

**SUBMISSION TO THE TELECOMMUNICATIONS
REGULATORY AUTHORITY
BAHRAIN**

**RESPONSE TO CONSULATION PAPER ON
RETAIL PRICE CONTROLS**

**4 OCTOBER 2003
BATELCO**

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1. Introduction

This document sets out Batelco's response to the Consultation paper on retail price controls issued by the Telecommunications Regulatory Authority (TRA) on 9th August 2003. Where proposals made in the Consultation paper are not commented on, this should not be taken to imply that Bateclo agrees with or endorses those proposals.

Batelco welcomes some of the proposals set out in the Consultation document. In particular, it agrees with the TRA that a price cap is the most appropriate approach to tariff regulation, and welcomes the focus on a single price cap basket. However, Batelco believes that there are a number of flaws in the price cap regime proposed by the TRA and several instances where it is significantly out of line with international best practice.

Of major concern is the proposed approach to price rebalancing. The TRA advocates a very rapid process of rebalancing, designed to bring access charges into line with costs over a period of 2-2.5 years. But the Consultation document understates the impact that this approach will have on residential customers, many of whose telephone bills will rise significantly as a result of tariff realignment.

The weakness in the TRA's proposals stem, at least in part, from its failure to appreciate the true size of Batelco's access deficit, and the degree of price rebalancing that is required. For the same reason, the proposals fail to provide Batelco with adequate protection against cream-skimming competition, following the full liberalization of the market in July 2004.

Batelco favours a more gradual approach to price rebalancing, designed to protect residential customers against unnecessarily sharp rises in their telephone bills. This more gradual approach should be accompanied by measures designed to protect Batelco against cream-skimming competition, prior to completion of the rebalancing process.

The TRA's proposals have a number of other specific flaws, which are discussed in the next section. A general shortcoming of the Consultation document is the assumptions on which the proposals are based are often unclear. For example, the precise coverage of the proposed price cap basket is not clearly stated, nor are the assumptions made about Batelco's capacity to improve its efficiency. Yet the TRA feels able to recommend a price cap of CPI-8.16%, over a 12-month period. There is no discussion of the fact that the value of "X" should depend critically on the coverage of the basket, which is one of

the subjects of the Consultation, or of the efficiency improvement assumptions on which the formula is based.

The Consultation document also makes a number of unsubstantiated assertions. For example, it asserts that Batelco's profitability is "significantly higher" than other similarly placed firms, and that Batelco is "almost certainly operating at significantly lower efficiency than similarly placed firms operating in competitive markets"¹, but produces no evidence whatsoever in support of these claims.

Section 2 of this document sets out Batelco's main points of concern with the TRA's proposals, and provides supporting evidence where appropriate. Section 3 then goes on to consider each of the consultation points within TRA's consultation paper and sets out Batelco's view on these points.

2. Overview and Key Points

Batelco welcomes several of the proposals set out in the Consultation paper. Firstly, it agrees with the TRA that price cap regulation is superior to rate-of-return regulation, primarily because it can provide a stronger incentive for the regulated firm to improve its efficiency. Secondly, it agrees that there should be a single price cap basket, which is broad enough to allow for price rebalancing, and the phased realignment of tariffs with cost. Thirdly, Batelco agrees with the TRA that a sub-cap on access charges is an appropriate means of regulating the speed of tariff rebalancing, in order to avoid unnecessarily rapid price increases for residential customers.

In Batelco's view, however, the TRA's proposals on retail price controls have a number of serious flaws including:

- The scale of the access deficit in Bahrain is not recognised and the level of price increase proposed by TRA for line rental services is not sufficient to rebalance tariffs.
- The speed of the rebalancing process is too rapid, as it will lead to very sharp price increases for residential customers.
- The proposals fail to provide Batelco with any protection against cream-skimming competition, which will promote inefficient market entry and unnecessarily damage Batelco's profitability and value.
- The initial price cap period is too short and is out of line with international experience.

