

TVR/COAI/280  
1 November 2002

**The Telecom Regulatory Authority of India**  
A-2/14, Safdarjung Enclave  
New Delhi – 110 029

Dear Sirs,

**TRAI CONSULTATION PAPER NO. 2002/3 ON TARIFFS FOR BASIC SERVICES**

Please find enclosed our detailed response on the TRAI Consultation Paper on Tariffs for Basic Services.

COAI has studied the views expressed and the proposals tabled by the TRAI in the said Consultation paper and would like to briefly submit the following:

**I. COAI views on the Principles on which Fixed Line Tariffs should be determined**

1. TRAI should expedite the move towards cost based tariffs for all telecom services.
  - No service should be dependent on subsidies from any other service. An Access Deficit Charge (ADC) if any, should be confined to and recovered from the same service segment by charging differential tariffs for different types of customers.
  - The Access Deficit component should be determined net of the revenues from Interconnect Usage Charges (IUC) received by Access Providers.
2. If the above principles are not implemented, then vertically integrated operators would have the advantage of being able to cross-subsidize different services, while single service standalone entities, would be unable to do so.
  - The concept of asymmetric regulation must be introduced and enforced in line with established international practices.
3. The Authority may prescribe a specific tariff package for low-end users. For the other users, only a ceiling and floor tariffs should be laid down and the rest should be left to market forces.
  - The ceiling is necessary to safeguard the interests of consumers, while a floor price is necessary to prevent predatory pricing & ensure viability of industry.
4. TRAI should fix the originating access charge & terminating access charge on a per minute basis for local calls for different categories of access providers.

- Since the originating access provider incurs additional costs towards cost of unsuccessful calls, billing, collection and bad debts, the originating access charge should be prescribed at a higher level (about 10%), than the terminating access charge.
5. In the case of originating and terminating access charges for long distance calls, it may be necessary to provide a linkage between long distance tariffs and the Interconnect Usage Charges. This is because otherwise, the cost of a short distance NLD call (51-200 kms) will become too high.
- The Authority may prescribe a rational revenue sharing formula between Access Providers and NLD / ILD operators so as to recover the shortfall in the IUC for short distance calls from the extra IUC for longer distance calls. In this context, COAI would like to draw the attention of the Authority to the case of Malaysia where the revenue split on long distance calls was 35-35-30 for origination, carriage and termination respectively.
6. As NLD and ILD are now separately licensed stand alone services, NLD/ ILD calls charges should be de-linked from the local call charges and should be prescribed on a per-minute basis so as to be in line with the basis for levying originating / terminating access charges.

## **II. COAI Comments On TRAI Tariff Proposals–Methodology & Assumptions**

1. We understand from the Consultation Paper that the Authority has identified an access deficit of Rs. 244 per month per line in the case of FSPs. We believe that this Access Deficit has been overstated & should be reduced by the following:
- Net revenues from IUC including revenues accruing from incoming calls from cellular network.
  - Extra revenues accruing to FSPs from commercial / business subscribers (based on higher tariffs which have been permitted to them but are not being charged)
2. Further, COAI believes that the Access Deficit of Re. 0.97 per minute for monthly rental identified by the Authority should be equally divided between originating and terminating access charges. COAI believes that TRAI has erred by adding the per minute Access Deficit of Re. 0.97 to both the Originating and Terminating access charges resulting in double counting.

Our detailed response to the views expressed by the Authority in the Consultation Paper as also our response to the specific issues raised by the Authority are enclosed as Annexure-1.

We do hope that the Authority will consider our views while arriving at tariffs for fixed services.

