



ANNUAL REPORT

2005 – 2007

**TURKS AND CAICOS
TELECOMMUNICATIONS
COMMISSION**

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1. Message from the Minister



Since the formation of the Turks and Caicos Telecommunications Commission in 2004, much has been accomplished in the implementation of the government's Telecommunications policy published in 2003.

As promised, through the efforts of the Commission, we have licensed two new mobile telephone operators, Digicel and Islandcom, who are pursuing market share throughout our nation, providing the benefits of

competition to all consumers in the islands. The new licence for Cable & Wireless has also been issued, allowing the liberalization agenda to proceed as planned, while allowing Cable & Wireless to continue to grow and offer quality services to our people. The Commission continues to encourage prospective investors in entering the growing market for innovative communications technologies, and is currently processing a number of licence applications that will further enhance user choice and technological progress for consumers, businesses and educators.

I congratulate the Commission on the accomplishments of the past eighteen months and look forward with enthusiasm to their continuing success during the years ahead.

2. Message from the Chairman



Since my colleagues and I were appointed to the Commission following the enactment of the Telecommunications Ordinance in 2004, we have faced many challenges. As noted by the Minister, we have succeeded in initiating the competition agenda, and have seen the results in concrete terms, with the entrance of new cellular operators, and the introduction of new services at lower prices.

The results of our efforts are very satisfying, but we are also aware of the challenges ahead, to sustain and encourage market forces to deliver the benefits that the people of Turks and Caicos have come to expect. The growth of our tourist sector requires us to motivate operators to continue to upgrade their systems, and through our encouraging more open competition, to provide new services at ever decreasing cost. This is in keeping with international trends, and our visitors will expect state-of-the-art technology to be at their fingertips during their time with us. We must therefore, maintain our knowledge of these trends, and ensure that our systems are responsive to market demands.

We therefore take some satisfaction from our progress to date, but will be preparing ourselves for challenges ahead, through a more proactive approach to our regulatory tasks, upgrading our skills through training, and launching a number of proceedings aimed at furthering competition in the sector. We are also going to be introducing an active consumer program, to assist users in making informed choices amongst services available, and to handle complaints that have not been adequately addressed by suppliers. We also intend to introduce quality of service measures to ensure that value for money spent on services continues to be a priority for our operators.

Finally, I want to thank my colleagues on the Commission for their commitment to our efforts, and commend our staff for their support during the past years, which have enabled us to accomplish our goals so far.

3. Introduction

The Turks and Caicos Telecommunications Commission was established in 2004, through the enactment of the Telecommunications Ordinance 2004. The Ordinance states that the primary functions of the Commission are as follows:

- *To advise the Minister on telecommunications;*
- *To facilitate, maintain and promote effective and sustainable competition in telecommunications;*
- *To promote the interests of consumers and to encourage licensees to operate efficiently; and*
- *To prescribe standards for the quality of telecommunications services to be delivered to the public.*

The general policy direction embodied in the Ordinance was based upon the Telecommunications Policy for the Turks and Caicos Islands, issued in 2003, which set out the following vision for the sector:

Every citizen of TCI will have at affordable prices, access to:

- *The information Superhighway; and*
- *A wide variety of telecommunications services.*

Small enterprises will multiply exponentially through participation in Electronic Commerce.

The national economy will achieve substantial unprecedented growth through increasing employment and revenue inflows directly attributable to a vibrant telecommunications industry.

In the same policy document, the government committed to the establishment of an independent regulatory authority that will operate in a transparent, accountable and non-discriminatory manner, to facilitate effective competition. The government also committed to renegotiating the licenses issued to the incumbent telephone company (Cable & Wireless) to enable the introduction of full competition at the earliest possible time.

4. Key Achievements during the Period

4.1. The Formation of the Commission

Shortly after the enactment of the Ordinance, the Minister appointed the 7 Commissioners who were to comprise the membership of the Commission. Mr. Bennett Stubbs, a prominent business man in Providenciales, was appointed Chairman of the board, and Mr. Melbourne Wilson, a lawyer based in Provo, was appointed Deputy Chairman. The other Commissioners appointed were Mr. Sean Penn, Mr. Crayton Higgs, Bishop Clarence Williams, Mr. Claris Williams and Mr. Devon Williams. The offices of the Commission were set up at the Charter House on Leeward Highway (the offices have since moved to the Business Solutions Center on Leeward Highway).

4.2. The Cable and Wireless Agreement

In March of 2006, the government and Cable and Wireless signed an agreement which would liberalize the telecommunications market in the Turks and Caicos Islands, and bring in new service providers and stimulate investment in innovative technologies. The agreement ended the decades-long monopoly of Cable and Wireless, while recognizing the critical role that the company has played, and will continue to play in the lives and work of the islands.