¹ Section 5.1

- Sub-caps on leased lines and national call charges are not required
- The proposed value of X appears to be based on unsubstantiated views about Batelco’s profitability and efficiency, and on inaccurate information about the costs of service provision.
- Carry over of un-used cap should be automatic rather than discretionary as since it is in the customers’ interest.

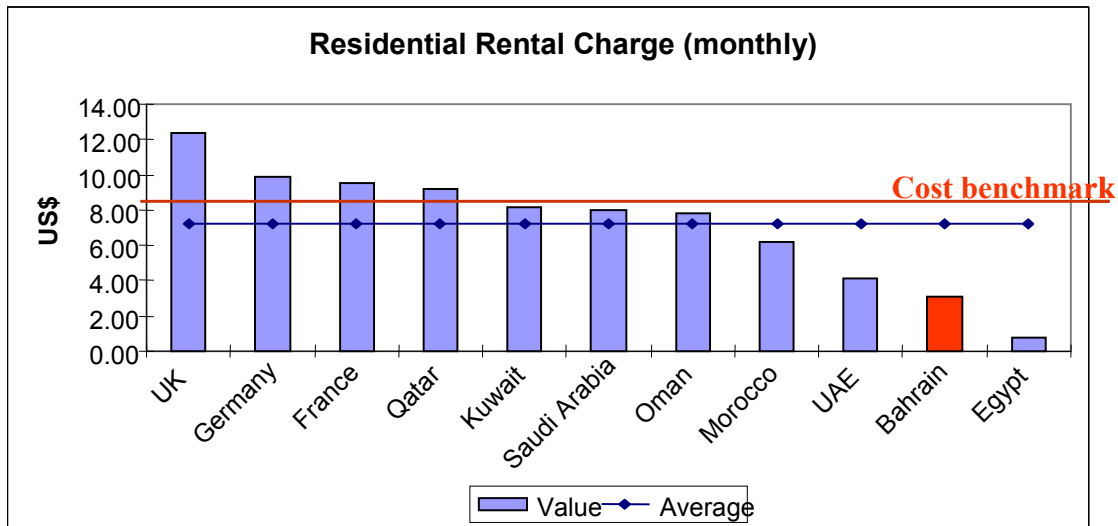
In this section we describe Batelco’s view on each of these key points in more detail.

The Size of Access Deficit

The access deficit issue is a common one in liberalizing telecoms sectors as access charges are often initially set below cost to encourage telecoms take-up and ensure affordability. The losses incurred in providing access have typically been offset by profits from international calls. Once a sector is liberalized this cross-subsidization is no longer sustainable as competition erodes international call profitability.

The size of the access deficit in Bahrain is relatively large in comparison to that in other Gulf States and international levels. This is illustrated by figure 1.

Figure 1: International monthly rental charges



Source: ITU Database

Based on current estimates of the costs of access provision in Bahrain, Batelco estimates that the total access deficit in Bahrain is approximately BD 8.5m per annum, excluding the cost of capital. With the cost of capital included, the estimated deficit rises to between

BD 11m and BD 12m, depending on the WACC² used. Residential line rental charges will need to rise by approximately 500% in order to bring prices in line with costs and eliminate the deficit. The analysis on which these estimates are based is due to be discussed with the TRA at a meeting scheduled for October 6th.

Sharp Price Rises for Residential Customers

In their proposal TRA assumes that Batelco should be able to complete rebalancing (and eliminate all or most of the AD):

- Over a 18-30 month period;
- With maximum increases in line rental charges of 17-24% every six months.

The first point to make about these proposals is that, even as they stand, they are extreme. Over a 30-month time period, six-monthly increases of 24% would almost triple the residential line rental³.

By contrast, the sub-cap on residential rentals applied by the UK regulator following the introduction of competition in the 1980s was only RPI+2%, despite the fact that BT's access deficit exceeded £2billion per annum. This compares with the sub-cap of up to CPI+54% proposed by the TRA, over a full year. The vast majority of countries have adopted a much more gradual process of rebalancing, designed to protect residential customers against rapid price increases.

