

Consultation Paper No. 3/2007



Telecom Regulatory Authority of India

**Consultation Paper
On
Access Deficit Charge (ADC)**

31st January 2007

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PREFACE

The liberalisation of the telecom sector has witnessed intense competition, especially in the mobile and long distance sector leading to unprecedented growth of telecom services. The Access Deficit Charge (ADC) regime has been put in place by the Telecom Regulatory Authority of India (TRAI), to facilitate the incumbent to transit from monopoly to competitive regime in the telecom sector giving adequate time for tariff rebalancing.

The ADC regime was first introduced by the Authority with its regulation on the interconnection Usage Charge (IUC) dated 24th January, 2003. It was subsequently reviewed on 29th October, 2003 and further amended on 6th January, 2005 and 23rd February 2006. The exponential growth in subscriber base has confirmed the positive contributions of these regulatory initiatives.

In October 2003 Regulation, the Authority had stated that review of ADC would be done annually. Subsequent to implementation of October 2003 Regulation, w.e.f. 1st February 2004, the Authority has been reviewing the ADC regime on an annual basis. The ADC framework established by the Authority has already stipulated that it is a depleting regime, and thus the regime cannot be continued in perpetuity. Therefore, the ADC would be reduced to zero by the year 2008-09. As a part of an Annual Review, the Authority has now come out with a Consultation Paper which addresses review of ADC regime, the applicable amount of ADC for the year 2007-08 and mechanism for funding/ collection of such ADC amount including ADC as Percentage of Revenue, per minute ADC on ILD calls, and its various variants, admissibility of ADC for other service providers (other than BSNL) for their fixed wireline operations.

The Authority has requested for written responses from all the stakeholders by 26th February 2007. It would be appreciated if the response is accompanied with an electronic version of the text through E-

Mail. For further clarification, stakeholders can get in touch with Mr. M.C. Chaube, Advisor (FN), TRAI on Tel. No. 23230404. Submission in electronic form would be appreciated on E-mail chaubemc@traigov.in and traio9@bolnet.in .

(Nripendra Misra)
Chairman

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Chapter-1

Background

1.1. Progressive policies of the Government, major positive regulatory measures put in place by the Telecom Regulatory Authority of India (TRAI) and entrepreneurial excellence of the service providers have made India's telecom sector, the success story of liberalization. As a result of rapid changes in technology, intense competition and other dynamic changes in the sector supported by the booming economy, major constructive initiatives from the regulatory and licensing authority is on the anvil. Some of the key issues have been addressed since January 2003 through Interconnection Usage Charge (IUC) Regulations. In the background of various growth parameters including usage and availability of more minutes as a result of rapid increase in the subscriber base especially for mobile services, the Authority has been reviewing the Access Deficit Charge (ADC) regime on an annual basis and has already laid a framework for discontinuance of ADC in present form from the year 2008-09. Accordingly the ADC Regime for the year 2007-08 is being reviewed by initiating this Consultation Process.

1.2. Framework of IUC/ADC regime was established by the Authority through its Regulation dated 24th January, 2003. This regime came into effect from 1st May 2003. At the time of implementing the first IUC / ADC regime notified on 24th January 2003, the Authority had seriously evaluated various comments on the features of the framework including sustainability of the regime. The estimated amount of ADC was significant and the contribution was mainly from calls involving fixed line subscribers either at one end or both ends. This meant that the IUC/ADC charges differed widely for calls from and to fixed and mobile networks. With ADC being levied only on calls involving fixed line, the mobile service providers had greater flexibility in offering lower tariffs in comparison to fixed lines especially when fixed lines were involved at both ends. This had a bearing on the competitive ability of fixed line operators to a very large extent.

