788)	(40,522)
Interest paid		<u>(39,155)</u>	<u>(20,949)</u>
Net cash (used in) from financing activities		<u>(122,943)</u>	<u>938,529</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		364,441	(738,352)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		<u>1,474,340</u>	<u>2,212,692</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>\$ 1,838,781</u>	<u>\$ 1,474,340</u>

See notes to financial statements.

THE UTILITIES REGULATION AND COMPETITION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

(Expressed in Bahamian dollars)

1. GENERAL

The Utilities Regulation and Competition Authority (the “Authority” or “URCA”) was established on 1 August 2009, as a corporate body, under the Utilities Regulation and Competition Authority Act, 2009 (the “Act”). The offices of the Authority are located at Frederick House, Frederick Street, New Providence, Bahamas.

The functions of the Authority are to: i) regulate the electronic communications sector (ECS) to further the interests of consumers in accordance with the electronic communications policy objectives; ii) regulate the electricity sector (ES) in accordance with the goals, objectives and principles underpinning the national energy and electricity sector policies; iii) to represent the Government of the Commonwealth of The Bahamas (the “Government”) in regional and international organisations as provided for in the legislation; iv) charge and collect licence fees from regulated entities in accordance with relevant legislation, including billing and collecting communications licence fees and spectrum fees on behalf of the Government; and vi) perform any other duties or functions assigned to it under relevant legislation.

The ECS is regulated by URCA in accordance with the Communications Act, 2009 (the “Communications Act”) and the Electronic Communications Sector Policy. With the passing of the Electricity Act 2015 and the URCA (Amendment) Act 2015, on January 28, 2016 URCA commenced regulating the ES in addition to the ECS. As the independent regulator of the ES, URCA is responsible for the development of a regulatory regime which governs the generation, transmission, distribution and supply of electricity throughout The Bahamas as well as encourage an environment that promotes renewable energy.

URCA has a responsibility to ensure that funds related to and expenses attributable to each regulated sector are separated. The financial performance of the Authority is the result of the regulation of both the ECS and ES. The results of operations of both sectors are allocated to “the Fund”. It should be noted that the regulation of other sectors of The Bahamas economy may be added to URCA’s responsibility as determined by the Government, and consequent to the passing of legislation governing the regulation of any such sectors.

URCA’s decisions are appealable to the Utilities Appeal Tribunal, which was formed pursuant to the Utilities Appeal Tribunal Act, 2009. URCA is also responsible for billing and collection of the Tribunal Fee, through which the Tribunal is funded, on behalf of the Tribunal.

THE UTILITIES REGULATION AND COMPETITION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

(Expressed in Bahamian dollars)

2. ADOPTION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND INTERNATIONAL ACCOUNTING STANDARDS (IAS)

In the current year, the Authority has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the “IASB”) and the International Financial Reporting Interpretations Committee (the “IFRIC”) of the IASB that are relevant to its operations and effective for the year ended December 31, 2018. With the exception of IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from Contracts), the adoption of the following standards and interpretations has not led to any changes in the Authority’s accounting policies:

a. New Accounting Standards / Amendments And IFRS Interpretations That Are Effective For The Year Ended December 31, 2018

New and amended Standards		Effective for annual periods beginning on or after
IFRS 2	Amendments to clarify the classification and measurement of share-based payment transactions	1 January 2018
IFRS 4 & IFRS 9	Amendments regarding the interaction of IFRS 4 and IFRS 9	1 January 2018
IFRS 7	Additional disclosures (and consequential amendments) resulting from IFRS 9	Concurrent with adoption of IFRS 9
IFRS 9	Financial instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IAS 40	Transfers of investment property (Amendments)	1 January 2018
IFRS 1 & IAS 28	Annual improvements to IFRSs 2014-2016 cycle	1 January 2018
IFRIC 22	Foreign currency transaction and advance consideration	1 January 2018

b. Impact of initial application of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers

On January 1, 2018, The Authority adopted IFRS 9 – Financial Instruments (“IFRS 9”), which supersedes IAS 39 – Financial Instruments (“IAS 39”), and IFRS 15 – Revenue from Contracts with Customers (“IFRS 15”), which supersedes IAS 18 – Revenue (“IAS 18”). IFRS 9 and IFRS 15 are effective for annual periods beginning on or after January 1, 2018.