Kind regards,

Sincerely,

**T V Ramachandran**  
Director General

Distribution: **Chairman, TRAI**  
: **All TRAI Members**  
: **Secretary, TRAI**  
: **Advisor (Economic), TRAI**  
: **Advisor (FN), TRAI**  
: **Advisor (MN), TRAI**

Encl: Detailed Response

**COAI RESPONSE TO TRAI CONSULTATION PAPER 2002/3**  
**On Tariffs for Basic Services**

**I. PRINCIPLES ON WHICH FIXED SERVICE TARIFFS SHOULD BE DETERMINED**

7. TRAI should expedite the move towards cost based tariffs for all types of telecom services without any cross-subsidization from other services. Each service should be self-supporting without being dependent on subsidies from any other service.
8. An Access Deficit Charge (ADC) if any, should be confined to and recovered from the same service segment by charging differential tariffs for different types of customers. This is established practice in infrastructure sectors like power, where different customers, despite being provided the same type / quality of service, pay differential tariffs.
9. This Access Deficit component should be determined net of free calls and the revenues from Interconnect Usage Charges (IUC) received by the Access Providers.
10. Therefore, in Fixed services too, the Access Deficit, net of IUC, should be - recovered through higher charges levied on urban commercial / business subscribers.
11. If the above principles are not implemented, then only vertically integrated operators would have the ability to cross-subsidize different services, while single service standalone entities, would be unable to do so.
12. If any solution is put forward by the Authority to address the Access Deficit through inter-sector subsidy, then COAI submits that such solution must be made equally applicable to all access providers who are similarly placed.
13. In this context, COAI would like to once again reiterate it's request to the Authority to review the cost structure of the industry, as a lower cost

burden would definitely facilitate the delivery and sustenance of affordable tariffs to the end-users.

14. The concept of asymmetric regulation must be introduced and enforced in line with established international practices.
15. The Authority may prescribe a specific tariff package for low-end users. For the other users, only a ceiling and floor tariffs should be laid down and the rest should be left to market forces.
16. The ceiling is necessary to safeguard the interests of consumers, while a floor price is necessary to prevent predatory pricing & ensure viability of industry.
17. TRAI should fix the originating access charge & terminating access charge on a per minute basis for local calls for different categories of access providers.
18. Since the originating access provider incurs additional costs towards cost of unsuccessful calls, billing, collection and bad debts, the originating access charge should be prescribed at a higher level (about 10%), than the terminating access charge.
19. In the case of originating and terminating access charges for long distance calls, it may be necessary to provide a linkage between long distance tariffs and the Interconnect Usage Charges. This is because otherwise, the cost of a short distance NLD call (51-200 kms) will become too high.
20. The Authority may prescribe a rational revenue sharing formula between Access Providers and NLD / ILD operators so as to recover the shortfall in the IUC for short distance calls from the extra IUC for longer distance calls. In this context, COAI would like to draw the attention of the Authority to the case of Malaysia where the revenue split on long distance calls was 35-35-30 for origination, carriage and termination respectively.
21. As NLD and ILD are now separately licensed stand alone services, NLD/ILD calls charges should be de-linked from the local call charges and should be prescribed on a per-minute basis so as to be in line with the basis for levying originating / terminating access charges.

## **II. COMMENTS ON TRAI TARIFF PROPOSALS – METHODOLOGY & ASSUMPTIONS**

1. The Authority has identified an access deficit of Rs. 244 per month per line in the case of FSPs.

COAI believes that this Access Deficit has been overstated & should be reduced by the following:

- Net revenues from IUC including revenues accruing from incoming calls from cellular network
  - Extra revenues accruing to FSPs from commercial / business subscribers (based on higher tariffs which have been permitted to them but are not being charged)
2. The Authority has arrived at an Access Deficit of Re. 0.97 paise per minute for monthly rental and Re. 0.22 per minute for free calls.

We believe that going forward, free calls should not be used to compute the Access Deficit.

Further, COAI believes that the Access Deficit of Re. 0.97 per minute for monthly rental should be equally divided between originating and terminating access charges. COAI believes that TRAI has erred by adding the per minute Access Deficit of Re. 0.97 to both the Originating and Terminating access charges resulting in double counting.