1.3. The determination after the review were appropriately reflected in the second IUC/ADC regime notified in the Regulation dated 29th October, 2003. The IUC regime of 29th October, 2003 became effective from 1st February 2004. The Authority at that stage, had taken note of the fact that even developed countries like the US, Australia, Canada, France with lesser compulsions of providing low rentals and tariffs for unviable services had to formulate ADC during initial years of liberalization and tariff re-balancing. The Authority had further noted that in the initial regime of 24th January 2003, ADC was about 30% of total Adjusted Gross Revenue (AGR) of the telecom sector revenue. The major portion of the ADC was contributed by Bharat Sanchar Nigam Limited (BSNL) itself. BSNL's contribution in the total ADC was about 81% and 19% from other telecom service providers. In the Regulation of 29th October 2003, the ADC amount was kept at about 10 % of the total AGR of the sector, a more sustainable number, and the BSNL's contribution was reduced to 47%.

1.4. Keeping in view the higher growth in subscriber base and traffic minutes, the Authority issued another Consultation Paper on 23rd June 2004 on 'Access Deficit Review'. As a consequence of consultation, the Authority notified a new ADC regime on 6th January 2005. The Authority's assessment was mainly based on increased minutes available to fund the ADC. In this regime, the Authority had provided BSNL with the same amount of ADC fund as were specified under the regime notified in the Regulation of 29th October 2003 but the per minute rates were reduced.

1.5. The Authority conducted third review of IUC/ADC by its consultation paper of 17th March 2005. This consultation paper recalled in particular a wide range of issues including justification of ADC on fixed wireless line and admissibility of ADC for non-BSNL fixed line operators, ADC as a percentage of revenue and its various variants, higher ADC on

National Long Distance (NLD) and International Long Distance (ILD) calls, interconnection usage charges (carriage and termination) including those for incoming international calls, exclusion of revenue generated from rural wireline subscribers from the ambit of the ADC, possible differential termination charges for national and international calls, implication of making available Universal Service Obligation (USO) fund to meet the quantum of ADC payable.

1.6. The Authority, after following the consultation process notified a revised IUC regime on 23rd February 2006, effective from 1st March, 2006. In this Regulation, the total estimated amount of ADC for the year 2006-07 was Rs. 3335 Crore, out of which Rs. 3200 Crore was the estimated ADC for BSNL. For funding/collection of such amount the rates were specified as Rs. 1.60 per minute for Incoming ILD calls, Rs. 0.80 per minute for Outgoing ILD calls and 1.5% of AGR of all service providers i.e. Access Providers, NLDOs and ILDOs.

1.7 In October 2003 Regulation, the Authority had mentioned that **review of ADC would be done annually**. Subsequent to implementation of October 2003 Regulation, w.e.f. 1st February 2004, the Authority has been reviewing the ADC regime on an annual basis. The ADC framework established by the Authority envisaged that since **ADC is a depleting regime, the regime cannot be continued in perpetuity, and thus the need to carry out fresh calculations for the admissibility of ADC does not arise. Thus the ADC would be reduced to zero in the year 2008-09**. Accordingly this Consultation Paper addresses the review of ADC regime specifically, the amount of ADC for the year 2007-08, mechanism for funding/ collection of such ADC amount e.g. ADC as Percentage of Revenue, per minute ADC on ILD calls, and its various variants and the case for ADC to other service providers (other than BSNL) for their fixed wireline operations. Any expression of opinion in this document has to be read in the context of analysis of the option / data and not necessarily as a view of the Authority.

Chapter 2

Review of Access Deficit Charge

Access Deficit Charge (ADC) Regime:

2.1 The prevailing ADC regime notified by the Authority in its Regulation dated 23rd February 2006, came into effect from 1st March 2006. In this Regulation, total estimated amount of ADC for the year 2006-07 was Rs. 3335 Crore, out of which Rs. 3200 Crore was the estimated ADC for BSNL. In this Regulation, ADC on ILD traffic was continued to be on per minute basis but at a reduced rate of Rs. 1.60 per minute from Rs. 3.25 per minute for Incoming ILD calls and Rs. 0.80 per minute from Rs. 2.50 per minute for Outgoing ILD calls. In addition to ILD calls, ADC is also applicable as 1.5% of AGR of Access Providers, NLDOs and ILDOs. In this Regulation no ADC was levied on revenue generated from rural wireline subscribers i.e. while calculating the ADC as a percentage of Adjusted Gross Revenue (AGR) of a Unified Access Service Licensee/Basic Service Operator, the revenue from Rural Fixed Wireline subscribers was allowed to be excluded. As per this Regulation Access providers can retain ADC generated from Outgoing ILD calls originated from Fixed Wireline and ADC as %age of AGR of Fixed Wireline and remaining ADC needs to be Paid to BSNL. Summary of Estimated ADC amount from various streams for the year 2006-07 is given in Table-1 below for ready reference:

Table -1
ADC Rate & Estimated ADC amount for the Year 2006-07*

Stream	ADC Rate	ADC Amount (in Rs. Crores)
Revenue Share	1.5% of AGR for all service providers	1278
International Incoming Calls	Rs. 1.60 per Minute	1800
International Outgoing Calls	Rs. 0.80 per Minute	257
Total		3335

**Source: Table 8 of IUC Regulation dated 23rd February 2006*

The data collected from BSNL and other service providers for first two quarters of 2006-07, more or less indicates that the estimated ADC for 2006-07 would be recovered.

Framework of ADC Regime

2.2 Framework of ADC Regime has already been established by the Authority through various Regulations. The main decisions already taken by the Authority in Interconnection Usage Charges Regulation, 2003 (4 of 2003) dated 29th October 2003 and its subsequent amendments are summarized below:

a) ADC is depleting regime:

Authority has been emphasising from October, 2003 onwards that ADC is a depleting regime.

“...Even the ADC regime that remains for BSNL is to be phased out in general and to be merged with USO regime in 3 to 5 years...” (Para 101 of 29th October 2003 Regulation)

“.....In this regard, it is important to recall the Authority’s statement in its IUC Regulation of 29th October, 2003 that it will be gradually reducing the ADC, merging it with the USO regime in due time....”(Para 25 of 6th January 2005 Regulation)

“.....and has also decided that the ADC will be progressively decreased to be phased out in a few years time...” (Para 52 of 6th January 2005 Regulation)

“.....However, the ADC is a depleting regime mainly to give time to incumbent, etc. for rebalancing of tariffs during a transition period and it will be phased out over time and will be merged with the USO Regime and any lines with below cost operation especially in rural areas with regulated tariffs having any justification for access deficit needs to be covered through USO.....” (Para 23 of 23rd February 2006 Regulation)

“.....It is again reiterated here that right from October, 2003 Authority has been emphasising on the point that ADC regime is a depleting regime and should be replaced by or merged with USO regime from 2008 – 2009 onwards...” . (Para 24 of 23rd February 2006 Regulation)

“....since this is a depleting regime, therefore, the earlier calculated value of ADC has to gradually come down so that it becomes zero in the year 2008-09...” (Para 43 of IUC Regulation dated 23rd February 2006)

“(i) ADC is a depleting regime....” (Para 67 of 23rd February 2006 Regulation)

b) ADC cannot be continued in perpetuity.

“---Over time, within a few years, therefore, it may be possible to do away with the ADC regime, and the ADC regime could be merged with the USO regime. This would be similar to the situation in most other countries, where the ADC regime had been combined with the USO regime, rather than the ADC funding being provided through a separate ADC regime. (Para 24 of 29th October 2003 Regulation)

“The Authority has also decided that it would obtain more detailed audited cost information to assess the relevant ADC for BSOs, and would also consider phasing it out after the next review. This phasing out may be earlier than the overall phasing out of the access deficit regime that the Authority will consider, merging the ADC regime into the USO regime after a few years.---” (Para 57 of 29th October 2003 Regulation)

“.....Further, the ADC regime should ideally be merged with the USO regime over time, say in about 3 to 5 years.....” (Para 89 of 29th October 2003 Regulation)

“.....The Authority is of the opinion that the prevailing ADC regime should be made to transition within 3 to 5 years towards an USO type of regime.” (Para 98 of 29th October 2003 Regulation)

“...Even the ADC regime that remains for BSNL is to be phased out in general and to be merged with USO regime in 3 to 5 years...” (Para 101 of 29th October 2003 Regulation)