Under IFRS 9, the new “expected credit loss” impairment model which has been adopted replaces the “incurred credit loss model” of IAS 39. This adoption did not have a significant impact on the carrying amount of the Authority’s financial assets on the transition date, given that the Authority has not recognized revenue that did not fully meet the definition of revenue under both IAS 18 and IFRS 15.

IFRS 15 requires entities to recognize revenue when the criteria for revenue recognition has been met, taking into consideration whether there is an enforceable contract and the collectability associated with the goods and services transferred to the customer. Under IFRS 15, a five step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flow emanating from contracts with customers, excluding contracts falling within the scope of the standards on leases and financial instruments, was established. The Authority has adopted the standard using the full retrospective approach applying practical expedients. The adoption of this standard did not have a significant impact on revenue recognition.

c. New Accounting Standards And IFRS Interpretations That Are Not Yet Effective

The following standards, amendments and interpretations are only effective for accounting periods, beginning on or after the date mentioned against each of them.

New and amended Standards		Effective for annual periods beginning on or after
IFRS 10 & IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	(*)
IFRS 16	Leases	1 January 2019
IAS 19	Plan Amendments, Curtailment or Settlements	1 January 2019
IAS 28	Long-term interests in Associates And Joint Ventures	1 January 2019
IFRS 9	Prepayment features with negative compensation (Amendments)	1 January 2019
IFRS 11	Annual improvements to IFRSs 2015-2017 cycle	1 January 2019

IFRS 17	Insurance contracts	1 January 2021
IFRIC 23	Uncertainty over income tax treatments	1 January 2019

(*) The IASB decided in December 2015 to defer the effective date indefinitely; nevertheless, the amendments are available for earlier adoption.

The Directors anticipate that all of the relevant standards and interpretations will be adopted in the Authority's financial statements in the relevant periods but have not yet had the opportunity to consider the potential impact of the adoption of the amendments in future periods.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and under the historical cost convention. The preparation of financial statements in accordance with IFRS requires management to exercise its judgment in the process of applying its accounting policies. It also requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Notes 3(d), 3(e), 3(g) and 3(h).

(b) Foreign currency translation

The financial statements are presented in Bahamian dollars, which is the Authority's functional and presentation currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from settlement of such transactions and from translation of monetary assets and liabilities at year-end exchange rates are recognised in the statement of income over expenditure and other comprehensive income.

(c) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, call accounts at banks and term deposits with original contractual maturities of three months or less.

(d) Accounts receivable

Accounts receivable are recognised initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment under IFRS 9 by determining the expected lifetime credit losses.

The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Authority in accordance with the contract and all the cash flows that the Authority expects to receive, discounted at the original effective interest rate.

If the Authority has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Authority measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

(e) Property, plant and equipment

Property, plant and equipment are stated at historical cost, less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Authority and the cost of the item can be measured reliably. Repairs and maintenance costs are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is provided on a straight-line basis over the estimated useful lives of the assets as follows:

Building	10 - 20 years
Leasehold improvements	Lesser of lease term and 10 years
Information systems	3 - 5 years
Vehicles	5 years
Furniture and office equipment	3 - 5 years

The assets' useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date or when an event has occurred that indicates a need to re-evaluate useful lives. Assets subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in the statement of income over expenditure.

(f) Accounts payable and accrued expenses

Accounts payable and accrued expenses are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(g) Income and expense recognition

Revenue is measured based on the consideration to which the Authority expects to be entitled in a contract with a customer.

Revenue from licensing activities is recognised over the period of the applicable licence and is assessed based on the revenue recognition criteria which includes a consideration of whether the Authority has the intent or ability to pay the bill when it becomes due.

Certain licence fees are fixed and others are based on the revenues of the licensees. For licence fees based on licensee revenue, the Authority makes an estimate of the fee based on the latest available financial information of the licensee and recognises any increase or decrease in that estimate upon receipt of the final revenue amounts of the licensee for the applicable licence period. The applicable revenues for fee purposes are those earned in the licensee's fiscal year ending within the licence period.

