

## ISSUES FOR CONSIDERATION

### 2. UNIVERSAL SERVICE POLICY OBJECTIVES, DEFINITION AND SCOPE

1. **What should be the scope of low speed data services? Should it be limited by the speed of a dial up internet connection or ISDN connection or a leased line?**

Keeping in mind the investments involved as also the initial utilization of this facility, COAI believes that access to the Internet should initially be limited to a dial up connection. The speed of the connection would be a minimum of 9.6 kbps, which is the speed limitation in case WLL technology is deployed.

2. **NTP 99 envisages provision of low speed data service to balance 2.9 lakh uncovered villages in the country by the year 2002 under USO. Service is delivered through a terminal apparatus. Should it be interpreted to mean that**

- (i) **All new village phones would actually be Public Tele-info centres (PTIC) having Internet capability in accordance with the IT Policy?**
- (ii) **The existing 3.17 lakh VPTs would be upgraded to PTICs by 2002?**

**In such a case what should be the minimum terminal equipment configuration and should the cost of this PTIC terminal equipment be also included in the USO cost.**

It is desirable to adopt a phased approach in this matter. The first imperative / initiative should be to provide PTICs at the Gram Panchayat level, whether or not the Gram Panchayats are covered by existing VPTs. In the case of the balance uncovered villages and rural areas, the initial thrust should be on providing simple voice telephony through VPT.

The minimum terminal equipment required for PTICs will include a PC, modem, UPS, Solar Panel, Printer and Fax Machine. It is recommended that the Government should incentivise rural telephony and PTIC's by waiving the import duties, excise duties, and sales tax on all equipment to facilitate delivery of affordable services to the rural consumers through PTICs and VPT's.

### 3. Telephone on Internet:

**Envisaging a situation where voice over IP is permitted in India for ubiquitous telephony services by the ISPs. Whether ISPs be asked to discharge their USO? Whether ISPs should also contribute to the Universal Service Fund (USF)?**

Irrespective of whether or not Voice over Internet is permitted, ISPs must contribute to the USO Fund. In fact, NTP 99 clearly states that "the resources for meeting the USO would be raised through a 'universal access levy' which would be a percentage of the revenue earned by **all the operators under various licences i.e. DTS, MTNL, VSNL, CMSP's, FSP's, ISP's, Paging Operators, Radio Trunking Operators, GMPCS operators.**"

#### **4. Internet to all DHQs :**

**Whether the current state of Internet Service meets the NTP 99 objective of Internet Access to all DHQs or will it be met only after the provisioning of an Internet node at each DHQ? The stipulated target for Internet access to all DHQs is Year 2000. Whether ISPs be asked to provide such nodes in their service areas in addition to the incumbent?**

The incumbent operator (DTS) has already committed to provide Internet nodes at all DHQs by the Year 2000 and the funding of the same will be available from the monopoly surplus of DTS. Thus, there should be no separate requirement for the ISPs to mandatorily provide such nodes.

### **3. PRESENT SCENARIO AND FUTURE PROJECTIONS**

#### **VPTs**

#### **Technology for VPT**

- 1. Should a technology neutral approach be adopted for VPTs and the most cost effective technology model in a given situation be considered for disbursement from the Universal Service Fund i.e. a standard reference proxy model for a given situation.**

Yes, a technology neutral approach should be adopted for VPTs. However, while making an economic choice for installing a VPT or a PTIC, both the capital and operating costs of the technology employed need to be considered.

#### **Existing FSPs**

- 2. Number of uncovered villages in each area of operation of private FSPs were given in annexure of tender enquiry documents and accordingly reflected in Annex. III of license agreement. Evaluation criteria included weightage for the number of VPTs to be installed in awarding the license for basic services. Now, in the period between tender enquiry and signing of the license agreements, some VPTs have been provided by DOT/DTS. The issue to be considered is whether DOT/DTS should be treated as a “ Carrier of last resort “ and compensated for providing these VPTs? Next stage comes after signing of license agreement when number of VPTs are not provided as per the agreement and subsequently DOT/DTS provide these VPTs.**

In view of DTS's vast resources and also its extensive coverage throughout the country, it would be correct & proper to designate DTS as the carrier of last resort rather than burden the fledgling new entrants with the mandatory obligations of USO. However the various types of private operators should all be encouraged to provide USO services and be suitably compensated for the same.

- 3. Should DOT/DTS be compensated as a carrier of last resort?**

Since DTS, as a service provider, will be contributing to the USO Fund, they should be compensated for undertaking implementation of USO service, even when they are the carrier of last resort.

It must however be clarified / emphasized that DTS should have claim to USO funding only after the private NLDO's become commercially operational, since till then, the incumbent will have access to the long distance monopoly surplus, which must be used to meet their "immense rural obligations."