“...the Authority has already stated that the ADC regime will be phased out over time and will be merged with the USO regime...” (Para 28 of 6th January 2005 Regulation)

“.....and has also decided that the ADC will be progressively decreased to be phased out in a few years time...” (Para 52 of 6th January 2005 Regulation)

“...The ADC is given for a temporary period for rebalancing the tariff and it cannot continue in perpetuity if the rebalancing is not done or reversed rebalancing is resorted to....” (Para 24 of 23rd February 2006 Regulation)

“The Authority has given sufficient time for tariff rebalancing and the ADC is mainly for the historical cost and not for the futuristic cost. The Authority is of the opinion that if same amount of the ADC will continue for the incumbent or any other operator tariff rebalancing will never take place and this will put undue burden on the subscribers because of the continuity of ADC Regime in perpetuity....”(Para 26 of 23rd February 2006 Regulation)

c) No need of fresh calculations for the admissibility of ADC

“...Authority in its October, 2003 Regulation has done detailed calculations in consultation with BSNL for the total ADC amount based on historical costs and Authority does not consider it necessary to continue to do these calculations based on historical data again and again...” (Para 26 of IUC Regulation dated 23rd February 2006)

“...Since ADC was mainly on account of deficit in the wireline cost based rentals and the number of wireline subscribers is not changing. Therefore, the ADC

amount estimated earlier by the Authority need not be calculated again but since this is a depleting regime, therefore, the earlier calculated value of ADC has to gradually come down so that it becomes zero in the year 2008-09... (Para 43 of IUC Regulation dated 23rd February 2006)

d) ADC would be reduced to zero in 2008-09.

"...Even the ADC regime that remains for BSNL is to be phased out in general and to be merged with USO regime in 3 to 5 years..." (Para 101 of 29th October 2003 Regulation)

"...the Authority has already stated that the ADC regime will be phased out over time and will be merged with the USO regime..." (Para 28 of 6th January 2005 Regulation)

"---The Authority is of the opinion that by March 2008, i.e. next two years time frame any lines in rural segment having justification for funding access networks will be required to be considered through USO and ADC will be phased out..." (Para 23 of 23rd February 2006 Regulation)

"...the earlier calculated value of ADC has to gradually come down so that it becomes zero in the year 2008-09..." (Para 43 of IUC Regulation dated 23rd February 2006)

"--- ii) ADC Regime would be reduced to zero in next 2 years---" (Para 67 of 23rd February 2006 Regulation)

e) ADC should be replaced or merged with USO regime from 2008-09.

"--Over time, within a few years, therefore, it may be possible to do away with the ADC regime, and the ADC regime could be merged with the USO regime..." (Para 24 of 29th October 2003 Regulation)

"---the Authority will consider, merging the ADC regime into the USO regime after a few years.----" (Para 57 of 29th October 2003 Regulation)

".....Further, the ADC regime should ideally be merged with the USO regime over time, say in about 3 to 5 years....." (Para 89 of 29th October 2003 Regulation)

".....The Authority is of the opinion that the prevailing ADC regime should be made to transition within 3 to 5 years towards an USO type of regime." (Para 98 of 29th October 2003 Regulation)

"...the Authority has already stated that the ADC regime will be phased out over time and will be merged with the USO regime..." (Para 28 of 6th January 2005 Regulation)

"The Authority further noted that changeover to Revenue Share Regime and its merger with USO is indeed the final solution for taking care of all anomalies and issues associated with ADC..." (Para 80 of 6th January 2005 Regulation)

“---The Authority is of the opinion that by March 2008, i.e. next two years time frame any lines in rural segment having justification for funding access networks will be required to be considered through USO and ADC will be phased out...(Para 23 of 23rd February 2006 Regulation)

2.3 Thus, the Authority has already established a framework for the admissibility of ADC regime including its lifespan. For the year 2006-07, the admissible ADC to BSNL was reduced to 2/3 of Rs.4800 crore which is equal to Rs.3200 crore and it was also specified that the ADC admissible has to be brought down to zero in 2008-09. Therefore, the scope for present review of ADC has mainly focused on:

- Amount of ADC for 2007-08.
- Mechanism of contribution to ADC.