The second point to make about the TRA proposals is that, in order to meet the proposed rebalancing timetable, line rental charges would need to rise even more rapidly than is envisaged in the Consultation document. Batelco's latest estimates suggest that prices would need to rise by around 43% every 6 months to achieve rebalancing within 30 months, rather than the 17-24% proposed by the TRA. This means that the residential rental would more than double over a 12-month period.

The third point to make is that the TRA very significantly underestimates the proportion of residential customers whose bills are likely to rise as a result of its unduly rapid programme of rebalancing. The Consultation document states that up to 17% of households "could possibly" experience an increase in their overall telephone bill⁴. By

² Weighted Average Cost of Capital

³ The cumulative increase would be 193%.

⁴ Consultation document, section 1.2.4, page 7.

contrast, Batelco estimates that the proportion of households facing higher bills would be over 50% if full rebalancing is to be achieved over two and half years.

Batelco recognises that the first best solution to the access deficit is the full rebalancing of tariffs. However, given that magnitude of the tariff rebalancing requirement in Bahrain, and the likely impact on consumers of such a rapid rate rise, Batelco would prefer to see more gradual rebalancing over a number of years in line with international best practice.

Cream-Skimming Competition and Inefficient Market Entry

Under TRA's proposals Batelco would incur the full cost associated with the access deficit. This approach is unfair and discriminatory. It would place Batelco at a competitive disadvantage, following full liberalisation in July 2004, and would encourage cream-skimming market entry by competing firms, even where they were less efficient than Batelco. The result would be an inefficient allocation of resources, to the detriment of consumer interests. It would also operate against the interests of Batelco and its shareholders, in an unfair and discriminatory way.

Batelco believe that until access tariffs are rebalanced all operators should contribute to the cost of the access deficit via either:

- A surcharge on interconnection charges; or
- Explicit access deficit contributions.

Both of these approaches are established methods of affording the incumbent operator protection against cream-skimming competition. Under the interconnect surcharge approach, the access deficit is treated as a business overhead, and recovered through a mark-up on cost-related interconnect rates. Mark-ups of this kind are widely used in other countries, although the access deficit component is not normally broken out as a separate item..

Under an access deficit contribution (ADC) scheme, the contributions made by other operators are explicitly linked to the profitability of the various categories of traffic they carry. So, for example, competing operators would pay a higher ADC per minute on international calls than on national calls, because the former are more profitable than the latter, and their capacity to contribute is correspondingly greater. Access deficit schemes have been implemented in a number of other countries, including in Australia, the UK and Sri-Lanka. In the United States, inter-exchange carriers have for many years

contributed to the access costs of local exchange carriers via the Carrier Common Line charge. This too is equivalent to an access deficit contribution.

Batelco believes it would be possible to follow either of these approaches in Bahrain. It will be especially important to protect Batelco against cream-skimming competition if the rebalancing process takes place over a longer period than that currently being proposed by the TRA. But even if accelerated, 30-month timetable is adhered to, it will be essential to ensure that competitors make appropriate contributions to the access deficit.

Assuming that the price cap regime is introduced by the end of this year, Batelco will face full competition for a period of up to 2 years under the current proposals, before the rebalancing process is complete. International experience shows that this is long enough for an incumbent operator to lose a very substantial proportion of its market share to new entrants, in markets such as international telephony, where the costs of entry are comparatively low. For example, both Deutsche Telecom and Telekom Austria lost over 50% of international outgoing call market share within 3 years of liberalisation⁵. If Batelco's ability to compete is hampered by the need to fund the whole of the access deficit, the damage done to its revenues and profits could be very considerable. The TRA's proposals fail to take this into account.

The Duration of the Price Cap Regime

TRA proposes the imposition of either one or two initial price cap periods, each of a one-year duration, before moving on to an extended price cap period of 4-5 years. The initial price cap period, or periods, would be divided into 6-month intervals, each of which would be the subject of a price cap.

The proposed approach is significantly out of line with international experience where price caps are initially set for 3-5 year period, as illustrated in Table 1. Although TRA states that the initial short price cap period is due to uncertainties regarding market development in Bahrain this is the same for any liberalising market and other regulators have taken a longer term view.

⁵ See Telegeography, 2002.