All other income and expenses are recognised on the accrual basis of accounting.

(h) Pension benefits

The Authority operates both defined contribution and defined benefit pension plans. Effective 2016, all new hires' participation in the defined contribution pension plan is mandatory. The defined contribution plan requires that contributions by URCA equals a stipulated percentage of each participant's salary. The defined benefit plan requires contributions, determined by periodic actuarial calculations, to be made to a separately administered fund.

A defined contribution plan is a pension plan that defines the amount of the contributions to be made by the plan sponsor (URCA) and participant (employee). These contributions are placed in individual accounts maintained at a financial institution to the credit of the participant. The participant determines how the funds are invested and any amount that the participant receives on exiting the plan is not guaranteed but is determined by the quantum of contributions made by both sponsor and participant, vesting rules of the plan and how well the credited funds have been invested and the return of the investment.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The asset/liability recognised in the statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the date of the statement of financial position less the fair value of plan assets.

Payments to the defined contribution plan are recognized as an expense when employees have rendered service entitling them to the contributions. The costs of providing benefits for the defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government securities that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Past-service costs are recognised immediately in salaries and benefits expense, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

(i) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under the operating lease are charged to the statement of profit or loss on a straight-line basis over the period of the lease.

(j) Taxation

The Authority is established under the laws of the Commonwealth of The Bahamas and therefore, is not subject to income, capital gains or other corporate taxes.

(k) Fiduciary activities

The Authority collects certain fees from licensees on behalf of the Government. The assets associated with these activities are excluded from these financial statements, as they do not belong to the Authority.

4. ACCOUNTS RECEIVABLE

	2018	2017
<i>Accounts receivable:</i>		
Electronic Communications	\$ 631,444	\$ 865,877
Energy	4,193	253,277
<i>Loss Allowance:</i>		
Electronic Communications	(469,335)	(275,939)
Energy	<u>-</u>	<u>(50,000)</u>
	<u>\$ 166,302</u>	<u>\$ 793,215</u>

Movement in lifetime ECL :

	2018	2017
Opening balance	\$ 325,939	\$ 331,207
Remeasurement of loss allowance	<u>143,396</u>	<u>(5,268)</u>
	<u>\$ 469,335</u>	<u>\$ 325,939</u>

Licenses have 30 days to pay from the time of the billing and interest is charged thereafter. The Authority measures the loss allowance for trade receivables at an amount equal to lifetime Expected Credit Loss (“ECL”). The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor’s current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate, and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

The Authority has recognized a loss allowance for customers in a particular geographical area based on historical loss rate coupled with the forecast assessment at the reporting date.

Included in accounts receivable is \$448,245 due from Cable Bahamas Limited for fees billed for the years 2009, 2010, 2011 and 2012. These fees have been calculated on revenue generated for Cable Bahamas’ operations in Freeport. Cable Bahamas has maintained that based on provision of the Hawksbill Creek Agreement, the Authority does not have legal basis to license its operations in the Freeport area. The Authority however believes that Cable Bahamas is in breach of Parts IV and XVI of the Communications Act and as such has pursued regulatory measures against Cable Bahamas Limited with the view to resolve this matter.

5. AGENCY AGREEMENT

Under the Communications Act, the Authority is responsible for the granting of class spectrum licences requiring registration; enforcing conditions attached to such licences; billing and collecting fees consequential thereto and remitting all spectrum licence fees to the Consolidated Fund. The Authority and the Bahamas Maritime Authority (BMA) signed a memorandum of agreement effective 30 August 2010 in which there was a delegation of authority from the Authority to BMA to issue spectrum licences to maritime vessels registered under the Bahamian flag on behalf of the Authority.

Under the terms of the memorandum, BMA will bill, collect and remit spectrum fees on behalf of the Authority for the Government. Additionally, under the terms of this memorandum neither party will be compensated for the services performed regarding the billing, collection and remittance of spectrum fees on behalf of the Government.