3. The Originating and Terminating Access charges have been taken as equal by the Authority. As mentioned earlier, the originating access providers incurs additional costs towards cost of unsuccessful calls, billing, collection and bad debts and therefore, we believe that the originating access charge should be pegged at a slightly higher level than the terminating access charge.

### III. PREFACE

1. COAI believes that the IUC regime provides an important source of revenue not for fixed operators alone, but for all types of Access Providers.
2. In this context, it is submitted that if cost based IUC charges are determined by the Authority, they should be applicable to all types of Access Providers.

### IV. CHAPTER II : COMPETITIVE TRENDS IN BASIC SERVICES – AN ANALYSIS OF EMERGING TRENDS

#### General Comments :

1. The Authority's observations on monthly rentals, declining ARPUs and presence of an access deficit in the service hold equally true for both fixed as well as cellular mobile services as is evident from the following :
  - a) **Monthly rentals for Commercial Subscriber** – In Para 2.3, the Authority has noted “these higher rentals for commercial subscribers were not made effective by the service providers partly because of apprehensions that the competitors may not act similarly and partly for fear of encountering consumer resistance and diversion of his business”.

COAI respectfully submits that similar apprehensions / concerns have long prevented the cellular operators from realizing market tariffs that are anywhere near the permitted cost based levels of the industry.

- b) **Average Revenue per unit ARPUs** –In Para 2.7, the Authority states that “..the ARPUs have declined for each BSO and are expected to continue to decline in the medium term.” According to the Authority, “the reason of the decline in ARPUs is a mixture of both a fall in tariffs as well as competition for acquiring subscribers who are likely to be the lower users. “

The Authority has provided figures, which show the average ARPUs of the FSPs are as much as Rs. 22078 p.a. per subscriber in 2001–02 and that even in 2002-03 the ARPU is Rs. 19670 p.a. per subscriber.

COAI submits that these ARPUs may kindly be compared with the Authority’s own figures for the cellular industry provided in the Cellular Tariff Consultation paper 2002/2 where the Authority has recorded (far lower) cellular ARPUs of Rs. 15240 p.a. for post paid subscribers and Rs. 5448 p.a. for prepaid subscribers. COAI had submitted that the prevalent cellular tariffs are far below the costs of the industry and are presently amongst the lowest in the world. Further, with the existence of fierce competition in this sector, the declining trend in ARPU will persist in future years.

- c) **Regulatory Policy of Access deficit charges (ADC)** – In Para 2.31, the Authority has observed that “the charges payable for long distance origination and termination may have to provide for what may be called ‘Access Deficit Charges’ (ADC) which in effect will be a means to subsidize the below cost tariffs, i.e. rental / local call charges”.

It will be pertinent to mention that the “higher rentals for commercial subscribers were not made effective by the service providers partly because of apprehensions that the competitors may not act similarly and partly for fear of encountering consumer resistance and diversion of his business” COAI submits that the higher rentals could have gone a long way in bridging the Access Deficit and consequently the Re. 0.97 per minute Access Deficit component determined by TRAI would have been significantly lower. This has also been acknowledged by the Authority in Para 2.26

2. In the above context, we would first like to reiterate our view that each segment of the industry should be self-supporting and not dependent upon another sector for subsidy.
3. Nonetheless, if the Authority is contemplating any solution to redress the situations outlined in (a) to (c) above, then COAI submits that such a solution must be made equally applicable to all access providers.

4. Here again, we would also like to reiterate our request to the Authority to review the high cost structure of the industry so as to make tariffs for telecom services more affordable and sustainable over the long term.

## **Q & A**

**Q1. In view of the existing market structure wherein the incumbent has more than 98% of the market share in the access market and almost the same in the local and long distance services, what would be the immediate objectives of regulation, particularly tariff regulation? Is the need for rebalancing between NLD / ILD tariffs and access tariffs as critical today after introduction of competition in all these areas, as it was when it was first undertaken through TTO 1999? Should efforts to rebalance tariff through regulatory intervention continue?**

- A1. The immediate objective of regulation should be to provide :
- a. A equitable, cost-based and non-discriminatory interconnection regime
  - b. Adequate safeguards against anti competitive action by service providers with SMP.