Table 1: Duration of price cap regime

Operator and Country	No of years
Omantel, Oman	5 year period proposed
C&W, Jamaica	4 years
Telstra, Australia	3 years
Eircom, Ireland	3 years
BT, UK	Initially 5 years, now 4years

There are two main shortcomings in the approach proposed by the TRA. The first is that it gives much less certainty to both customers and service providers, regarding future price trends. For service providers, including Batelco and its future competitors, this makes planning more difficult, especially with regard to capital investment in network infrastructure and supporting systems, where lead times are long. The risk is that the increased uncertainty will lead to lower levels of investment, which will hamper market growth and be detrimental to consumer interests. For customers, the greater uncertainty will make it more difficult to plan future spending on telecommunications services, again leading to an unnecessary reduction in consumer welfare.

The second weakness in the TRA’s proposal is that it would reduce the incentive for Batelco to introduce efficiency improvements. The Consultation document goes to some lengths to establish the point that price caps are more effective than other forms of tariff regulation, primarily because they maximise the incentive for efficiency improvement⁶. This benefit is then negated by the proposed adoption of a price cap period which is too short for the efficiency incentive to be effective.

Batelco believes that a longer initial period for the price cap, of at least 3 years in duration, would provide more certainty to customers and operators, and will maximise incentives for efficiency improvements.

The proposed Sub Cap on leased lines and national call charges

TRA propose the introduction of sub caps on leased line tariffs and national call charges. Batelco believe that these sub caps are unnecessary since these services are included in the overall cap, and undesirable because they would inhibit Batelco’s freedom to adjust tariffs in response to changing market conditions.

⁶ See Section 4.2 of Consultation document.

In their consultation paper TRA states that ‘prudence’ with the introduction of sub-caps is required as costs are declining due to technical progress and cost drivers within the network are changing. Given this changing environment it is optimal to allow operators maximum pricing flexibility within the overall price control. Since both leased line and national calls are already included in the main basket Batelco believes that further regulation is unnecessary.

In addition, the TRA’s assumptions with regard to the economic cost of provision for fixed to fixed national calls appear incorrect. TRA estimates that the cost of fixed to fixed national calls is 0.007 BD per minute. Preliminary results from Batelco’s FAC analysis suggest that the costs are actually in the region of 0.009BD, excluding the cost of capital, and 0.011- 0.012BD with the cost of capital included. The cost of fixed to mobile calls will be significantly higher than this. If TRA’s overall price cap calculations are based on these inaccurate costs it is likely to be incorrect.

It is also unclear from TRA’s analysis if they have taken into account the potential loss of revenue associated with the move to elapsed time charging for national calls. If the move to elapsed time charging takes place before the price cap regime is imposed this loss of revenue needs to be reflected in the calculation of the ‘X’ to be imposed on Batelco.

The level of X

Batelco has three main concerns about the TRA’s proposals for the level of X. The first is that the basis of its proposals is unclear. The second is that they appear to have been strongly influenced by the TRA’s view that Batelco is (i) excessively profitable and (ii) inefficient⁷, despite the fact that no evidence is presented in support of these claims. And the third is that the proposals appear to have been developed in the light of inaccurate information on Batelco’s costs of service provision.

It is obvious that the appropriate value for X should depend on the precise coverage of the price cap basket. However, the TRA’s proposals regarding the coverage of the basket are not entirely clear, particularly with regard to outgoing international calls. The discussion in Section 2 of the Consultation document suggests that the TRA favours a basket made up of four service categories, namely residential access, business access, local/national calls and leased lines. There is no mention of outgoing international calls. On the other hand, Section 6.6. does not include outgoing international calls in the list of proposed exclusions from the basket. Batelco would welcome clarification of whether

⁷ Section 5.1 of the Consultation document.

the TRA proposes to include outgoing international calls in the basket or not, as this will have a major effect on the appropriate value of X.

The price elasticity assumptions which underpin the TRA's proposals are also unclear. The Consultation document indicates that its proposed value of X reflects 'reported elasticities' to ensure the impact of price regulation does not drastically effect Batelco's revenue base. But the TTA does not state what elasticity assumptions have been used, even though they are likely to have a substantial impact on the value of X.