6. PENSION BENEFITS

The Authority has established and funds two pension plans, one of which is a non-contributory defined benefit pension plan (the Plan) established for the provision of pension benefits to the members of the Plan. During 2016, the Plan was amended to allow active participants the option to transfer to the newly created defined contribution plan (DC Plan) and to be closed to new participants. Sixteen (16) active participants voluntarily transferred from the Plan to the DC Plan. The amount transferred for each member (Settlement) was the estimate of what would have accumulated to their credit had a defined contribution plan been in place from their start of employment with the Authority. As of December 31, 2018, there are 3 (2017: 3) members and 2 retired members participating in the Plan. All assets of the Plan are invested in a fund managed and administered by an independent investment manager. An actuarial valuation was performed by an independent actuary as of December 31, 2018.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2018	2017
Discount rate	5.50%	5.20%
Future salary increases	0.00%	3.00%

Mortality rates have been taken from the 1994 Group Annuity Mortality Table.

The following tables summarise the components of net pension benefit expense and the funded status and amounts recognised in the statement of financial position for the Plan as determined as of the date of the last actuarial review.

Pension benefit expense (income) comprises:

	2018	2017
Current service cost	\$ 24,640	\$ 29,590
Administrative costs	6,487	3,010
Net interest income	<u>(4,470)</u>	<u>(2,544)</u>
Total included in salaries and benefits	<u>\$ 26,657</u>	<u>\$ 30,056</u>

(Continued)

The pension plan asset is analysed as follows:

	2018	2017
Present value of benefit obligations	\$ 899,144	\$ 957,259
Fair value of plan assets	<u>(1,094,363)</u>	<u>(1,059,065)</u>
Asset in the statement of financial position	<u>\$ (195,219)</u>	<u>\$ (101,806)</u>

Movements in the asset in the statement of financial position comprise:

	2018	2017
(Asset) liability as of beginning of year	\$ (101,806)	\$ (73,423)
Pension benefit expense	26,657	30,056
Amount recognized in other comprehensive income	(95,990)	(41,344)
Contributions	<u>(24,080)</u>	<u>(17,095)</u>
Asset as of end of year	<u>\$ (195,219)</u>	<u>\$ (101,806)</u>

Movements in the present value of the benefit obligations comprise:

	2018	2017
Present value of benefit obligations as of beginning of year	\$ 957,259	\$ 937,999
Interest cost	50,624	47,961
Current service cost	24,640	29,590
Actuarial gain on benefit obligations	(116,648)	(41,560)
Benefits paid	<u>(16,731)</u>	<u>(16,731)</u>
Present value of benefit obligations as of end of year	<u>\$ 899,144</u>	<u>\$ 957,259</u>

Movements in the fair value of plan assets comprise:

	2018	2017
Fair value of plan assets as of beginning of year	\$ 1,059,065	\$ 1,011,422
Expected return on plan assets	55,094	50,505
Contributions	24,080	17,095
Administrative costs	(6,487)	(3,010)
Actuarial loss on plan assets	(20,658)	(216)
Benefits paid	<u>(16,731)</u>	<u>(16,731)</u>
Fair value of plan assets as of end of year	<u>\$ 1,094,363</u>	<u>\$ 1,059,065</u>

(Continued)

Sensitivity Analysis

Significant actuarial assumptions for the determination of the defined obligation are the discount rate and expected salary increase. The sensitivity analysis below have been determined based on reasonable possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

Benefit obligations as at December 31, 2018 due to 1% change in the discount rate and future salary increases are shown below:

	1% p.a. Increase	1% p.a. Decrease
Discount rate	\$ (116,571)	\$ 141,947
Future salary increases	\$ 64,659	\$ (59,159)

- \$162,740 of the benefit obligation is due to salary increases.
- If all members lived one year longer, the benefit obligation would be \$920,207 (2017: \$977,298).
- The duration of the benefit obligation is 14.2 years.

The Plan is responsible for making full pension payments to public officers transferred to the Authority for their period of employment in the Public Service and the PUC (that is, the pension will be based on combined employment with the Public Service, the PUC and the Authority). The Plan has the right to claim reimbursement from the Government for pension payments made to these persons in relation to the period of employment in the Public Service. Currently, no pension payments are being made to these persons.

Defined Contribution Plan

The Authority established a defined contribution plan during 2016. Employees are required to contribute a minimum of 5% and the Authority contributes 10%. The Authority's contributions totaled \$101,976 (2017: \$115,416) and there were 15 (2017:14) participants in the Plan at December 31, 2018.