It would also be pertinent to mention here that as per DoT Annual Report of 1999-2000, it is that indicated the surplus generated by DTS alone in 1999 – 2000 is almost Rs. 6,400 crores and the surplus estimated in 2000-2001 is over Rs. 10,000 crores. Similarly, VSNL is believed to have generated a surplus of almost Rs. 1,400 crores in 1999-2000.

It should also be added that **DTS cannot be entitled to both a refund of its licence fee and financial support from the USO Fund as this would amount to a double reimbursement for the same activity.** In the interests of objectivity and transparency and to ensure a level playing field, it is desirable that DTS's USO implementation should be funded directly through the USO and that there should be no reimbursement of licence fee.

**4. Can private FSPs be absolved of their responsibility of providing VPTs in view of paid L.D. and /or offered migration package or setting up of UAL fund?**

No Comments.

**5. If DOT/DTS was providing VPTs and getting compensated through long distance revenue, then private FSPs either should pass on their compensation amount in the form of increased revenue share for a limited period or should pass on these benefits to consumer.**

No Comments.

**6. The policy of giving extra weightage to commitments obtained for VPTs from prospective bidders while considering the grant of licence does not seem to have succeeded. Should this be continued in the present or any other modified form?**

Since this policy has not succeeded in the past and especially since the funds / resources for rural coverage will now be disbursed from the USO fund, there is no rationale to continue with the policy to give weightage to any commitments from prospective FSP bidders to provide VPTs.

**7. Can it be considered that all VPTs may be provided by DTS with suitable compensation from USF?**

Given the stringent time frames to achieve the tele-density targets envisaged by NTP 99, the objective of covering the rural areas / balance uncovered villages is a mammoth task, which cannot be undertaken by any single operator, even the incumbent. It is desirable in the interest of speedy achievement of this objective, that provision of VPTs be suitably incentivised to encourage all service providers to participate in rural telephony initiatives.

## **5. GENERAL CONCEPT OF UNIVERSAL SERVICE AND ITS FUNDING**

- 1. Should the USF be used to compensate the access deficit caused due to below cost rentals of rural DELs and low calling urban DELs as well as lower call revenues, or, the access deficit be compensated through interconnect charges and only the deficit in operating costs compensated by USF? In other words, whether interconnect charges be also an instrument of subsidy to provide rural DELs and low calling urban DELs as an alternative to the USF or complementary to it?**

Urban areas, if viewed in totality are high revenue earners and the service providers in these areas need not be separately compensated for some low calling urban DELs.

A large contributory factor in the low revenues for the rural DELs is the non-availability of STD / ISD facilities. The figures given by TRAI in Table 5-C give ample evidence of this assertion, as the average monthly revenue for a non-STD VPT is a meager Rs. 62 per month as compared to Rs. 2956 per month in the case of a VPT with STD facilities. COAI believes that rural DELs will become economically viable, maybe even profitable, if they are provided STD/ISD facilities and therefore would not need to be compensated from the USO Fund.

In view of the above, there is no justification for any subsidy through interconnect charges for rural DELs or low calling urban DELs.

However, COAI believes that in the case of areas where there is no rural telephone exchange within a distance of 10 kms, the first / smallest rural exchange (128 port CDOT Exchange) and the transmission link should be funded from the USO Fund.

### **2. What should be the definition of Eligible Revenue for the purpose of UAL?**

In the interests of standardization and ease of application, the Regulator should adopt the same definition of revenues for the purpose of calculating the UAL as would be used for the determination of revenue share licence fee for all service providers.

The USO levy, as when decided by the Telecom Commission should be charged from a prospective date and only once the NLDOs become commercially operational. Also for the purpose of Income Tax, USO levy should be treated as a revenue expenditure. Please also see our alternate proposal under Point 6 (4).

### **3. What class of operators should fund the UAL?**

NTP 99 mandates that ALL service providers (including ISPs) will be required to contribute to the USO Fund. This should therefore include DTS/MTNL and also VSNL. As it has not been clearly mentioned by TRAI, we would like to emphasize that USO should also be levied on VSNL as it is generating huge surpluses which amounted to nearly Rs. 1,400 crores in 1999- 2000.

**4. Whether the percentage contribution of UAL from different operators providing different services be the same or different? If it should be different, the criterion thereof?**

To ensure transparency and non-discrimination amongst service providers, it is advisable to levy a uniform USO levy on all service providers in the same service area. NTP 99 also postulates that the Universal Service Levy be a percentage of revenue earned by all operators under various licenses.

However, keeping in mind the different levels of economic development and existing tele-density of the various service areas, it would be desirable to levy graded USO obligations for different service areas. It must be reiterated that all types of service providers within a particular service area should be liable to pay the same level of UAL.

**5. Whether there should be a Proxy Model for evaluating the claims of USO submitted by the eligible carriers?**

Yes, it would be desirable for the TRAI to develop a standardized reference proxy model for the deployment of different technologies, to evaluate the USO claims of different operators.