The second flaw in the TRA's proposal is that it is clearly influenced by the view that Batelco is excessively profitable and inefficient. However, no evidence whatsoever is provided in support of this view. In Batelco's opinion, it is unacceptable for the TRA to produce important policy proposals based on unsubstantiated assertions regarding Batelco's profitability and efficiency. As a matter of proper procedure, the TRA should present the evidence on which its assertions are based, and give Batelco (and other interested parties) the opportunity to comment on it.

Similarly, the TRA states that "its information suggests that a value of "X" of 8-10% over a twelve month period" will still leave Batelco earning profits in excess of those required to provide investors with a fair return. The TRA should provide the details of the analysis which underpins this assertion, and give Batelco and others the opportunity to comment.

The third weakness in the TRA's proposal is that it appears to have been formulated in the light of inaccurate information, or invalid assumptions, regarding the cost of providing several of the services included in the price cap basket. In particular, the TRA appear to have underestimated the costs of providing access services and the costs of providing national calls. As a result, the value of X is likely to be too high.

Batelco believes that a forward looking model should be used as a basis for estimating future costs and revenues and determining the appropriate level of X for the basket of services. This model needs to take into account:

- (i) Existing revenues, financial and operating expenses, depreciation charges and capital employed;
- (ii) Projected volume growth for services within the overall basket or sub-basket(s);
- (iii) Cost/volume and asset/volume relationships;

- (iv) Projected unit input cost changes; and

- (vi) Weighted average cost of capital that shall be designed to ensure that the returns on Price Cap Services are not lower than the weighted average cost of capital. The weighted average cost of capital will combine Batelco's cost of equity and cost of debt (or reasonable proxies for these measures).

The WACC assumed in TRA's estimate of the price cap will also need to be reviewed on completion of the WACC arbitration process currently under way.

Carry over of Un-used Cap

Carry-over gives the regulated firm an incentive to make price reductions in excess of what is required by the price cap in any one period, and also enables price increases to be delayed. Customers benefit from price reductions being made earlier, and/or increases being made later, than they otherwise would have been made.

Since permitting carry over will increase Batelco's incentives to bring forward any price reductions and is in the customers' interest Batelco believe that the carry over of un-used cap should be permitted in all cases both for the main basket of regulated services and for any sub-baskets.

3. Consultation points

- 1. The TRA seeks respondents' views on whether the use of incentive based regulation in the form of price capping is the most appropriate option for Bahrain.**

Batelco agrees with the view that price cap regulation is the most appropriate form of regulation in Bahrain.

- 2. The TRA seeks respondents' views on the use of the CPI-X formula as an appropriate price capping method, and the proposal to work with revenues rather than indices within the mechanism.**

Batelco supports the TRA's view to use a CPI-X formula as the appropriate price capping mechanism. However, Batelco believes that given the fact that the market in Bahrain is vulnerable to external shocks there must be a safeguard to protect Batelco from a change in market conditions that is outside its control. The price cap formula should therefore include an additional parameter ('Z' factor) to take account of these external shocks. The inclusion of a Z factor is discussed in Section 5.1 of the Consultation document, but not referred to subsequently, for reasons which are unclear.

Batelco supports the TRA's view that revenue weights rather than indices should be used in the price cap mechanism. These weights should be prior year revenue weights.

Batelco would also welcome confirmation that it will not be restricted to a single set of price changes during each of the proposed 6-month price cap periods. Batelco is strongly of the view that it should be permitted to introduce price changes for individual services more or less frequently than that, should market conditions warrant it. Compliance with the price cap formula should then be determined on the basis of the weighted average change in the tariffs of the basket services, from one period to the next. Restricting Batelco to a single set of price changes in every 6-month period would seriously damage its ability to respond effectively to changing competitive conditions.