Whether ADC should be provided?

2.4 The Access Deficit compensation does not arise out of any legal right. It arises out of the Authority’s consideration of smoothing the transition process during competition, i.e. providing support during the transition period when costs of access are not fully recovered from the revenues from access line monthly rentals under the existing tariff regime. On the basis of various comments and inputs and its own analysis, Authority in its Regulation dated 23rd February 2006 observed that there is still justification of continuation of ADC mainly for BSNL though with a reduced amount finally going down to zero in 2008-09. It is to be noted that this transition was specific to present framework and did not exclude the possibility of funding from USO fund.

How much ADC should be provided?

2.5 The Authority has maintained that the ADC is a depleting regime, and the total ADC amount on an annual basis has been determined in the past on a tapering basis to ensure smooth transition towards phasing it out. Further, any future contribution has to come from USO funds only, if considered necessary by the Government. In the Regulation dated 23rd February 2006, Authority has emphasized that the ADC is mainly for the historical cost and not for the costs to be incurred in future. It was also

mentioned that sufficient time was already given for tariff rebalancing and the Authority opined that if same amount of the ADC continues for the incumbent or any other operator, tariff rebalancing will never take place and thus this may cause undue burden on the subscribers because of the continuity of ADC Regime in perpetuity.

2.6 Keeping in view the framework already established by the Authority, it is for consideration whether it would be appropriate to maintain the present trend of reduction of ADC to BSNL for the year 2007-08 also.

2.7 In this connection the Authority has noted that BSNL vide Appeal no. 6 of 2006 in Hon'ble TDSAT has challenged Telecommunication IUC (6th Amendment) Regulation dated 23rd February 2006. However implementation of the Regulation has not been stayed by the Honble TDSAT. This Consultation Paper is an annual review of ADC regime within the framework already established, which is necessary to be carried out.

Whether ADC should be considered for Other Service Providers having Fixed Wireline Operations?

2.8 The Authority in its Regulation dated 29th October, 2003 had not treated other fixed line operators at par with BSNL. Under that Regime only BSNL received the ADC from mobile-to-mobile calls and international calls to/from mobile. In that regime other BSOs were allowed to get ADC for all calls that terminates in their network and originating from their network. While examining the case for ADC to other service providers the Authority opined that it did not want to disrupt in a major way the existing regime and therefore decided to implement a limited form of regime for the other fixed service providers. The Authority had stated in para 57 of 29th October 2003 Regulation that phasing out of ADC to other BSOs may be earlier than the overall phasing out of the access deficit regime.

2.9 In Regulation of January 6, 2005 the Authority decided that operators other than BSNL should continue to be treated differently from BSNL in terms of the ADC regime applicable to them. The other fixed line operators were allowed to retain ADC on outgoing traffic from their fixed subscribers and no ADC was paid to them on the traffic terminating in their fixed line network. In that regime BSNL received ADC on all incoming international calls and all outgoing calls from mobile subscribers. The Authority even at that time felt that there is a rationale for such dissimilar treatment on account of lower cost of access involved with fixed line provided through wireless terminals and the spread of subscribers in urban and rural areas.

2.10 In the IUC Regulation dated 23rd February 2006, the Authority observed that there is no justification of ADC for other fixed line service providers however they are allowed to retain ADC as % of AGR and ADC on per minute basis from ILD calls originated from their fixed wireline operations. Case for ADC to other service providers for their fixed wireline needs to be re-examined in the light of framework of ADC wherein it was indicated that phasing out of ADC to other BSOs may be earlier than the overall phasing out of the access deficit regime.

Considerations of Grey Market International Calls

2.11 The issue of grey market in international calls continues to be a matter of great concern. With respect to the grey traffic in international calls, the Authority recalled that in its Regulation of 6th January 2005, it had taken note of the Report of the Committee on *“The issues arising out of Traffic By-pass through Grey Market in ILD services and repercussion of IUC on the same”*. The committee comprised of members from TRAI, several service providers (including BSNL, MTNL) and DOT, TEC, etc. One of the views recognised in the report was that grey traffic had existed even prior to the ADC regime. Nevertheless reduction in the arbitrage margin would significantly discourage the grey market. Additionally, grey

traffic has to be addressed through a monitoring and penalty mechanism. The Authority had also noted that a revamped monitoring mechanism had been put in place by the DOT vide its letter of 23rd and 24th June, 2003.

