

Bermuda Telecommunications Regulatory Reform

Public Meeting

Cathedral Hall, Hamilton

February 8th 2007

Telecommunications Reform Proposal

Quick Overview

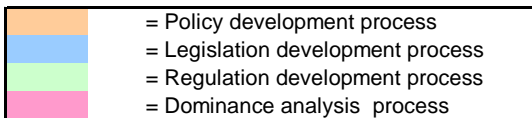
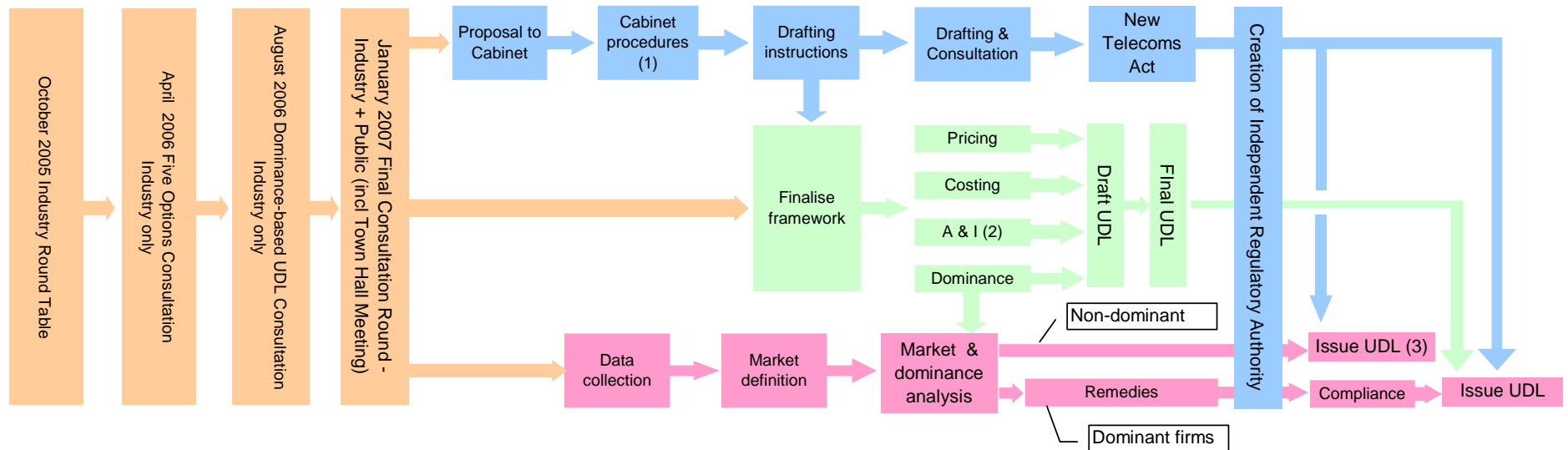
- Why reform telecommunications regulations now?
- Set-up new independent regulator
- Restructure licensing system
- Review foreign investment and licence fees
- Consumer issues

Why Reform and Why Now?

- Bermuda is ahead of many other countries in IT and telecommunications, but
 - New technologies are challenging our current regulatory system
 - Licensees are regularly requesting ad-hoc changes, creating frustration and confusion about rules and boundaries
 - Investment in new technology required and current regulation may hinder this
 - Bermuda got ahead of the Caribbean by being at the forefront of introducing competition. Convergence makes regulatory reform an imperative in order to remain at the forefront in IT and telecommunications
- Current regime has worked well but if Bermuda wants to stay ahead it needs to be reviewed and updated

Regulatory Reform Process So Far and What's Coming

Overview of Bermuda Telecommunications Regulatory Reform Process



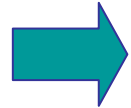
Notes

1. Cabinet procedures may include Green and/or White Paper development or Cabinet may consider past consultations sufficient.
2. A & I: Access and Interconnection.
3. Non-dominant carriers will be offered UDLs on completion of new Telecoms Act, UDL text and dominance analysis.
4. Dominant carriers will be offered UDLs on completion of new Telecoms Act, UDL text, dominance analysis and individual carrier's compliance with relevant remedies. Depending on time required to formulate remedies and achieve compliance, this may be at the same time or later than for non-dominant carriers.