- 3. The TRA would like the view of interested parties on whether one or two annual caps should be set by the TRA before moving into an extended price capped period.**

Batelco believes that there is no need to have an initial price cap period before moving into an extended period. Despite the potential uncertainty in the market prior to liberalisation, international experience suggests that a price cap of 3-5 years could

be imposed from the outset (see table 1). Batelco believes that a price cap at the lower end of this range would be most appropriate for the initial period and suggest a duration of 3 years. This will provide more certainty to operators and customers, and will maximise incentives for efficiency improvements.

4. The TRA would like respondents views on whether they agree that for the first price controlled basket in Bahrain, the price cap should run for one year, after which time it should be reviewed.

See comments to point 3.

5. The TRA seeks respondents' views on the most appropriate relevant market definitions in relation to the services discussed and the proposed declaration that Batelco has SMP in these relevant markets.

It is not apparent from the Consultation document which market definitions, if any, are being proposed by the TRA. A number of alternatives are mentioned, and no clear preference is stated between them.

Batelco's comments on the various options referred to are as follows:

- The market definitions adopted by the TRA should be amended over time, as market conditions evolve.
- It will be important to distinguish between the markets for domestic and international telephony at a comparatively early stage, as competition is likely to focus primarily on the latter, at least during the initial period following liberalisation.
- For the same reason, a distinction between the markets for domestic and international leased lines is likely to be appropriate.
- The case for distinguishing between the markets for telephony access and national calls, or different categories of national call, is likely to be much weaker, at least in the near term.

Batelco acknowledges that, as the sole supplier, it currently has significant market power in the markets for:

- Fixed telephony access, national calls and international calls; and
- National and international leased lines.

This position should be monitored closely by the TRA as the market opens up to competition.

When reviewing market conditions, Batelco believes that the TRA should adopt the definition of significant market power now used by the European Commission:

'An undertaking shall be deemed to have significant market power if, either individually or jointly with others, it enjoys a position equivalent to dominance, that is to say a position of economic strength affording it the power to behave to an appreciable extent independently of competitors, customers and ultimately consumers'

6. The TRA seeks respondents' views on the proposal to employ a single basket with sub-caps on particular services.

Batelco agrees with TRA's view that it is optimal to employ a price cap on a single overall basket with sub caps on particular services within this basket as appropriate.

7. The TRA seeks respondents' views on the services to exclude from the basket for this initial cap.

Batelco agrees with TRA's view that the following services should be excluded from the price cap basket:

- Subscription payments for ADSL and dial-up ISP services
- Services provided by Batelco's GSM Network
- Revenues or credits from foreign operators regarding incoming international calls.

Batelco also believes that new services introduced by Batelco should also be excluded from the price cap since a standard feature of the design of price cap regimes is to avoid deterring regulated firms from innovating. Therefore, any new service, product or telecommunications feature that is not offered as of the effective date of the beginning of the price cap regime should be deemed to be a unregulated Service for the purposes of the Price Cap regime, unless it includes existing products or services that are Price Cap Services.

It is essential that despite the services excluded from the basket Batelco is permitted to earn the required rate of return on those services that are regulated.

8. For this price cap, the TRA is also interested in the views of respondents regarding the inclusion or exclusion of discounts. For the period of this price cap, it should be assumed that these discounts will not have been vetted by the TRA in regard to their strategic profile.

By including discounts in the calculation of "X" and in the calculation of whether or not price changes have met the requirements of "X" Batelco would be given an incentive to offer deals that offer savings to customers. Since this provides benefits

to customers Batelco believe that all discounts should be included in the price cap and count towards price cap compliance.

Discount have been included in the calculation of price cap compliance in other countries e.g. UK.

9. The TRA seeks respondents' views on the proposal to examine the potential for carry over on a case by case basis.

Carry-over gives the regulated firm an incentive to make price reductions in excess of what is required by the price cap in any one period, and also enables price increases to be delayed. Customers benefit from price reductions being made earlier, and/or increases being made later, than they otherwise would have been made.

Since permitting carry over will increase Batelco's incentives to bring forward any price reductions and is in the customers' interest it should be permitted in all cases.

Carry over should be permitted both for the main basket of regulated services and for any sub-baskets.