2.12 While deciding its ADC regimes, the Authority has to balance various objectives, which inter-alia includes the following:

- (1) Reducing the tariff for telecom services to make it more affordable to consumers.
- (2) Addressing grey international calls through a combination of regulatory policies relating to incentives and penal action.
- (3) To ensure that the ADC regime phased out in a gradual manner.

The Authority, in its various Regulations has given the highest priority or emphasis to the objective of reducing domestic tariffs to meet domestic consumer interest, and spurring sustained growth. While doing so, it has also kept in mind certain supplementary measures (monitoring and penalty) that will address the objectives, which have been given relatively lower emphasis. The Authority has nonetheless also reduced the arbitrage margin for Incoming and Outgoing International Long Distance calls (please see Tables 2A and 2B below).

TABLE 2A
Potential Arbitrage Margin (on ADC + Termination Charge) per minute for Incoming ILD calls

Sr. No.	IUC/ADC Regime	ADC + Termination Charge per minute on Incoming International Call (Rs.)	ADC + Termination Charge per minute on Local/ NLD Call (Rs.)	Potential Arbitrage Margin if Incoming ILD call is converted to Local/ NLD (Rs.)
1	29th October 2003	4.55	0.30 to 1.10	3.45 to 4.25
2	6th January 2005	3.55	0.30 to 0.60	2.95 to 3.25
3	23rd February 2006	1.90	≈ 0.30*	≈ 1.60

* ADC on local/NLD calls is 1.5% of AGR of the service provider and not on per minute basis.

TABLE 2B
Potential Arbitrage Margin (on ADC + Origination) per minute for
outgoing ILD calls with Origination Charge taken same as
Termination Charge

Sr. No.	IUC Regime	ADC + Origination Charge per minute on Outgoing International Call (Rs.)	ADC + origination Charge per minute on Local/ NLD Call (Rs.)	Potential Arbitrage Margin if outgoing ILD call is shown as Local/ NLD call (Rs.)
1	29th October 2003	4.55	0.30 to 1.10	3.45 to 4.25
2	6th January 2005	2.80	0.30 to 0.60	2.20 to 2.50
3	23rd February 2006	1.10	≈ 0.30*	≈ 0.80

* ADC on local/NLD calls is 1.5% of AGR of the service provider and not on per minute basis.

2.13 The ADC rate on outgoing international calls needs to be reviewed for another reason, namely use of Internet Telephony for making outgoing international calls due to price advantage. The Authority has seen that the outgoing minutes reported by all the four operational licensed ILDOs, for the year 2005-06 are 2320 million, while the ISPs have reported about 200 million outgoing ILD minutes through internet telephony, i.e. about 10 % of the outgoing minutes of ILDOs. Further the quality of service offered by ISPs has improved and as a result more minutes are likely to flow through the ISP network in future. The Authority noted that ADC is not applicable on such calls at present, and therefore there is a potential of ISPs taking away calls from the access providers. At present, however, the overall outgoing international call minutes through licensed ILDOs are growing at about 4 per cent per month, thus there may be a case for higher reduction in the applicable ADC rates to boost the growth of outgoing international calls through switched telephony.

2.14 It may also be noted that vide Amendment dated 14th December 2005 in the Clause 2.2(a) of the Unified Access Service License and vide amendment dated 6th February 2006 in clause 2.1 (a) of Cellular Mobile Telephone Service License, Unified Access Service Providers (UASPs) and Cellular Mobile Telephone Service Providers (CMSPs) are allowed to provide Internet Telephony. However as per the information available with

the Authority, they have not started the services through Internet telephony. As mentioned above, per minute ADC is not applicable on calls made through Internet telephony. In the emerging circumstances there is a need to review the rationale for retaining per minute ADC on outgoing ILD calls.