4.3. New Market Entrants

Shortly after the liberalization initiative, in May of 2006, a telecommunications license was issued to Andrews Communications Limited, to provide competition in the fixed line and other service categories to the public.

In June, 2006, Cable and Wireless and Digicel signed their interconnection agreement, which allowed Digicel to open its doors to cellular telephone customers in July of 2006.

In July of 2006, a license was granted to a third wireless operator, Islandcom, who proposed to offer a variety of mobile services throughout the country. Their services have been scheduled for launch before the end of 2007.

4.4. Regulations

Pursuant to the requirements of the Ordinance, the Governor, at the request of the Minister, published a series of Regulations to govern the operation of the Commission in certain areas. The Regulations are as follows:

1. **Telecommunications Pricing Regulations 2005:** This document sets out the criteria and formulas to be applied to an incentive form of pricing controls on services offered by Cable and Wireless and any other operators who are found to be dominant in their areas of operation.

2. **Telecommunications and Frequency Licensing Regulations 2005:** This document describes the requirements to be met by applicants for radio spectrum frequencies, carrier and service provider licenses, and describes the process to be followed in making decisions on such applications. The process ensures transparency in the manner in which the license applications will be published, and consultation with stakeholders conducted.
3. **Frequency Management Regulations 2005:** This document describes the approach to be followed by the Commission in implementing a spectrum plan for the islands, including a comprehensive public consultation process to establish the frequency plan for the nation.
4. **Spectrum Fee Regulations 2005:** This document sets out the fees to be paid for a variety of radio frequency applications, from simple hand-held radios to full cellular network operations.
5. **Interconnection Regulations 2005:** This regulation sets out the rules to be followed by all licensed network operators to ensure that calls from users on one network can be seamlessly passed to users on other networks. The rules apply in particular to Cable & Wireless, the largest incumbent operator which therefore has special obligations to ensure that they do not take advantage of their dominant position in the marketplace to deter or complicate the entrance of new operators who require interconnection with the larger network.
6. **Universal Service and Public Telecommunications Regulations 2005:** This document describes the approach to ensuring the availability throughout the Turks and Caicos Islands, of basic telecommunications services including the following:
 - i. Access to Public Telephone Service to make and receive national and international calls and free access to emergency numbers;
 - ii. Access to Payphones at reasonable locations and to reach emergency numbers at no cost;
 - iii. Internet access for public libraries and public schools at no cost
 - iv. Provision of a public directory and enquiry service; and
 - v. Special provisions for low income users.

The document also sets out the basic rules for operators who are providing such services, to apply for and receive subsidies if required, from a Universal Service Fund that may be established by the Commission for this purpose.

5. New Initiatives and License Applications

5.1. Licensing Activity in 2006- 2007

Columbus Networks Ltd. (Formerly Arcos Ltd.)

The Commission has been processing license initiatives from Columbus Networks Ltd., an international operator of the undersea fiber optic cable that serves Turks and Caicos Islands and a number of other countries in the region. Columbus wishes to offer Telecommunications services to licensed carriers in TCI on a wholesale basis. This would present an alternative supplier to the current situation in which only Cable and Wireless has been acting as the Arcos cable representative in TCI.

Apollo Ltd.

The Commission has also received an application from Apollo Ltd., a local company with foreign partners, wishing to offer a full range of services to the public in TCI, including fixed line, wireless and Internet services.

Others

The Commission has continued to issue radio spectrum licenses for individual and network operators for a variety of domestic and international data, aeronautical and other applications.

5.2. Other New Initiatives

Consumer Outreach

The Commission has begun developing a consumer protection program, the first step of which is the establishment of a consumer complaints and enquiries line. This will provide a means for consumers to seek redress from problems they have encountered with their service provider. The Commission will undertake research into consumer complaints that have not been dealt with satisfactorily by all service providers, to ensure fair treatment of all customers. The Commission will provide guidance to consumers regarding service options and choices, aimed at ensuring that they make informed decisions for various consumer services.

Commission Web Site

The Commission is updating its website at www.tcitelecom.gov.tc, to be accessible for lodging consumer complaints, informing the public on Commission activities, and storing input to the Commission on such proceedings. It will eventually be interactive, allowing parties to the various public consultations the Commission will be conducting, to file comments and see the comments of other interested parties. It will also form a useful archive of Commission decisions, notices and other information, including consumer advice and guidelines.

6. Future Challenges

6.1. Human Resources Development

The Commission staff members are, for the most part, new to their jobs. They are highly motivated however, and prepared to face the challenges facing the Commission. During the next fiscal year, the Commission will be seeking opportunities for on-the-job as well as outside training courses, focusing on building the skills needed to establish and maintain a world-class regulatory body. An introductory course on regulation is planned for mid-October, for Commissioners, staff, and representatives from government and private industry. This will prepare selected members of the staff and Commission to attend an in-depth course to be conducted by the Public Utilities Research Centre, which is affiliated with the University of Florida in Gainesville.