(Concluded)

7. PROPERTY, PLANT AND EQUIPMENT

	<u>Land</u>	<u>Building</u>	<u>Leasehold Improvements</u>	<u>Information Systems</u>	<u>Vehicles</u>	<u>Furniture and Office Equipment</u>	<u>Work in Progress</u>	<u>Total</u>
COST:								
Balance at December 31, 2016	\$ -	\$ -	\$ 1,027,878	\$ 2,372,409	\$ 182,885	\$ 497,552	\$ 505,975	\$ 4,586,699
Additions	1,313,500	2,313,839	-	43,047	50,000	84,884	-	3,805,270
Disposals	-	-	-	(107,576)	(45,800)	(3,240)	-	(156,616)
Transfers	-	1,522,034	(1,027,878)	4,935	-	6,884	(505,975)	-
Balance at December 31, 2017	1,313,500	3,835,873	-	2,312,815	187,085	586,080	-	8,235,353
Additions	-	193,263	-	42,894	-	2,628	-	238,785
Balance at December 31, 2018	<u>\$ 1,313,500</u>	<u>\$ 4,029,136</u>	<u>\$ -</u>	<u>\$ 2,355,709</u>	<u>\$ 187,085</u>	<u>\$ 588,708</u>	<u>\$ -</u>	<u>\$ 8,474,138</u>
ACCUMULATED DEPRECIATION:								
Balance at December 31, 2016	\$ -	\$ -	\$ 210,905	\$ 2,290,751	\$ 101,336	\$ 119,751	\$ -	\$ 2,722,743
Depreciation expense	-	144,389	56,633	51,263	37,207	110,260	-	399,752
Disposals	-	-	-	(101,817)	(45,037)	(3,240)	-	(150,094)
Transfers	-	267,538	(267,538)	-	-	-	-	-
Balance at December 31, 2017	-	411,927	-	2,240,197	93,506	226,771	-	2,972,401
Depreciation expense	-	222,923	-	42,144	35,447	116,300	-	416,814
Balance at December 31, 2018	<u>\$ -</u>	<u>\$ 634,850</u>	<u>\$ -</u>	<u>\$ 2,282,341</u>	<u>\$ 128,953</u>	<u>\$ 343,071</u>	<u>\$ -</u>	<u>\$ 3,389,215</u>
CARRYING VALUE:								
As at December 31, 2018	<u>\$ 1,313,500</u>	<u>\$ 3,394,286</u>	<u>\$ -</u>	<u>\$ 73,368</u>	<u>\$ 58,132</u>	<u>\$ 245,637</u>	<u>\$ -</u>	<u>\$ 5,084,923</u>
As at December 31, 2017	<u>\$ 1,313,500</u>	<u>\$ 3,423,946</u>	<u>\$ -</u>	<u>\$ 72,618</u>	<u>\$ 93,579</u>	<u>\$ 359,309</u>	<u>\$ -</u>	<u>\$ 5,262,952</u>

8. LONG TERM DEBT

The Authority entered into a long term financing agreement with First Caribbean International Bank in the prior year for \$1,000,000 to assist with the purchase of URCA's current premises, Frederick House. The term of the debt is 5 years with a 10 year amortization at an interest rate of Bahamian Dollar Prime (currently 4.25%) and is secured by Frederick House. Interest charges of \$39,155 (2017: \$20,949) were recognized on this loan in 2018. Principal payments made in 2018 were \$83,788 (2017: \$40,522). Principal payments due in 2019 is \$87,420 and due in years 2020-2022 is \$788,270.

9. FUND BALANCES

Contributed capital

The net assets transferred to the Authority were designated as contributed capital based on legislation enacted at the time; and revenue earned from transferred deferred revenue relating to regulatory activities no longer performed or from which fees are no longer earned by the Authority, net of any expenses associated with the net assets transferred from the PUC, are allocated to contributed capital.