2.15 The above considerations relating to grey market and International calls are important inputs for deciding the option for collection of ADC, which is discussed in detail in the following paragraph.

ILD Minutes Trends and Projections for Year 2007-08

2.16 The Authority notes that the decision to reduce per minute ADC from time to time on incoming international calls (from Rs.5.00 to Rs.4.25 to Rs.3.25 to Rs. 1.60 per minute) and outgoing calls (from Rs.5.00 to Rs.4.25 to Rs.2.50 to Rs. 0.80 per minute) have shown substantial increase in minutes of international calls. It shows that there is a high elasticity of demand in international minutes. The situation with respect to the number of Outgoing and Incoming International Long Distance minutes is shown in Table 3 below.

Table-3
International Long Distance Traffic Minutes

Minutes in Millions			
Based on Data reported by ILDOs			
Year	Incoming Minutes	Outgoing Minutes	Total Minutes
1999-2000	1769	473	2242
2000-2001	2167	527	2694
2001-2002	2546	575	3121
2002-2003	3110	764	3874
2003-2004	4043	1176	5219
2004-2005	5251	1661	6912
2005-2006	7728	2320	10048
2006-07*	11376	3478	14854

* Reported minutes from ILDOs for 7 months + Forecast for 5 months.

Table-4
Year wise Adjusted Gross Revenue:

AGR (In Rs. Crores)				
	2003-04	2004-05	2005-06*	2006-07
				Projected**
All Wireline	33911	32099	34417	35106
All Mobile (including WLL(F))	11604	20181	28647	41538
All NLD	1472	2837	3713	5013
All ILD	1525	1335	1984	2975
Total	48512	56451	68761	84632
Less Rural Revenue		4749	4850	4981
Net AGR for ADC recovery		51702	63911	79651

* Source: Accounting Separation Reports 2005-06

** Projections based on Accounting Separation Reports 2005-06

Should there be any revision of existing revenue share and per minute Regime of ADC?

2.17 Right from 29th October, 2003 Regulation, the Authority had favoured migration to a revenue share regime for recovery of ADC. In IUC Regulation dated 6th January 2005, the Authority again noted that changeover to Revenue Share Regime and its merger with USO is indeed the final solution for taking care of all anomalies associated with ADC but it was not possible to implement this regime because it would have increased the burden on fixed line rental and local call charges.

2.18 In the 23rd February 2006 Regulation, the Authority noted that the revenue base has increased substantially and ADC amount has to be correspondingly tapered off, keeping in view that ADC is a depleting Regime. Therefore, the percentage revenue share for ADC will be significantly lower than before, and migration to revenue share regime will not have any significant impact on rental and local call charges. However it was not considered advisable to move to complete Revenue Share Regime. The Authority decided to recover the ADC amount as follows:-

- i. Uniform percentage revenue share on the AGR of all telecom service providers, viz. UASLs, BSOs, CMSPs, NLDOs and ILDOs. While calculating AGR for purposes of percentage revenue share, the revenue generated from the rural subscribers will be excluded only from the access providers' revenue.
- ii. A per minute charge on incoming and outgoing international calls.

2.19 The reasons for not migrating to complete Revenue Share Regime recovery were:

- The amount collected from ILD sector on per minute basis is very high and is not part of AGR of ILDOs, if uniform percentage is loaded on the entire sector, the collection of ADC from ILD sector would be reduced significantly.
- If differential percentage is fixed as a revenue share for ILD sector to recover the similar amount as in previous regimes then percentage revenue share would be very high and unreasonable which would lead to a very high arbitrage and consequently the tendency of generating grey traffic. Such a regime may pose difficulties in monitoring the implementation of ADC regime particularly with respect to Service Providers with vertically integrated operations.

2.20 The Authority earlier also examined the feasibility of imposing a higher percentage on ILD revenue of access providers itself. It was found that operators may design different tariff schemes with high rental and low call charges for all kind of calls including ILD calls. Thus the ADC recovery on a percentage revenue share of ILD call revenue will severely fall.