6.2. Mobile Termination Rates

In 2006, as part of the process of finalizing the interconnection agreements amongst the mobile operators in Turks and Caicos, the Commission approved a rate for traffic terminating on the networks of all mobile operators at a level of \$0.19 per minute, which was to apply until December 31, 2007, after which, in the absence of a different ruling by the Commission, the rate would drop to \$0.15 per minute, the maximum set out in the Interconnection Regulations 2005. In the approved agreements, the Commission stated that the charges set out in the agreement could be modified as a result of a cost study by an expert in the field, who would recommend an alternative charge based upon costs.

The Commission intends to conduct a proceeding to commence before the end of 2007, to determine the appropriate level of Mobile Termination Rates, in recognition of falling costs for such traffic, and with the aim of ensuring that consumers benefit from any reductions in these rates.

6.3. Regulatory and Spectrum Fees

The Current Regulatory fees charged to the licensees are based upon a fixed assessment set by the Commission for the 2007 fiscal year. While the larger operators do pay larger fees, the proportion of fees paid by each operator does not reflect their approximate share of the TCI market for telecommunications services, which is used as the basis for regulatory fees by most regulatory bodies today. The Commission intends to introduce such a scheme for the next fiscal year, and will announce a proceeding to achieve this goal before the end of the year. There is also a need to revise and clarify the table of spectrum and licence fees that was approved in 2006, and this will also be undertaken as soon as possible.

6.4. Price Cap Proceeding

In 2005, the government enacted the Telecommunications Pricing Regulations, aimed at implementing, for the operators with significant market power in Turks and Caicos, a scheme that would provide incentives for such operators to improve efficiency, while at the same time, adhering to a price control mechanism that would protect consumers from unwarranted price increases for services where meaningful competition was not in place to limit such increases.

The Commission will, during the next fiscal period, conduct a Price Cap Proceeding to determine the details of the scheme, and its application to operators in Turks and Caicos.

6.5. Spectrum Plan

Under the Telecommunications Ordinance 2004, the Commission is obliged to develop a plan for allocating the various radio frequency bands available for telecommunications services, to enable users and operators to properly plan their business strategies for introducing and using radio systems such as broadcast stations, marine radio services, mobile services and the emerging new radio-based broadband and internet access systems.

The Commission will be conducting the required public consultation on a proposed plan for spectrum use in Turks and Caicos during the next fiscal period.

Appendix 1

**TELECOMMUNICATIONS COMMISSION
OF THE
TURKS AND CAICOS ISLANDS**

**AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDING
MARCH 31, 2007**

TURKS AND CAICOS ISLANDS TELECOMMUNICATIONS COMMISSION
Financial Statements

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Turks and Caicos Islands Telecommunications Commission


Balance Sheet

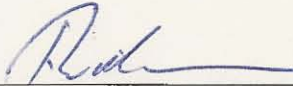
As at March 31, 2007

(expressed in U.S. dollars)

	2007
	\$
ASSETS	
Current assets	
Cash	51,986
Accounts receivable	271,450
Prepaid expenses and deposits	10,596
	<u>334,032</u>
Fixed assets (note 4)	<u>67,771</u>
Total assets	<u><u>401,803</u></u>
LIABILITIES AND SOURCES OF FUNDING	
Current liabilities	
Accounts payable and accruals	44,167
Deferred income	12,812
	<u>56,979</u>
SOURCES OF FUNDING	
Retained surplus	<u>344,824</u>
Total liabilities and sources of funding	<u><u>401,803</u></u>

Approved by the Members:


Chairman

 - For S. MacPherson
Director General

These financial statements have been prepared for the special use and benefit of Government, and the members, directors and management of the Commission. They may not be used or relied upon by any other person or for any other purpose. The accompanying notes form an integral part of these financial statements.

Turks and Caicos Islands Telecommunications Commission

Statement of Revenue and Expenditure

For the period October 1, 2005 to March 31, 2007

(expressed in U.S. dollars)

	2007 \$
Income	
Regulatory fees	812,700
Government subvention	525,000
Government grants	25,624
Total income	<u>1,363,324</u>
Expenditures	
Salaries and benefits	333,896
Commissioners' expenses	190,244
Travel	132,242
Office expenses	75,728
Telephone	72,526
Rent	61,700
Depreciation	36,540
Professional fees	45,623
Automobile	27,661
Utilities	14,686
Repairs and maintenance	14,219
Meals and entertainment	9,803
Staff training	1,990
Bank and interest charges	1,642
Total expenditures	<u>1,018,500</u>
Net surplus	<u><u>344,824</u></u>

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Turks and Caicos Islands Telecommunications Commission

Statement of Changes in Sources of Funding

For the period October 1, 2005 to March 31, 2007

(expressed in U.S. dollars)