**6. Should adjustments be made for the reimbursement to DOT (DTS) of the licence fee while considering their claim for payment from US Fund?**

NTP 99 states that “DOT / MTNL would be licenced to be the third operator in each service area in case they want to enter, in a time bound manner. In order to ensure level playing field between different service providers in similar situations, licence fee would be payable by DoT also. However, as DoT is the national service provider having immense rural and social obligations, the Government will reimburse full licence fee to the DoT.”

COAI believes that reimbursing the licence fee to DTS as also providing it funding support from the USO fund to fulfil its rural obligations would tantamount to doubly advantaging the incumbent operator. In the interests of transparency and non-discrimination, it would be more appropriate if all funding to fulfil USO obligations is sourced directly from the USO Fund and there should be no reimbursement of licence fee.

However, COAI would like to reiterate that DTS should have no claim to the USO Fund till the time it has a monopoly surplus from long distance revenues. Once the private NLDOs become commercially operational, DTS can claim funding support from the USO Fund.

**5. ASSESSMENT OF COST – APPROACHES AND METHODOLOGIES**

**VPTs:**

**1. Should the capex recovery for VPTs installed prior to NTP 99 be considered for support from USO Fund?**

As has been rightly pointed out by TRAI, the capex on the VPTs installed prior to NTP 99 by DoT had been funded from the surplus generated by the DoT when it was the

monopoly service provider. There is thus no requirement to refund the capex for the existing VPTs.

**2. Estimates for costs of providing VPTs vary over a wide range. For the purpose of support from USF, should standard costs for ordinary, hilly and tribal areas be adopted?**

Yes, the standardised reference proxy models for different technologies should take care of the above requirements.

**Rural / Remote:**

**3. Is it reasonable to assume that average cost of rural DEL is 40% higher than that of Urban DEL?**

The magnitude of the variation will have to be established through a proper & detailed costing exercise. The cost of rural DEL can be reduced further as mentioned in Point 2(2), by waiving the customs duties, excise duties, and sales tax on all equipment to facilitate delivery of affordable services to the rural consumer.

**4. As revenue sharing on interconnect compensates for access deficit, should USF be used only to subsidise the shortfall caused by excess of operational expenditure over revenue? Whether USF should finance only the capital investment or recurring deficit of providing a rural telephone.**

The USO resources should be provided to meet the capital investments and operational expenditure for provision of VPTs and PTICs. Urban or rural DEL's should not come under the ambit of USO funding.

**Low calling Urban DEL:**

**5. Whether UAL should be raised to provide Universal Access in both urban as well as rural areas? This will involve subsidising of loss making telephones respective of their geographical location in the service area.**

UAL should be used to provide VPTs and PTICs in rural areas as well as the first rural exchange as mentioned in Point 4(1).

**6. Whether low calling urban subscriber should be defined as those upto 500 metered calls per month or upto 200 metered calls per month.**

In the light of the above answer, this question is not relevant.

**6. ORGANIZATIONAL ARRANGEMENT FOR ADMINISTRATION OF USO**

**1. How should the administration of USF be organised?**

TRAI should administer the USO Fund through a USO Board comprising of an independent and reputed firm of Chartered Accountants, representatives from the industry and Telecom Consultants who have the required professional expertise to undertake this task.

Further, it would be preferable to have a real fund with actual inflows and outflows and not a settlement mechanism between service providers, as the latter could get easily derailed through disagreements / defaults / litigation.

**2. Who should monitor the achievement of teledensity target in rural areas and decide on the quantum of subsidy to be given from the USF?**

TRAI should, with the assistance of the USO Board, have the responsibility to monitor the achievement of rural telephony and tele-density targets as laid down in NTP 99.

**3. Recognising that Universal Service is a dynamic concept and needs to be reviewed periodically for defining its scope, commensurate with development of communication technologies and information services, should a Universal Service Advisory Board, with experts from operators, financial institutions and consumer groups, be constituted, under the aegis of TRAI, for the purpose to undertake annual review of the services to be covered under Universal Service Obligation, proxy network model?**

As suggested above, COAI agrees that it would be desirable to set up a Universal Service Advisory Board with due representation from the industry / financial institutions, etc to oversee the working of the Fund, deployment of resources, monitoring of tele-density, etc.

**4. Should the UAL be shown and charged separately in a customer's bill like service tax or be embedded in the cost and reflected in tariff?**

It would be preferable to show USO levy as a separate charge in a customer's bill issued by any service provider, including ISPs, as is being currently done for service tax. This would ensure clarity and transparency to the customer as otherwise, it will be passed on to the customers as a hidden cost in the form of higher tariffs.

This transparent approach will also ensure the direct remittance of the UAL into the USO Fund without undergoing multiple transfers through the service provider, licensor, etc.

**5. For USO funding, separation of accounts of various service products is essential. For clarity and transparency, should the accounting formats and procedures for unbundled services be standardised?**

If the approach advocated in point 4 above is followed, it will obviate the need to adopt the complex process entailed in point 5.