2.21 With the reduction in license fee and liberalisation of conditions in NLD and ILD sector, various players are entering into the market. With the availability of larger base of revenues and reduction of ADC amount, it is for consideration if a revenue share regime could be so evolved which would also transfer the incidence on International calls.

2.22 The advantages of revenue share regime envisages ease of collection, disbursement and administration of ADC, elimination of possibility of ADC evasion through under-reporting, no differential burden on different types of calls and removal of arbitrage between local and ILD calls hence less incentive for ILD Grey Market and greater flexibility to service providers. The main disadvantage of revenue share regime is that the collection of ADC from ILD sector would be reduced significantly, if uniform percentage is loaded on the entire sector.

2.23 The options for funding/ collection of ADC are as follows:

- (i) Move to a revenue share regime if the incidence of burden can be ensured on International Calls.
- (ii) Per Minute basis from ILD incoming and Outgoing and percentage of revenue share (same as existing Scheme) though at reduced scale.
- (iii) Per Minute basis from ILD incoming only and percentage revenue share on the AGR of all telecom service providers.
- (iv) Recovery of Complete amount of ADC from ILD Incoming calls on per minute basis only and no ADC from percentage revenue share.
- (v) Recovery of complete amount of ADC from ILD Incoming and Out going calls on per minute basis and no ADC from percentage revenue share.

Exclusion of Rural Revenue:

2.24 The Authority remains concerned with the inadequate access in rural India, where about 70% of the population lives. In its 23rd February 2006 Regulation Authority decided that while calculating the percentage revenue share the revenue earned from the rural wireline subscriber is to be excluded from the total AGR of the Access Providers i.e. no ADC was imposed on the revenue generated from the rural wireline subscribers. It is proposed to continue with the same principle for the same reasons detailed in February 2006 Regulation.

Universal Service Obligation Fund and Access Deficit Charge:

2.25 Presently the Government is collecting the USO amount as 5% of Adjusted Gross Revenue as part of revenue share License Fee. Various comments were received earlier that implementation of ADC as well as USO regimes is not appropriate. Authority in its 6th January 2005 Regulation noted that while there is a considerable overlap among the objectives of the USO and ADC regimes. But over the time, with the USO regime being implemented in terms of “net cost SDCAs” as was notified by the USF Administrator in early 2004, the overlap between the ADC and USO will in effect increase.

2.26 In case it is considered that the fixed lines in rural areas require some further support beyond 2007-08 due to below cost rental and local call charges from national policy perspective, it could be considered through alternative mechanism like USO which is already an instrument available to support the rural telecom services in India. In many other countries, only one of such instruments is used to support the affordable rural telephony.

2.27 In the context of USO fund, the Authority in Para 3 of the IUC Regulation dated 23rd February 2006 indicated that *“The Authority would submit suitable recommendations to the Government on this issue so that finally USO regime takes care of support on account of ADC also.”* TRAI had

already communicated to DOT vide its letter dated 20th September 2006 and subsequent reminder dated 22nd November 2006 that DOT may like to consider further course of action in view of the fact that the ADC is a depleting regime and will be phased out at the end of financial year 2007-08.

Questions for Consultation

1. Should the Authority maintain the present reduction trend in ADC amount prescribed in 23rd February 2006 Regulation? If not, give justification and suggest alternatives.

2. What should be the appropriate option for collection of ADC? As illustration, some possible options are given below; Stakeholders may like to suggest specific item and rate for collection of ADC.

- (i) Move to a revenue share regime if the incidence of burden can be ensured on International Calls.
- (ii) Per Minute basis from ILD incoming and Outgoing and percentage of revenue share (same as existing Scheme) though at reduced scale.
- (iii) Per Minute basis from ILD incoming only and percentage revenue share on the AGR of all telecom service providers.
- (iv) Recovery of Complete amount of ADC from ILD Incoming calls on per minute basis only and no ADC from percentage revenue share.
- (v) Recovery of complete amount of ADC from ILD Incoming and Out going calls on per minute basis and no ADC from percentage revenue share.