

# **TELECOM REGULATORY AUTHORITY OF INDIA**

## **PRESS RELEASE**

**3<sup>rd</sup> October, 2001**

### **TRAI PROVIDES RECOMMENDATIONS ON UNIVERSAL SERVICE OBLIGATIONS**

TRAI today provided the Government with its Recommendations on 'Universal Service Obligations'. Universal service aims to provide nation wide telephone connection to both households and public places at an affordable tariff, even when some of these connections may be unremunerative and may not be justified on purely commercial considerations. In three sections, this note provides the background, the main recommendations, and brief details on TRAI's USO recommendations.

This note summarises the main recommendations in the following section, and gives more detail in the last section.

#### **2. MAIN RECOMMENDATIONS OF TRAI**

There should be two streams of universal services – one that ensures shared access to telecom services for all and the other under which provision has been made for support from the Universal Service Fund (USF) for household phones in rural and remote areas. This latter stream aims at achieving the objective of increasing the current rural teledensity of about 0.5 to 4 by the end of 2010.

Under the two streams i.e. (a) shared universal access and (b) increasing teledensity in rural and remote areas, the main recommendations of TRAI are:

##### **I. Access to Public Phone and Public Tele-Info Services**

- Highest priority for support from Universal Service Fund should be given to Village Public Telephones (VPTs) and Public Tele Info Centres (PTICs), and to Rural Community Phone (RCP) to be installed in addition to VPTs.
- The Government, in its role as the Licensor of Basic Services, should direct both BSNL/ private BSOs to give the highest priority to the installation of all the 607,491 VPTs by the target date i.e, 31-3-2002.
- By 2004, PTICs should be installed in 35,000 villages.
- By 2010, most VPTs should be upgraded to PTICs.
- In addition, to promote tele-medicine and tele-education, High Speed PTICs should be installed in all Blocks in the country by 2005.
- In addition to VPT/PTIC, rural community phone (RCP) should be given also in schools and primary health centres for villages with population more than 2,000.
- All VPTs should have STD facility within three years.

## **II. Direct Exchange Lines (DELs) in rural/remote areas**

- Support from Universal Service Fund should be provided to Direct Exchange Lines (DELs) in rural /remote areas.
- The net cost incurred for DELs in rural / remote areas should be calculated at the level of Short Distance Charging Area (SDCA).

## **III. General procedures applicable to both VPTs / PTICs and DELs in rural/remote areas**

- USO scheme should be implemented from 1.4.2002.
- Compensation for net cost should be paid on the basis of efficient costing and subject to verification by a proxy cost model.
- No compensation should be provided for capital expenditure incurred prior to the date of implementation of the scheme.

## **IV. Universal Service Fund (USF) Administration**

- USO Administrator should be established by 1.1.2002 to implement the USO policy, including the administration of USF.
- Universal Service Levy to be 5 per cent of adjusted gross revenue and should be allocated to the Universal Service Fund out of the License Fee collected by the Government.
- Universal Service Levy to be collected from all telecom carriers/operators, but not from pure value added service providers such as ISPs, e-mail or voice mail service providers.

## **3. MORE DETAILS ON TRAI RECOMMENDATIONS:**

### **3.1 Access to Public Phone and Tele Information Services:**

#### **i) Installation of VPTs**

DOT in its role as licensor should direct both BSNL/Private BSOs to give highest priority to the installation of all the 607,491 VPTs by the target date of 31.3.2002.

#### **ii) Second Rural Public Phone (RCP) in village schools, primary health centers etc.**

The Authority has recommended that after achieving the target of one VPT in every village, a second rural community phone ( RCP) should be installed at public places like school, primary health centers etc. in villages with population more than 2000.

#### **iii) Public Tele-Info Centres (PTICs)**

The Authority has recommended that a phased programme should be implemented to upgrade about 35000 VPTs to function as PTICs by the year

2004. The minimum access speed of PTICs should be 28.8 kbps on terrestrial lines and 9.6 kbps for WLL technologies. These PTICs should be installed in such a manner that 10 to 12 PTICs are located in each SDCA so that each PTIC covers a population of about 20,000 persons. The medium term aim is to upgrade most VPTs into PTICs by the year 2010, based on techno-economic considerations

#### **iv) High Speed PTICs:**

For development of applications like tele medicine, tele education and other high speed data applications, the Authority has recommended that each block in the country should have high speed PTICs (HPTICs) installed by the year 2005. The access speed for high speed PTICs should be more than 128 kbps to support such applications.

#### **(v) STD Facility in VPTs**

Authority has noted that most of the existing VPTs do not have STD facility due to which this service may not be very popular in villages and which becomes a major hindrance for commercial viability of VPTs. The Authority has recommended that all VPTs should have STD facility within the next three years.