	<u>Retained surplus</u> \$	<u>Total</u> \$
As at October 1, 2005	-	-
Net surplus	<u>344,824</u>	<u>344,824</u>
As at March 31, 2007	<u><u>344,824</u></u>	<u><u>344,824</u></u>

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Turks and Caicos Islands Telecommunications Commission

Statement of Cash Flows

For the period October 1, 2005 to March 31, 2007

(expressed in U.S. dollars)

	2007
	\$
Cash flows from operating activities	
Net surplus	344,824
Depreciation	36,540
Changes in working capital other than cash	
Increase in accounts receivable	(271,450)
Increase in prepaid expenses and deposits	(10,596)
Increase in accounts payables and accruals	44,167
Increase in deferred income	12,812
Net cash generated from operating activities	<u>156,297</u>
Cash flows from investing activities	
Purchase of fixed assets	<u>(104,311)</u>
Increase in cash for the period	51,986
Cash, beginning of period	<u>-</u>
Cash, end of period	<u><u>51,986</u></u>

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Turks and Caicos Islands Telecommunications Commission

Notes to the Financial Statements

For the period October 1, 2005 to March 31, 2007

(expressed in U.S. dollars)

1. General information

Turks and Caicos Islands Telecommunications Commission (“the Commission”) is a statutory body established and regulated by the Telecommunications Ordinance 2004. The Commission began operating on October 1, 2005.

The purpose of the Commission is to regulate telecommunications in the Turks and Caicos Islands, including facilitate and promote competition, setting standards for quality, promote the interests of consumers and encourage and advise licensees.

Income is derived primarily from regulatory fees charged to licensees.

The Commission had four employees at March 31, 2007.

2. Significant accounting policies

These financial statements are prepared under the historical cost convention and in accordance with International Financial Reporting Standards.

The preparation of financial statements in accordance with International Financial Reporting Standards requires management to make estimates and assumptions that affect the amounts reported in the statements. Actual results may differ from those estimates.

The significant accounting policies applied in the preparation of these consolidated financial statements are summarized below:

(a) Reporting currency

The financial statements have been presented in United States dollars because it is the currency of the economic environment in which the Commission conducts its operations.

(b) Cash

Cash comprise balances held with banks and petty cash.

(c) Fixed assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation is determined on a straight-line basis at rates calculated to write off the assets over their estimated useful lives as follows:

Computer hardware and software	3 years
Motor vehicle	4 years
Office furniture and equipment	3 years

Assets are depreciated from the year of acquisition. Expenditures on repairs or maintenance of the fixed assets incurred to restore or maintain future economic benefits expected from these assets are recognized as expenses when incurred.

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Turks and Caicos Islands Telecommunications Commission

Notes to the Financial Statements

For the period October 1, 2005 to March 31, 2007

(expressed in U.S. dollars)

2. Significant accounting policies (continued)

(d) Revenue recognition

Regulatory fees are recognized as income in the period in which they relate.

(e) Subvention

The subvention received from the Government is credited to income in the period to which it relates.

(f) Government grants

These grants are received from the Government for development purposes and cover capital expenditures. Government grants are recognized as income to match the depreciation charged against the assets purchased.

(f) Financial instruments

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. For the purpose of these financial statements, financial assets have been determined to include cash and accounts receivable. Similarly, financial liabilities consist of accounts payable and accruals.

The directors are of the opinion that due to the nature of the Commission's operations it is not subject to significant interest rate risk.

Credit risk

Financial assets, which potentially subject the Commission to concentrations of credit risk, consist primarily of cash and accounts receivable. The Commission's cash is with well-established institutions. Management monitors its accounts receivable and provision for bad debt. Management does not expect any material losses as a result of these concentrations of credit risk.

Fair value

Fair value is the amount for which a financial asset, liability or instrument could be exchanged between knowledgeable and willing parties in an arm's length transaction, and is best evidenced by quotes market prices or the use of established estimation techniques.

The carrying values of the Commission's financial assets and liabilities approximate fair value due to their short term nature.

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Turks and Caicos Islands Telecommunications Commission

Notes to the Financial Statements

For the period October 1, 2005 to March 31, 2007

(expressed in U.S. dollars)

3. Fixed Assets

	Computer Hardware and Software	Motor Vehicle	Office Furniture and Equipment	Total
	\$	\$	\$	\$
Cost				
As at October, 2005	-	-	-	-
Additions during the period	30,414	43,400	30,497	104,311
As at March 31, 2007	30,414	43,400	30,497	104,311
Depreciation				
As at October, 2005	-	-	-	-
Charge for the period	14,210	10,850	11,480	36,540
As at March 31, 2007	14,210	10,850	11,480	36,540
Net Book Value				
As at March 31, 2007	16,204	32,550	19,017	67,771

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