

D.O. No 409-22/07-FN

Dated 27.3.2008

Subject: Recommendations on “Support for Rural Wireline Network of BSNL from Universal Service Obligation Fund On Phasing Out of Access Deficit Charge Regime”

Dear Shri Behura,

Access Deficit Charges (ADC) regime was put in place by the Telecom Regulatory Authority of India (TRAI) in 2003 through its Interconnect Usage Charge Regulations to compensate the incumbent for rental/local call charges and any other below cost tariffs with the objective of making the basic telecom services affordable to the common man and promoting both universal service and universal access. ADC, however, cannot be continued in perpetuity without causing distortions in the market and putting undue burden on consumers. A reference was made to DOT vide our letter no 409-12/2006 dated 20.9.2006 and subsequent reminders were sent on 22.11.2006 and 27.12.2007 (Copies of letters have been annexed at Annexure B of recommendations) that ADC regime is slated to be phased out in 2008-09 and the Department of Telecommunications (DOT) may consider support from Universal Service Obligation Fund (USOF) to fixed lines in rural areas beyond 2007-08 to compensate for the below cost rentals and local call charges to keep the services provided through this network affordable for rural population.

2. In the process of carrying out its annual review of the “Telecommunications Interconnection Charges Regulations” a consultation paper was issued by the Authority on 21.1.2008. This consultation paper has discussed role of ADC and USO in detail. It was mentioned that TRAI has been proposing phasing out of ADC and taking over of the responsibility of supporting rural wirelines by USOF mainly for two reasons.

3. Firstly, to avoid an instrument like ADC create market distortions and become undue burden on the consumers due to its overuse. Secondly, it is important to sustain and encourage incumbent's rural operation not only for bridging urban-rural divide but also for smooth introduction and proliferation of broadband services on wireline in rural areas. The Authority had therefore forwarded a copy of the Consultation Paper through letter dated 25.1.2008 for necessary action by DOT. (Copy of the letter annexed at Annexure C of the recommendations). On the question of whether ADC should be abolished and BSNL should be given subsidy from USOF for sustaining its fixed wireline operations in rural areas, the majority of stakeholders expressed their view in favour of abolition of ADC and supporting BSNL's fixed rural network through USOF.
2. On the basis of the comments of the stakeholders, discussions in the open house and internal analysis TRAI has finalized its recommendations in this regard which are being forwarded herewith. Recommendations are summarized here for your ready reference:
 - BSNL should be provided support for sustenance of fixed wirelines installed before 1.4.2002 through USOF. This amount should be Rs 2000 crores per year for a period of 3 years effective from 1.4.2008 and payable quarterly in advance. This support has to be reviewed in the third year for further continuation.
 - BSNL should furnish a certificate for funds having been utilized towards operation and maintenance of RDELs provided prior to 1.4.2002, before the release of next quarterly installment.
 - Any amount that BSNL may receive on account of temporary continuation of during this period of changeover shall not be adjusted against the amount payable from USO fund

3. Copies of the recommendations and press release are enclosed herewith. These recommendations have also been placed on TRAI's website www.trai.gov.in
4. It is hoped that Department of Telecom will take early action to implement these recommendations.

With Regards,

Yours sincerely,

(Nripendra Misra)

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