

Telecom Regulatory Authority of India
Fixed Network Division
(25.11.2008)

A Note on Review of Interconnect Usage Charges

1. There have been recent press reports on review of Mobile Termination Charge (MTC). As the subject matter has components of technology, finance and economics, it is considered appropriate to apprise all the stakeholders about specifics in this regard.
2. MTC is one of the components of Interconnect Usage Charges (IUC). IUC are payable by one service provider to the other for usage of the network elements for origination, transit or termination of calls. Components other than MTC are Fixed Line Termination Charge, Carriage Charge, Origination Charge and Transit Carriage Charge. Access Deficit Charge has also been reviewed along with IUC but has now been abolished. All these charges together go towards making call charges and are therefore to be looked at comprehensively for any meaningful review. There is no short cut to this exercise. It would be pertinent to mention that British regulator Ofcom initiated preliminary consultation on termination charge in June 2005 and detailed consultation in March 2006 and the regulatory statement was finally issued in March 2007.
3. In accordance with the power vested under section 36 read with clauses (ii), (iii) and (iv) of sub section (b) of Section 11(1) of the TRAI Act 1997 and its amendments, TRAI issued its first IUC Regulation on 24.1.2003 that took effect from 1.5.2003. This had to be reviewed and revised on representation of the stakeholders as there were severe implementation issues. After another round of consultation process the earlier regulations with related amendments were notified on 29.10.2003 which came into effect from 1.2.2004. In the IUC review carried out in 2006, the carriage charges were changed from distance based with specified tariff to ceiling based while other components were kept same.
4. There is a complex interplay of IUC with many other issues. IUC has been considered time and again during formation of a number of regulations. A comprehensive review of IUC was therefore considered appropriate only after these

issues/regulations/directions were finalized. This would minimize the prospects of any emergent modifications. One such issue was that of Access Deficit Charge. A final view was to be taken up on ADC and it was decided to phase out ADC from 1.10.2008. In the regulation on **Intelligent Networks** dated 27th Nov, 2006 the issue of interconnection charges was visited and it was decided to leave these to mutual agreements/arrangements while maintaining reciprocity and non-discrimination. When, as mandated, some of the service providers failed to enter into agreements/arrangements the authority also issued directions in December 2007 on the origination charges payable for IN calls. TRAI has held discussions with a number of stakeholders on the issue of intra-circle carriage charge for mobile to fixed calls. Review of these charges would also be part of the current IUC review. In the **Carrier Selection** consultation paper issued on 7.5.2008 issues regarding interconnection, origination charge and in general effect of carrier selection on IUC have been raised and discussed with the stakeholders. IUC regime with respect to Internet Telephony have been sent to DOT in August 2008. IUC, in some form or the other, is always under focus of TRAI.

5. It may be appreciated that the issue of IUC is a multi dimensional concept having far reaching consequences both for the industry and the consumers. It is significant to revisit the road traveled in 2001-03 while determining IUC. The stakeholders would recall that the preliminary IUC determination exercise started with the consultation paper dated 14th December 2001. This consultative process continued with consultation paper on Reference Interconnect Offer(RIO) in April 2002 based on which RIO regulation was issued in July 2002. The subject was so vast that sufficient information was still not available to evolve IUC regime, the Authority, therefore, continued consultation with the stakeholders based on the consultation paper on Basic Service Tariff and IUC regime dated 23.9.2002. This culminated into the first IUC Regulation on 24.1.2003 with various schedules specifying origination, carriage and termination for intra circle and inter circle as well as inter network calls to be implemented by operators w.e.f. 1.4.2003. Immediately after issue of the regulation a review was requested by the service providers because of serious implementation difficulties. The Authority, taking note of the problems being faced by almost all service providers, issued a consultation note on IUC on 30.4.2003 and also deferred the date of implementation to 1.5.2003. On the basis of various issues, viewpoints, comments received and its own analysis, the Authority decided to go through the consultation process and a consultation Paper on IUC issues was issued on 15th May,

2003. After completing the consultation process a revised IUC Regulation was issued on 29.10.2003. This Regulation superceded the IUC Regulation dated 24.01.2003 and came into effect from 1.2.2004. This was well accepted by the industry and has been instrumental in growth of the industry and reduction in tariff. At present the IUC Regulation dated 29.10.2003 is the principal regulation. From the above it can also be seen that the time taken from the initial consultation to issue of final principal regulation was about 2 years. In the year 2006 the IUC were again reviewed. The Authority decided to put a ceiling on carriage charges while other IUC components were decided to be kept same with elaborate explanation in the explanatory memorandum.

6. In view of the explosive growth of the sector, multiplicity of operators and services, move towards Internet Protocol(IP), 3G and Next Generation Network(NGN) any attempt at review of IUC would again be a very involved exercise. The establishment of IUC needs to take into account often conflicting views of the stakeholders and also reconcile a number of complementary and conflicting objectives. It requires detailed costing analysis of network elements, appropriation of costs to services, fair return to the network owner, incentive to the small and new operators, welfare of consumers etc. The important modeling issues involve fully allocated vs incremental cost, top-down vs bottom-up and hybrid, historic vs forward looking, efficiency levels, planning horizons, new technologies, cost of capital, licence fee, network expansion objectives, investment incentives, symmetrical vs asymmetrical charges and so on. As evident from all previous consultation processes, the IUC review exercise is a complex exercise and any undue haste may prove to be detrimental to the industry and the consumers and give rise to avoidable litigation. Any half-baked effort may re-open issues that have already been fairly settled. **A comprehensive review of IUC regime including MTC has now been taken up to meet the industry and consumer expectations.**
7. In the ongoing IUC review as part of the pre-consultation process all the operators were asked to submit the cost-model, data assumptions and the result of their calculations by 30.9.2008. Most of the operators asked for extension of time on the grounds that the requisite information is very complex and elaborate and collection/compilation of data would require more time. The Authority extended the last date of submission up to 15.10.2008 and finally up to 31.10.2008. It has been observed that most service providers have not provided, in appropriate form and

detail, network architecture, network element costs and traffic figures. This makes the job of review even more complicated for TRAI. Also the industry has presented different viewpoints including methodology to determine IUC. Analysis of the information provided by the service providers has already been initiated.

8. From various measures taken by the Authority it can be inferred that the Authority attaches highest priority and emphasis to the objective of reducing domestic tariffs, meeting consumer interest and spurring sustained growth. The Authority intends to follow the same objectives while carrying out the review of IUC. As per the internal work-plan of TRAI it is planned to issue a consultation paper in December 2008.

Secretary, TRAI