Utilities Regulations and Competition Authority Fund (URCA Fund)

Under the Communications and Electricity Acts, charges and fees levied by the Authority are to be determined in order to: cover the annual budgeted costs of its functions under the Communications and Electricity Acts; recover any deficit from previous years; and take into account any surpluses. As disclosed in Note 1, the Amendment Act (2013) repealed and replaced section 37 of the principal Act with the following conditions relative to the Electronic Communications Fund (EC Fund): monies paid into the EC Fund that are not immediately required by the Authority are to be considered surplus funds; the Minister of Finance at the end of the financial year may authorize the Authority to reserve from the surplus funds such sums as the Minister may determine; subject to the aforementioned, at the end of each financial year the Authority shall pay into the Consolidated Fund all surplus funds standing to the credit of the Authority.

The Amendment Act (2013) also repealed section 40 of the principal Act, which provided for the Authority to impose sufficient fees and charges to carry out its duties including anticipated costs for the forthcoming financial year and allowed it to retain surplus funds to be applied for subsequent years.

(Continued)

The results of the current year operations of the Electronic communications and Energy Sectors are as follows:

DESCRIPTION	Electronic Communications	Energy (Electricity)
Revenue	\$ 4,124,377	\$ 1,700,323
Other income	<u>96,847</u>	<u>37,520</u>
Total income	<u>\$ 4,221,224</u>	<u>\$ 1,737,843</u>
Expenses:		
Staff costs	\$ 1,617,744	\$ 1,163,709
Professional services	523,650	93,661
Conference, training and travel	415,973	105,050
General and administrative services	436,431	44,388
Depreciation	321,450	95,364
Premises occupancy fees	197,302	88,845
Office services	241,480	50,317
Advertising and public relations	39,629	38,150
Information technology	86,375	21,593
Recovery of Conference hosting	(12,417)	-
Remesurement of loss allowance	<u>66,404</u>	<u>76,992</u>
Total expenses	<u>3,934,021</u>	<u>1,778,069</u>
Excess of income over expenditure	287,203	(40,226)
Other comprehensive income	70,553	25,437
Opening Fund Balance - January 1, 2018	<u>4,103,590</u>	<u>444,231</u>
Closing Fund Balance - December 31, 2018	<u><u>\$ 4,461,346</u></u>	<u><u>\$ 429,442</u></u>

Prior to January 1 2017, the URCA Fund consisted of surplus funds that have been accumulated since the commencement of operations of the Authority. These surplus funds at December 31, 2016 totaled \$3,175,638 are assigned to the Electronic Communications Sector and until January 1, 2017 was included in the financial statements as the Electronic Communications Fund.

The Authority will determine, at the end of each financial year, whether any fund balances include amounts that are required in respect of existing contracts, planned projects and other commitments which are anticipated to arise and become payable during the first quarter of the following year. Such amounts will be designated as funds immediately required by the Authority. As at December 31, 2018, \$1,850,900 (2017: \$1,855,795) has been designated as funds immediately required. Additionally under section 40 of the Communications Act, the Authority was to retain any excess sums collected for application to the following financial year(s). In previous years, 2009-2012 (prior to the repeal of section 40), the Authority utilized surpluses in the fund to amend charges and fees in subsequent years levied on the licensees by the Authority.

10. RELATED PARTY BALANCES AND TRANSACTIONS

Related parties comprise: i) Government ministries and departments; ii) Government corporations and agencies; iii) entities controlled by the Government; iv) entities in which the Government has a significant ownership interest; and v) key management personnel. Balances and transactions with related parties, not otherwise disclosed in the financial statements, are as follows:

	2018	2017
<i>Assets</i>		
Cash at banks	\$ 131,612	\$ 474,370
Accounts receivable	<u>10,627</u>	<u>3,438</u>
	<u>\$ 142,239</u>	<u>\$ 477,808</u>
<i>Liabilities</i>		
Accounts payable and accrued expenses	<u>\$ 889</u>	<u>\$ 889</u>
<i>Revenue</i>		
Electronic communications operating licence fees	\$ 2,968,614	\$ 3,919,493
Energy sector licence fees	1,700,323	1,965,797
Telecommunications, radio communications, energy and other fees	<u>141,816</u>	<u>3,377</u>
	<u>\$ 4,810,753</u>	<u>\$ 5,888,667</u>
<i>Expenses</i>		
Salaries and benefits	\$ 53,832	\$ 66,568
Communications	49,412	57,279
Rent and occupancy costs	<u>126,735</u>	<u>46,112</u>
	<u>\$ 229,979</u>	<u>\$ 169,959</u>
<i>Other expenses</i>		
Donations	<u>\$ 20,000</u>	<u>\$ 350</u>