As regards NLD/ILD, although the entry of competition in these sectors has led to a sharp decline in STD / ISD rates, the corresponding rebalancing in access charges has not taken place. We believe that rebalancing in access tariffs will have to be achieved through regulatory intervention. Hence efforts to rebalance tariff through regulatory intervention should continue.

Further, we would also like to point out that despite the fall in STD / ISD rates, as per the Authority's own findings, these are still on the higher side.

As stated earlier, we believe that this regulatory intervention may be in the following manner :

- Prescription of a specific tariff package for low end users.
- Prescription of a ceiling and floor for all other user segments, within which the access provider can offer alternative tariffs in such a manner that within the service, the access deficit, net of revenues from IUC should be zero.

The end-objective of regulation should be to make each separately licensed segment of the telecom sector, viable and self-sustainable.

**Q2. Has market development reached a stage to warrant a different modality of tariff rebalancing namely a shift from a regulator driven regulation? If the answer to the above question is in positive what should be the new pattern of regulation.**

1. An overall price cap with or without sub caps for specified services or only a floor price to be specified for all specified services; or a combination of both ceiling and floor prices; or
2. Should a system be followed wherein only some specified services such as local services are regulated?

- A2. Yes, we believe that a different mode of regulation needs to be adopted by the Regulator.

As discussed above, the approach followed by the Authority may include the prescription of a specific tariff package for low-end users and a ceiling and floor tariff for all other users.

The prescription of a floor is critical to prevent predatory actions by the incumbent operator who controls about 98% of the subscriber base and has monopolistic control over vital bottleneck facilities.

The prescription of a ceiling is also warranted to safeguard the interests of consumers.

- Q3. With the opening up of NLD / ILD to new players should there be a schedule for these tariffs separate from the basic services tariff schedule?**

- A3. Yes, with the separate licensing of NLD / ILD services, there should be a separate schedule for NLD / ILD tariffs and should be prescribed on a per-minute basis so as to be in line with the basis for levying originating / terminating access charges.

- Q4. Should we continue with the present method of specifying a mandatory standard tariff package, and allowing the service provider to offer alternative tariff package?**

- A4. As mentioned earlier, a specific tariff package may be prescribed only for the low-end users.

For other users, we believe that a combination of floor & ceiling price should be adopted and alternative packages be permitted within the ceiling and floor band.

- Q5. Does a ground exist for applying asymmetric regulation i.e. regulation applying only to the incumbent who enjoys significant market power and has the ability to control prices?**

- A5. Yes, COAI believes that there is a very strong case for applying asymmetric regulation since the incumbent has near monopolistic control over all the bottleneck facilities and the adverse effects of this are already being seen especially in respect of unilateral interconnection terms and conditions being imposed on the private operators.

- Q6. Should specific services (domestic / international long distance) be subject to different regulatory policies than the local services?**

- A6. No, the fundamental principles of tariff regulation should be the same for all types of services viz. move towards cost-based tariffs to ensure that each service is self-sustainable.

## V. CHAPTER III : FRAMEWORK AND METHODOLOGY FOR BASIC TARIFF REVIEW

### General Comments :

#### 1. Principles for WLL (M) Tariffs

- a) Without prejudice to our submissions in the matter before Supreme Court, COAI submits that WLL (M) had been recommended by the Authority and accepted by the Licensor – based on certain pricing principles. These were :
- WLL (M) would be offered as an extension of fixed services – this means that the network should be dimensioned for traffic of 80 milli erlangs per subscriber.
  - Monthly Rental for the Service will be cost based.
  - The Local Call tariff would be the same as the highest rate applicable for fixed line services – which at the time the service was introduced, was a subsidized call charge.
  - Level Playing Field will be ensured.
- b) COAI believes that the above represent the core features of this service and that the Regulator must continue to abide by the principles on which this service was introduced.
- c) However, it may be pointed out that in subsequent developments including the current tariff review exercise, the WLL (M) service appears to be moving further and further away from the fundamental principles on which it was introduced.