10. The TRA seeks respondents' views on the proposed value of 'X' to be employed in the retail price control.

While Batelco believes that the proposed X factor of -8.16% is likely to be unduly severe, TRA have given no details of the assumptions or analysis behind this. As set out in section 2:

- The TRA has not used the final information from the fully allocated costing system to inform the decision over the appropriate level of price cap. For access and national calls, it appears to have underestimated the costs of provision, as a result of which the proposed value of X is likely to be too high.
- The details of the elasticity assumptions used by TRA are not disclosed.
- The final decision will need to take into account the final decision regarding the WACC level.
- It is unacceptable for the TRA to base important policy proposals on unsubstantiated assertions regarding Batelco's profitability and efficiency.

Batelco requests the opportunity to discuss the value of X in further detail once further details of TRA assumptions are available.

11. The TRA seeks respondents' views on the proposed sub-caps on access services, the value of these sub-caps and the time periods over which they may apply.

Batelco agrees with TRA's view that sub-caps on line rentals are necessary to reflect rebalancing and consumer protection issues.

However, the proposed sub caps of between CPI-17% and CPI-24% over five 6-monthly caps for residential line rental and four 6-monthly caps for business line rental are not sufficient to allow Batelco to fully rebalance tariffs during this period. Batelco's initial estimates indicate that access line rentals need to increase by a factor of at least 4-5 in order for tariffs to be fully rebalanced.

12. The TRA seeks respondents' views on the proposed sub-cap on national calls that encompasses both fixed to fixed calls and fixed to mobile calls.

We also believe that the proposed sub-cap on national calls is unnecessary since the services are already regulated under that overall price cap and it is considered optimal to allow operators maximum pricing flexibility within the cap. The imposition of these sub-caps could put Batelco at a competitive disadvantage following liberalisation, as they would inhibit Batelco's ability to adjust prices in response to changing market conditions.

13. The TRA also seeks respondents' views on the economic cost of provision of fixed to fixed and fixed to mobile calls.

The TRA states that an effective call charge of BD0.007 per minute for fixed to fixed national calls is likely to be in line with the economic cost of provision. Preliminary data from Batelco AS system indicate that the economic cost of provision for these services is significantly higher than this, at around BD0.009 per minute.

Preliminary data from the Batelco AS system indicates that the cost of provision for fixed to mobile calls is around BD0.010 per minute.

Given that the TRA has set out the proposed initial price cap regime based on inaccurate assumptions about the costs of service Batelco request that the TRA review the proposed price cap in the light of Batelco's latest information on the costs of service provision.

14. The TRA seeks respondents' views on the inclusion of any new retail charges for DQ calls within the price cap.

Batelco believes that given that the DQ market in Bahrain will not be open to competition it is appropriate to include DQ in the price cap provided that the loss that

Batelco currently makes on these services is taken into account and the overall price cap provides sufficient room to rebalance tariffs on this service.

15. The TRA seeks respondents' views on the proposed sub-cap on retail leased lines services.

Batelco does not believe that a sub-cap on leased lines is necessary given the fact that leased line prices are included in the overall cap and within this it is optimal to give operators maximum pricing flexibility, to enable them to respond effectively to changing market conditions. Denial of this flexibility would place Batelco at a competitive disadvantage, following market liberalisation.

16. TRA is interested in respondents' views regarding:

- **Given tariff rebalancing what, of the two main approaches would be most cost effective in Bahrain means tested access to a reduced price standard service or the use of self select reduced service schemes?**
- **If a self-select scheme was to be operated in Bahrain which of the criteria discussed would be most effective at separating genuinely needy households from other subscribers.**
 - **Low user scheme;**
 - **Pre-payment (at high prices than for standard subscribers), and**
 - **Outgoing call barred (except for emergency services, customer services and fault repair services)**

Batelco supports TRA's view that self select access to reduced service schemes is the optimal method for providing telecoms services to poorer households given the high level of administration costs associated with means tested approaches.

We believe that the most appropriate scheme would be the addition of a low user package where customers pay a lower monthly rental charge but much higher call charges. This is the approach that has typically been used elsewhere e.g. in the UK.