Key Management Compensation - Key management personnel comprise the members of the Board, the chairman of the Audit Committee and members of the Executive Committee. The executive members of the Board and three other members of the Authority's management constitute the Executive Committee. Compensation of key management personnel for the year for salaries and other short term benefits amounted to \$1,053,292 (2017: \$1,065,870).

11. COMMITMENTS AND CONTINGENCIES

Contingencies

The Authority is party to several legal cases involving its major licensees in the electronic communications sector, including a related party. In most instances, the cases involve breaches of the Telecommunications Act and Telecommunications Sector Policy, or challenges against the rulings by the Authority brought by licensees. Costs associated with these legal cases are uncertain, and will depend on whether or not the Authority is successful; which is not possible to predict. Accordingly, no provisions have been made in these financial statements relative to the legal proceedings.

12. CONFERENCE HOSTING

The Authority on behalf of the Bahamas Government hosted the International Telecommunications Union Global Symposium for Regulators and Caribbean Telecommunications Union ICT Week in 2017 resulting in sponsorship and associated costs of \$1,364,592; during 2018, the Authority recovered some of these costs totaling \$12,417 that were associated with the travel and sponsorship of ancillary activities.

13. FINANCIAL RISK MANAGEMENT

The Authority engages in transactions that expose it to credit risk, liquidity risk and interest rate risk in the normal course of business. The Authority's financial performance is affected by its capacity to understand and effectively manage these risks.

(a) Credit risk

Credit risk arises from the potential failure of a counterparty to perform according to the terms of the contract. The Authority's exposure to credit risk is concentrated in its cash at banks and accounts receivable. The Authority mitigates the risk associated with cash at banks by placing its deposits with financial institutions in good standing with the Central Bank of The Bahamas. The monitoring of payment history before continuing to extend credit to licensees mitigates the risks associated with accounts receivable from non-related parties. Accounts receivable from related parties are considered to have minimal credit risk, as this risk is with the Government.

The Authority in its effort to minimize credit risk exposure monitors the accounts receivable balances ensuring that all efforts are expended in order to reduce accounts with long overdue balances.

Based on its experience, the Authority considers balances less than 180 days to have acceptable credit quality.

Accounts receivable primarily comprise of balances due from Cable Freeport, a subsidiary of Cable Bahamas Ltd, a major licensee that are currently being disputed by the licensee. The Authority is of the opinion that it has sufficient legal bases to support its claims and has several courses of action to pursue payment, some of which have been initiated.

(b) Liquidity risk

The objective of liquidity management is to ensure the availability of sufficient funds to honour all of the Authority's financial commitments as they become due. The Authority maintains a level of liquid assets that mature in the short term or could be redeemed immediately to meet cash requirements for normal operating purposes. The Authority has the ability, under the Act, to charge supplemental fees to licensees in order to cover operating expenses.

As of December 31, 2018, with the exception of long term debt, all of the Authority's liabilities are due within one year.

(c) Interest rate risk

Interest rate risk is the risk that future cash flows or fair value of a financial instrument will fluctuate because of changes in market interest rates. The Authority's exposure to cash flow interest rate risk is concentrated in its term deposits and long term debts. The Authority has elected not to hedge this risk as it is not considered significant. The Authority does not have any significant fair value interest rate risk.

The interest rate on the long term debt is floating. The interest charge would change by \$5,038 (2017 : \$ 209) due to a 1% change in the Bahamian dollar prime rate.

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments utilised by the Authority include the recorded financial assets and liabilities, and their estimated fair values approximate their carrying value due to the relatively short term nature of these instruments.

15. CAPITAL MANAGEMENT

The Authority's objectives when managing capital are to: i) safeguard its ability to continue as a going concern; and ii) maintain a capital base sufficient to support the expected expansion of its regulatory powers and associated operations.

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