



November 2, 2005

The Honourable Michael Scott
Minister of Telecommunications
Ministry of Telecommunications
P.O. Box HM 101
Hamilton, HM AX

By Hand

William Francis
Director of Telecommunications
Ministry of Telecommunications
P.O. Box HM 101
Hamilton, HM AX

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Dear Sirs,

As you know in January of last year, Cablevision was granted the ability to become a “carrier of carriers”, which would allow us to provide data connectivity between a customer and their ISP. Since then we have been working to bring a data service on line, but have been unable to create a business plan which makes economic sense based on that service alone. As a result, I am writing to request permission to offer data connectivity between locations on island, the specifics of which will be explained below. With this additional source of revenue, we feel that we can create a business plan that makes sense for Cablevision to make entry into the data market.

Although on the surface a “carrier of carriers” license should be a lucrative proposition on its own, when examined in greater detail, it has a myriad of problems. The underlying issue is the fact that in order for the service to become profitable, it has to attract customers by offering them a compelling reason to move from their current provider. It is this fact which raises all the problems. Traditionally high-speed data service over cable has had a competitive advantage over DSL in other markets due to the fact that the cable operators offered faster speeds. Here in Bermuda that is not under our control, since the customer would obtain off-island bandwidth from their ISP.

This leaves us with only two areas where we can attempt to provide a compelling reason for customers to switch, service and price. We do believe we can and we plan to provide better, more reliable service than is currently available in the market, however, typically increased

competition in a sector would cause the incumbent carrier to pull up their socks, which would eliminate this advantage almost immediately.

On the issue of price, we plan to offer a 2mbps circuit for \$40 per month, or \$30 per month for a cable customer, which enables the customer to share in the cost savings we obtain by offering two services to the same location. This may look like a compelling reason by itself when compared to the \$89 price for a DSL line. Our research provides different information. BTC DSL lines provide two distinct advantages over our proposed data offering. The first is that the DSL line includes a phone line, a service for which they usually charge \$26 per month. The second advantage is the elimination of overcall fees which is difficult to put a value on, however for this argument we will set it to a reasonable \$6 per month, which assumes a user makes 80 calls per month. When you add the value of these two benefits together you arrive at a value of \$32 per month that BTC can offer, which we cannot. When you subtract this from the DSL line price of \$89 you arrive at an adjusted price of \$57 per month for the data portion of the DSL line.

Typical marketing consensus is that you must lower the price in excess of 20% in order to create a compelling offering for customers to move platforms. In speaking with data customers they don't look at the DSL line as a separate component from their data service. They see it as a portion of their cost to access the Internet, so even though our price will be in excess of 20% lower than BTC's price, in the eyes of the consumer, the price has dropped only a marginal amount. For example, Transact sells 1 mbps for \$180 per month. Add this to the adjusted cost of the BTC DSL line (\$57), and you arrive at a figure of \$237. Substitute our pricing for a line at \$30 (assuming they are a cable customer) and you arrive at a price of \$210. When you compare this to the complete DSL price of \$237 one can see that the overall price reduction for accessing the Internet is only 11% ($\frac{\$237 - \$210}{\$237}$).

It is for these reasons listed above that we have been unable to build a business plan which makes economic sense based on the "carrier of carriers" service alone. As a result we have looked around in the market to see what other services the market is looking for which we could offer in conjunction with the "carrier of carriers" service to improve the outlook of our business plan. We have identified a group of services which fit this description.

We call these services point-to-point data services. Where the "carrier of carriers" service authorized Cablevision to provide data connectivity between a customer and their ISP, the point-to-point data services would allow Cablevision to provide data connectivity between one customer and another customer, or between a single customer's various offices. (Please note that Cablevision is in no way looking to provide voice service at this time, the contemplated services listed below are for data traffic only.) There are several benefits which can be obtained by having Cablevision provide this service:

1. **Customer Redundancy** – On a majority of the island there is no mechanism to obtain truly redundant service. One could purchase two lines from BTC, but they both travel back through BTC's infrastructure, so there are many potential common points of failure which could cause an outage for a redundant data service. Having a second line through a different service provider, delivers increased redundancy.

2. Carrier Redundancy – In addition to providing improved redundancy for end users, Cablevision would be able to provide redundant data connectivity for existing data carriers, which could improve the reliability of all data service providers on the island.
3. Choice – The service we wish to provide is currently provided by only one carrier on a majority of the island. Allowing competition in this sector would improve service and decrease pricing, while giving consumers the opportunity to select the carrier of their choice.
4. New services – Given the bandwidth available on our system, our entry into this market would allow the introduction of additional services on a wider scale:
 - a. Wide Area Networks (WAN's) – High speed connectivity between residences and their offices will create the ability for employees to telecommute, while having all the benefits of sitting in their office.
 - b. Remote camera monitoring – Greater bandwidth will allow the monitoring of video cameras at remote locations. Our system will enable the monitoring of both home security systems and employee monitoring systems from a centralized location, giving home and business owners greater value and control.
 - c. Networked video games – Many video games these days can be played by multiple players simultaneously. This requires a great deal of bandwidth connectivity between each location. Cablevision could provide the platform for users to play together.

We do see a great deal of demand for these services, and benefits for the community at large. As a result, when coupled with the “carrier of carriers” service, we feel we would have a viable business plan. We appreciate your consideration of this matter and hope to receive permission to enter this market in the near future. If we do receive a green light we are in a position to submit a pricing request for the “carrier of carrier” service within 30 days, at the prices mentioned above, with an anticipated launch shortly after receipt of pricing approval. Thank you again for your consideration.

Sincerely,


Jeremy Elmas
General Manager