Creation of Independent Regulatory Authority

Proposed New Regulatory Structure

Policy
Development



Responsibility of METEC
To develop telecommunications regulatory policy through the enactment of primary legislation. METEC also represents Bermuda in international negotiations

Policy
Implementation



Responsibility of Regulatory Authority
To implement telecommunications regulatory policy and legislation by developing licenses, rules and directives. The RA is responsible for all oversight, monitoring and enforcement

Appeals



Responsibility of the Courts
To hear appeals of Commission decisions brought by: METEC, licensees or consumers

Regulatory Authority (RA) Duties & Responsibilities

The RA will oversee the regulation of the telecommunications industry; its core responsibilities will include:

1. Licensing
2. Competition regulation
3. Access and Interconnection
4. Retail price regulation
5. Consumer protection
6. Universal service
7. Quality of service
8. Domestic spectrum management
9. Numbering

The RA can initiate investigations into all matters of telecommunications regulatory governance

Restructure of Licensing System

Current Telecommunications Licence Structure

- Class As
 - International facilities providers
- Class Bs
 - Domestic facilities providers
- Class Cs
 - Internet service providers
- Licensees not allowed into each other's markets
 - Technology development cause tensions between different licence classes
 - Investment in new technology requires broader service opportunities than provided in current licence structure
 - METEC gets regular individual requests for license service extensions
- No new B and C licenses issued in recent years to allow existing licensees to get established

Proposed Licensing Framework (1)

Unified Domestic Licence (UDL)

- All existing licensees* will be offered UDL, subject to
 - Dominant carriers must wait till they comply with dominance remedies before they are offered UDL
 - Class A carriers must offer non-discriminatory wholesale access to get UDLs
- UDLs will allow all carriers to offer international calls and services
- Temporary domestic licence moratorium
 - allows period of adjustment for current licensees
- Benefits of UDL
 - Level playing field, Transparency, Technology Neutral, Simplified regulatory process, Reduce costs

* Except Brasil Telecom

Proposed Licensing Framework (2)

International Licences

- All current Class A licensees retain existing rights and obligations
 - Brasil Telecom remains limited to providing wholesale capacity to other international licence holders
- One new international licence available to a firm or consortium building new international cable facility
 - METEC and Commission will evaluate bid(s) for this licence based on transparent and objective criteria
 - To encourage investment in new cable, UDL holders will not be able to buy from Brasil Telecom for limited period; but will be able to buy directly from the new cable provider and the current Class As
 - After approving construction of new cable no new international licenses will be issued for a period to be specified

Foreign Investment and Licence Fees

Foreign Direct Investment (FDI)

- The UDL proposal is consistent with international best practice but conflicts with the current (60/40) FDI limitations
- Proposed that telecommunications should receive industry-level exemption from 60/40 rule
 - If left as case-by-case then licensees with less than 100% FDI could be disadvantaged
 - Nearly half of licensees currently hold exemptions at different levels
 - Class As – both 100% exemption
 - Class Bs – vary between 60/40 compliance to 100% exemption
 - Class Cs – all currently 60/40 compliant, but requests for exemptions with METEC
 - FDI limits are already inconsistent and likely to get worse
- Exemption from 60/40 rule does not remove take-over approval process
 - Share and licence transfer still subject to approval

Licence Fees

- Currently fees vary between licence classes
- Reform proposes standardisation of fees Structure
 - Sliding fee scale linked to:
 - foreign direct investment (e.g. if company has more than 40% FDI it pays higher fee), and
 - Employment of non-Bermudians (e.g. if carriers employ high percentage of non-Bermudians they pay higher fees)
 - Incentive to have as high Bermudian ownership and employment as possible
 - Increased minimum revenue threshold for fee calculation to protect smaller licensees

Consumer Issues

Retail Price Regulation & Consumer Protection

- Price regulation of dominant licensees only
 - General price notification principle
- Consumer protection criteria for all licensees
 - Data protection, and Standard terms and conditions
 - Publication of comparative performance indicators to assist consumers in choosing providers
- Increased requirements on dominant licensees
 - Non-discrimination,
 - Service level agreement
 - Increased reporting requirements

Bermuda Telecommunications Regulatory Reform

Public Meeting

Cathedral Hall, Hamilton

February 8th 2007