### **3.2 Household Phones or Direct Exchange Lines (DELs) :**

The Authority recommends that after providing support from USF for VPTs/RCPs/PTICs, the remaining funds should be used to provide support to be provided for DELs in rural/remote areas. The area wise approach is recommended under which the net cost of providing Universal Service in each rural/remote SDCA can be calculated, and partial or full reimbursement thereof, can be provided from the Fund created for this purpose. The net cost estimated by the service provider must be verified by the Universal Fund Administrator, with the help of a proxy cost model developed for this purpose. To start with, a Network Planning tool developed by International Telecommunication Union (ITU), called PLANITU, which is available in the country, may be used for this purpose.

### **3.3 Compensation to be provided for net efficient cost**

#### **(i) Definition of Net Cost is defined as cost minus revenue**

The Authority is of the opinion that for VPTs/RCPs/PTIC and DELs in rural/remote SDCAs installed prior to date of implementation of USL i.e. 1.4.2002, only operating expenses should be considered as the cost component for USO support. For those installed/replaced from 1.4.2002 onwards, both capital recovery and operating expenses should be taken into account as costs. Further, the capital recovery for DELs in rural /remote SDCAs should include only the cost of access network , i.e. only the non-traffic sensitive part of the network.

## ii) **Efficient Cost**

The Authority is of the view that service providers should use the most cost-effective, reliable and maintainable technology for installation of the telecom systems. The cost submitted by the service providers shall be verified by Universal Service Fund Administrator with the help of proxy cost models, to ascertain that service providers use the most efficient and cost effective telecom system to provide these services. For the purpose of compensation from Universal Service Fund, the most efficient cost for the SDCA shall be taken into account.

### **3.4 Universal Service Levy (USL):**

#### **(i) Class of Operators to Fund USL:**

The Authority has recommended that the USL should be paid by all telecom carriers or operators. Pure Value Added Service providers such as ISPs, E-mail, Voice Mail service providers etc. who do not own facilities and are thus not in the category of carriers or operators, shall be excluded from the purview of Universal Service Levy.

#### **(ii) Quantum of USL**

The Authority has recommended that initially USL be fixed at 5 percent of the adjusted gross revenue of telecom operators/carriers. This figure i.e. 5 per cent of revenues of all the telecom operators, appears to be adequate to support Universal Service programme in its first phase of VPTs/PTICs as well as DELs in rural /remote areas. In subsequent years, the Universal Service Administrator may revise this figure depending upon the requirement. To give effect to the USF, the license fee realised may be bifurcated into two parts. One would be the designated portion of the Universal Service Levy which may go to the Universal Service Fund. The balance would go to the Consolidated Fund of the Government of India. Hence, no additional levy is proposed for funding USO. This also implies that even an increase in the USL will not adversely impact either service providers or the consumers.

### **3.5 Universal Service Fund (USF) Administrator**

#### **i) Establishment of USF Administrator and the Board:**

The Authority has recommended the creation of USF Administrator and the Board as an independent unit. This Board may consist of seven Members including the USF Administrator, who will also be its Chairperson. The other six Members may come from the field of Economics, Finance, Telecom Engineering, Administration management, Law and Consumer Welfare. It should have one representative each from TRAI at the Member level, Government, service providers and consumers. The selection of USF Administrator and the Board Members is to be done by the Regulator in consultation with Government. The Universal Service Fund Administrator should be established by 1.1.2002 to implement the USO Policy.

## **Functions of USF Administrator:**

The Universal Service Fund Administrator shall estimate the required USO support, develop proxy cost models for verification of the cost submitted by service providers, undertake determination of Universal Service Levy, settle the claims of eligible service providers after duly cross checking the same and make disbursement from the Universal Service Fund.

4. One of the two part-time Members, Dr. Rakesh Mohan, has given a supplementary note expressing certain reservations on the other members' recommendations about extension of support from USL to household phones in rural and remote areas. Dr. Mohan's reservations are basically two. One that the scheme for providing USO support to high cost rural and remote SDCAs, as recommended by the Authority, provides, in his opinion "incentive to incur losses" and is, therefore, "undesirable". The other reservation is on the ground that the volume of data required is large and its management impracticable. The other Members of the Authority have considered the points made by Dr. Mohan very carefully and are of the opinion that the scheme aims at fulfilling the objective of increasing tele density in rural and remote areas and raising it from the present about 0.5 to 4% which need not be diluted or postponed. As regards the impracticability of the approach the Authority is convinced that despite difficulties the scheme is implementable. In fact, the kind of data that is required for administering USF will be required and is being prescribed for a number of other regulatory purposes such as tariff fixation and establishment of a non-discriminatory and fair interconnection regime. Without such data the Regulator cannot expect to exercise due economic regulation and to be deterred because of the difficulties involved in its collection will amount to giving up important aspects of regulation.

The Authority has, therefore, not considered necessary to make any modifications in the recommendations made in the main report.

**(Detailed TRAI Recommendations are available at <http://www.trai.gov.in>)**