This can be illustrated by the following :

- Cost based call charges are being proposed in the current tariff exercise - This is evident from Para 3.25 of the Consultation Paper where the Authority has arrived at Re. 0.55 as a per minute cost of a local call, which given the 120 second pulse that is being considered by the Authority, would make the local call charges fully cost based.
- TTO-22 has changed the assumptions on traffic per subscriber from 80 milli erlangs which is an accepted international benchmark for network dimensioning for fixed line services, to 25-50 milli erlangs per subscriber – which is the benchmark for cellular mobile services, thus leading to a lower value for monthly rental. Further, given the fact that the Authority has arrived at an Access Deficit of Rs. 244 per month per DEL, the monthly rental of Rs. 200 provided for WLL (M) services is definitely not cost based.
- Floor price for WLL (M) rentals has been removed in TTO-22, thus leaving the cellular operators vulnerable to predatory actions by the FSPs, especially the incumbent operator.

- The anomaly in local call access charges between WLL (M) and cellular mobile services continues to subsist, leading to serious non-level playing field between the two services.

d) COAI believes that the above developments attack the very basis on which the service was introduced. We would therefore like to once again urge the Authority to adhere to the fundamental principles on which the service was introduced and to ensure level playing field between the two services in all aspects – cost of entry, anomaly in local call access charges, points of interconnect, etc.

Further, the Authority should also re-introduce a floor tariffs for WLL (M) so as to safeguard the cellular operators against predatory pricing by FSPs especially the incumbent operator.

- e) We believe that pricing for WLL (M) services should be done in a manner that :
- Consumer Interest is safeguarded.
  - Predatory pricing & other anti-competitive actions are prevented
  - Fixed Line Service rollout is not ignored in favour of WLL (M).

## **2. Cost principles to be applied**

For determination of cost based tariffs, the Authority should uniformly apply the principle of fully allocated costs on current basis for all operators. In fact the Authority had voiced the same principle in its Cellular Tariff Consultation paper 2002/2.

COAI believes that the networks have not yet grown to a level, which would justify adoption of LRIC for tariff determination.

## **Q & A**

**Q1. Which are the network elements whose costs should be taken into account for fixing cost based rental? Should only the non-traffic sensitive portion of the network such as local loop be taken into account or other elements which are traffic sensitive such as local exchange, junction network etc., should also be accounted for, as done in the previous tariff exercise?**

A1. COAI supports the view that cost based rentals should be fixed based on capex of local loop & the traffic insensitive part of exchange cost.

**Q2. What level of rental is considered affordable and such that it will not affect demand adversely?**

A2. Affordability is a relative concept. Determination of rental affordability would necessitate an in-depth study in this matter by TRAI.

**Q3. What cost model should be adopted for determining cost based rentals? For example, is long run incremental cost an appropriate methodology?**

**for determining cost-based prices at this stage of our market development?**

A3. The industry has not developed to the stage where LRIC methodology can be applied. The costing principle / basis to be used should be Fully Allocated Current Costs.

**Q4. What rate of return of funds employed should be considered reasonable and used for determining a cost based price? How should common or joint costs be allocated to specific services such local, NLD and ILD?**

A4. To the best of our knowledge, private operators do not use the concept of ARE in their financing decisions unlike the incumbent operator. Therefore, the concept of weighted average cost of capital (WACC) should be introduced to allow for a reasonable return on the capital employed (both debt and equity).

A rate of return of 10-12% could be considered reasonable.

Common or joint costs should be allocated on the basis of volume of traffic, for local, NLD and ILD services, measured in erlangs.

