

SUMMARY OF DECISION

*The Fair Trading Commission (the Commission) has made a decision to use the Price Cap Mechanism to regulate Cable & Wireless (Barbados) Ltd. (herein after referred to as the Company) from April 1st 2005. The Price Cap Plan will be used to facilitate the achievement of the objectives of the mechanism. The Price Cap Plan will commence on **April 1st, 2005** and conclude on **July 31st, 2008**.*

The general principle of price cap regulation is to allow flexibility in pricing, provided that the average change in prices charged by the Company and measured by the Actual Price Index (API), does not exceed the Price Cap Index (PCI). The PCI is expressed as Inflation (I) minus Productivity (X).

The main price cap formula is given therefore by the equation:

$$API \leq PCI$$

The PCI will be reset by the Commission on August 1st of each year of the Price Cap Plan.

Following are the main elements of the plan.

Initial Rates

The initial rates are the prices charged by the Company at the start of the Price Cap Plan. The Commission has determined that the existing rates for services regulated under the Price Cap Plan will be the initial rates. These rates will continue until notification by the Company of its intention to make changes thereto.

Baskets

The services regulated under the Price Cap Plan will be divided into four baskets. The baskets have been established as follows:

Basket 1- Domestic Residential Access

This basket is confined to basic residential access line rental. A price control allowing a maximum of 7% increase annually will be applied from August 1st 2005. This increase is fixed and will not be influenced by the rate of inflation.

Basket 2- Domestic Voice Telecommunication Services

This basket will include domestic retail services not included in basket 1 or basket 4. These services include business access, business installation, payphone access, and value added services. The Productivity Factor (X) set for this basket is 4.19%. The inflation factor will be the inflation rate measured by the Retail Price Index (RPI) for Barbados.

Basket 3- International Telecommunication Services

This basket will consist of all international retail services. These services include fixed international outgoing, payphone international, international operator assistance and international leased circuits. The Productivity Factor (X) for this basket is set at 11.57%. The inflation factor will be the inflation rate measured by the Retail Price Index (RPI) for Barbados.

Basket 4- Other Retail Telecommunication Services

This basket includes all other retail services not accounted for in the other three baskets. These services include Domestic Leased Circuits and Voicemail. No constraints on average price change will be placed on this basket. The Commission will only require notification of adjustment in the prices of these services, consistent with the principles outlined at section 4 of the Decision.

Carry Over Headroom

Should the Company choose not to raise its prices to the maximum allowable level, the PCI will exceed the API and headroom will be created. The Commission will allow the Company carry over of this headroom to the subsequent periods in Basket 2 and Basket 3. The Company therefore has the opportunity to implement price increases that exceed the relevant difference between inflation and the X-factor for the subsequent years in these baskets.

Compliance Filing

For each proposed rate increase the Company is required to make a rate increase compliance filing that demonstrates that the API will not exceed the PCI.

The Company is required to file by July 1st of each year of the Price Cap Plan, information showing that they have complied with the rules of the Plan by maintaining API at or below the PCI.

Notification

Rate Increases

During the Price Cap Plan, the Company is required to inform the Commission in writing and the general public through the printed media at least 20 business days before the effective date of any proposed rate increase of a regulated service.

Rate Reductions

The Company is required to advise the Commission and the public at least 2 business days before the effective date of decrease in a manner similar to that required for price increases.

Exogenous Factors

An event outside the control of the Company that negatively affects their net income is known as an exogenous factor. If such an event occurs the Company may apply to the Commission for an exogenous (Z) factor to be included within the Price Cap formula. The Commission may allow this but only after conducting a public consultation on the matter.

Quality of Service

The Commission will set a series of standards that the Company will be required to meet. This will however not be included as a factor or variable within the price cap formula.

Price Cap Model

In the development of the Price Cap Plan, the Commission utilised a price cap model which was designed with the assistance of the Commission's consultants. The Company was given the opportunity to provide input into and comment on the design of the model.

The Price Cap Model generated the escalator for Basket 1 and the X factors that are applied to Basket 2 and Basket 3, based on actual company data, forecasts of the telecommunications market development, and the earnings capacity of the Company.

Consultation Process

The Commission utilised the public consultative process as the means of ensuring full participation in the development of the Price Cap Plan. This involved written and oral consultations with interested parties as well as extensive discussion of the various issues with the Company. The rationale for this Decision is set out below.

PRICE CAP MECHANISM

This price cap mechanism is established by the Fair Trading Commission in accordance with and under and by virtue of the provisions of section 39 of the Telecommunications Act CAP. 282B.