In keeping with its intention to periodically review the interconnection usage charge (IUC) regulation, which includes carriage, termination and access deficit charge (ADC), the Telecom Regulatory Authority of India (TRAI) has recently released a consultation paper. The paper reassesses the size of the ADC payments, who should the beneficiaries of the ADC regime be, and what should be its structure.

Background
The IUC regulation was notified in October 2003. It envisaged IUC based on minutes of usage for various unbundled network elements and the cost of these elements. ADC was to be derived on the consideration of cost-based rental, local call charges, abnormally low rental in rural areas, free calls and others. The idea was to make basic telecom services affordable to the common man and to promote both universal service and universal access as per the New Telecom Policy (NTP), 1999. According to the regulator, the projected teledensity of 15 could be achieved by the end of 2006, almost three and a half years ahead of the NTP, 1999 target.

The ADC was essentially created to help Bharat Sanchar Nigam Limited (BSNL) in its rural telephony work. TRAI was to revise the ADC in the coming years and eventually phase it out. However, as the authority points out, there have been complaints from service providers that BSNL was using the revenues from ADC to cross-subsidise its tariffs in lucrative segments and out-compete its rivals. The authority has examined BSNL's international call tariffs and found that the tariffs covered the costs. The matter, however, continues to be a cause for concern with the industry. In light of this, TRAI will examine situations where tariffs are specified, resulting in an anti-competitive situation.

Following the public consultation process and discussions with the industry, TRAI notified a revised IUC regime in January 2005, under which it reduced the ADC rates. The regulator put up a strong case to the operators for offering a reduction in long distance tariffs, which would further boost subscriber growth and pave the way for increased usage of long distance networks.

The revised ADC regime was immediately followed by an announcement of a reduction in long distance call charges by many cellular service providers. TRAI further announced a decrease in IPLC (half circuit) rates and a likely decrease in domestic leased line tariffs, which it expects will lead to a further reduction in tariffs and a subsequent increase in the subscriber base. This has, however, been put on hold for now.

The issues

Keeping up the momentum, the regulator has picked up various key issues in its consultation paper to further review the IUC and ADC regime. In January 2005, TRAI asked BSNL and other service providers to furnish their audited results. It also asked for separated accounts from the operators. Based on this and other information, it has begun the process of examining issues like admissibility and quantum of ADC for fixed line service providers. The authority is also looking into the possible overlap between the disbursed USO Fund and the ADC amount due.

Further, TRAI has raised the issue that in the face of greater use of newer and less expensive technologies, the incremental costs involved in computing the ADC should be revised downwards. It has noted the need to account for factors such as the net effect of depreciation on the gross capex and allocation of costs to non-fixed line items, which are likely to decrease the overall costs per subscriber over time. It is also looking at additional sources of ADC generation, given that BSNL has been granted mobile licences without any entry fee.

Aside from this, issues like the revenue share model, mixed model, and unequal revenue share for international and national long distance traffic streams will be discussed and analysed. Questions have also been raised over whether other fixed line operators such as HFCL and Shyam are entitled to ADC.

The following are the key questions mooted by TRAI:

- Justification of ADC on fixed wireless lines and admissibility of ADC for nonBSNL fixed line operators.
- ADC as a percentage of revenue, and its variants including mixed models, higher ADC on NLD and ILD calls, etc.
- Interconnection usage charge (carriage and termination issues) including that for incoming international calls, and whether to have differential rates for carriage and termination.
- Implications of increasing disbursement of USO Fund on the quantum of ADC payable.

In parallel, the authority will examine the present ADC within three to six months of the implementation date (February 1, 2005), based on latest traffic inputs. This data has already been called for from the operators.

The authority has invited written responses from all stakeholders by April 15, 2005.