**Q5. Should monthly rentals be increased for certain category of subscribers such as commercial? If rentals may be increased, can some objective criterion be developed for deciding the extent of such increase and the consumer segments to whom such increase may be made applicable (eg. for all subscribers; for certain user – groups such as business subscribers, residential subscribers, rural subscribers, non rural subscribers)? What criteria should be used for determining subscriber categories whose rentals should increase?**

A5. Since the rentals are to be kept at an affordable level for the low-end users, COAI believes that it is necessary to increase the rentals for commercial and business / professional subscribers. The differential in the rentals can be determined in such a manner that an operator does not require any Access Deficit after taking into account revenues from IUC.

**Q6. Does the methodology of determining tariffs for local calls need to be changed eg. Should there be a change in the pulse duration, the number of pulses at the beginning of a call, or a combination of a call set up charge and reduced pulse rate? If yes, then what should be the pulse duration and the call charge therefore that should be introduced so as to cover all costs, including licence fee. Or may the cost of a local call not be fully covered from local call revenue?**

A6. COAI is of the view that there is no requirement to change the methodology in determining the tariff for local call.

However, we believe that local calls should be cost based after allowing for IUC.

COAI has no objection to a pulse duration of 120 seconds.

Further, there should be no free calls in determining Access Deficit. Free calls may be offered by individual operators under their Alternate Tariff Plans.

**Q7. Should the call charge for WLL (M) be the same as for fixed line call charge? If yes, why? If not, why not ?**

A7. COAI submits that WLL (M) had been recommended by the Authority on the basis that its local call tariff would be the same as the highest rate applicable for fixed line services. This recommendation was also accepted by the Licensor and in fact represents a fundamental / core feature of this service. COAI believes that the Regulator must continue to abide by the pricing principles on which this service was introduced.

**Q8. If a regime of origination / termination charge is introduced for local calls, should the same termination charge as in the case of a basic-to-basic call be applied in the case of an incoming call into basic service network from cellular mobile service?**

A8. Based on the principle of work done, the same termination charge as in the case of a basic-to-basic call should be applied in the case of an incoming call into basic service network from the cellular mobile service.

**Q9. Should the current number of free calls continue to be provided or should the free calls not be provided at all? If free calls were not to be provided then should a specified number of initial calls be charged a lower / higher price than subsequent calls? What should be the basis of specifying any such number and what should be the link between the price of these initial calls and the subsequent calls? Should there be any link between the monthly rental and the number of free calls?**

A9. Free calls should not be used to calculate the Access Deficit. Free calls may be offered by individual operators under their Alternate Tariff Packages.

Low end users may be cross-subsidized by high end users in a manner that Access Deficit net of IUC should be zero.

**Q10. What is the likely effect of the developments in the NLD market such as entry of new players on the STD tariff? Do we have enough competition in this segment of the PSTN to let market force determine the tariff? In such a scenario how do we meet the access deficit of the local network?**

A10. While prices have crashed steeply with the entry of the second NLDO operator we have not seen the effect of full competition yet in this regard as the consumers are yet to witness / avail of a range and choice of service offerings.

Further, it may also be noted that despite a sharp fall, NLD / ILD tariffs are still very much above costs.

No, we do not as yet, have enough competition in the market to let tariffs be determined by market forces.

An access deficit will arise only with respect to the specific tariff package that may be specified by the Authority for low-end users. As mentioned earlier, this access deficit will be recovered from the tariffs charged to high end users and the revenues from IUC.

**Q11. If the national STD distance – based tariff system were to be changed to better reflect costs, should the discrete distances slabs as in the present structure of tariffs be retained, eg., should there be a single distance slab “above 500 kms”. Is there any view about there being an optimum number of distance slabs for an objective criteria based NLD tariff structure. If so, what would be desirable objective criteria to be used for deciding on number of distance slabs and the distances these should cover?**

A11. Present slabs are fine and should be equally applicable to both intra-circle and inter-circle calls.

**Q12. What should be the regime for call charges for end users of DID Franchisees? Should the Authority specify the charge or should this be left to the franchiser? If the call charge has to be fixed, what should it be? Should it have any linkage with the call charges of the junction linking the DID PABX and the local network of the franchiser? Should be left to market forces?**

A12. No Comments

## **VI. CHAPTER V : INTERCONNECT USAGE CHARGES (IUC) FOR NATIONAL LONG DISTANCE CALLS**

### **General Comments :**

4. COAI is of the view that it would be more appropriate for the Authority to prescribe a range of values for IUC rather than a single point value owing to different cost structures of different operators / networks.
5. The Authority has identified an access deficit of Rs. 244 per month per line in the case of FSPs.

COAI believes that this Access Deficit has been overstated & should be reduced by the following :

- Net revenues from IUC including revenues accruing from incoming calls from cellular network.
- Extra revenues accruing to FSPs from commercial / business subscribers (based on higher tariffs which have been permitted to them but are not being charged)

6. TRAI has arrived at an Access Deficit of Re. 0.97 paise per minute for monthly rental and Re. 0.22 per minute for free calls.

As mentioned earlier, going forward, free calls should not be used to compute the Access Deficit.

Further, COAI believes that the Access Deficit of Re. 0.97 per minute for monthly rental should be equally divided between originating and terminating access charges. COAI believes that TRAI has erred by adding the per minute Access Deficit of Re. 0.97 to both the Originating and Terminating access charges resulting in double counting.

**Q & A :**

- Q1. Can the average estimates of IUC given in this chapter form basis for introduction of a new IUC regime? If some changes are considered desirable what should these be and what should be the basis for effecting those changes in the given estimates?**

- A1. Yes, the data provided by the Authority does provide a basis for introduction of a new IUC regime.

COAI would once again like to point out that that the Access Deficit of Re. 0.97 per minute for monthly rental should be equally divided between originating and terminating access charges and not be fully added to both, as has been done by the Authority, leading to double charging.

As stated earlier NLD/ILD calls charges should be de-linked from the local call charges and should be prescribed on per minute basis. This will not only further reduce the access deficit but also facilitate simpler implementation of IUC regime.

- Q2. Is it desirable that the regulator provides a range for the IUC within which the concerned service providers may conclude their negotiations at a mutually agreed point?**

- A2. Yes, as indicated earlier, it is more meaningful for the Regulator to provide for a range for the IUC rather than just a single price. Range of IUC will take care of the factors like economies of scale, numbers of years in operation and effective capex management because of which cost could vary among service providers.

- Q3. Should the applicable IUC be relatively higher for rural and remote areas?**

- A3. From the implementation point of view such a difference cannot be administered. As such a uniform IUC will be a practicable approach.

- Q4. Should there be linkage between long distance tariff and the IUC?**

- A4. Based on the principle of work done, the costs for origination and termination should remain unchanged irrespective of the distance between the two stations.

However this approach might not be feasible as it may not be possible to recover a high origination/termination charge for short distance calls as otherwise cost of short distance NLD calls (51-200kms) will become too high. Therefore some linkage may be necessary between IUC and the long distance tariffs of long distance operators. The Regulator may prescribe a rational revenue sharing formula for origination–carriage-termination so that the shortfall in the IUC for short distance calls could be made good from the extra IUC for longer distance calls.

It may be noted that Malaysia had adopted an approach where the revenue split on long distance calls was 35-35-30 for origination, carriage and termination respectively.

- Q5. It is proposed to use element based costing to work out the basic tariffs i.e. rental and local as well as long distance call charges. What alternative methodologies for both or any of these can be considered as appropriate in the conditions currently prevailing in the Indian Telecom Sector? What, if any, will be the main advantage of such alternative methodology?**

- A5. We strongly recommend that the IUC should be based strictly on element based costing for both origination and termination of calls. The deficit between costs and origination/termination charge, for different distance slabs, if any, should be funded by revenue share from long distance calls.

The long distance tariffs should drop further as is the practice in other countries. The advancements in digital technology have brought about a revolution in cost reduction for long distance circuits. The death of distance is round the corner; we should not ignore this aspect.