Inputs by Dua Consulting on the issue of Interconnection Usage Charge (IUC)

1. Review of Various Interconnect Charges

Four elements constitute the end tariff to customers viz

(A) Origination
(B) Carriage
(C) Transition
(D) Termination

Of these four elements, a pure play access service provider has control only on the access network as a pure play operator is not vertically integrated for other services like ILD/NLD, which today are vested with specialty operators. Incidentally, for a pure play operator, the highest cost element is to create connectivity to all the existing networks, which impacts the origination cost.

Today, the only tariff, which is forborne, is the tariff to the end customer, the other three elements being capped at 65p, 30p and 20 paisa between items B to D above. In the TRAI consultation paper, greater focus is on how to calculate and regulate the termination charge, but there is inadequate mention of carriage or transition Charge regulation.

In our opinion all charges should be forborne and the delta between off-net and on-net charges for various elements must remain within a box of 5% for healthy competition. Such a regulation will help the newcomers before they have the ability to become integrated players.

In our view, a pure play access provider is considerably disadvantaged vis-à-vis a vertically integrated service provider, because he is dependent on others incumbent players for all the interconnects. Our view is that forbearance in the end tariff to consumer will have more relevance if there is an elbow room for negotiations in the carriage, transit and termination charge.

We therefore, strongly believe that in the present review undertaken by TRAI, all elements which add up to form the end tariff to the consumer should be reviewed from a cost perspective for arriving at any numbers.

2. Rate of Return

While reviewing all or any of the above, it may be prudent to suggest a hurdle rate of return and EBDIT margin for one and all that provide various elements of all services to be specified, since the industry has reached a reasonable age of maturity. Practices followed worldwide in this respect and views and concerns of investors should be taken into account keeping in mind the inflationary trends. Such a stipulation creates confidence in the investing community, healthy competition and bodes well for the market place (consumer confidence)

3. Asymmetrical Termination Charge

In our view, asymmetrical termination charge is not a long term solution and must not be encouraged in the long run. It puts unnecessary onus on the incumbent to either charge his customer an extra levy to be able to pay for the higher termination charge on the newcomers' network or pay out of any margin he has on the end tariff. Our view, yet again, is that it is not only the termination charge, but issues related to carriage charge, termination and termination charge should also be assessed in this TRAI review.

4. Termination Charge for incoming ILD Calls

In our view, there is no reason for the termination charge to be the same for national and international calls. There is a concern in the consultation paper regarding an arbitrage possibility, should a higher termination charge be introduced for incoming ILD traffic. There was an arbitrage opportunity earlier, when there was an access deficit charge (ADC) included in terminating the call in India. The opportunity to arbitrage was mainly on account of avoiding payments to BSNL and MTNL, which did not benefit the ILD operators at all. In any case, per minute charge for ADC was always a subject of gross abuse. Had the ADC been on a revenue share basis as was the case in the national long distance sector, the arbitrage opportunity would have disappeared.

Checks and balances were introduced to control the arbitrage by compulsorily introducing the complete call origination number of the international call. We therefore believe that there is no reason for long distance termination charge to be on commercially negotiated rates between the ILD service providers and mutually shared with recipients of calls for a call to be terminated on their network.

Such an action will result in an increase in surpluses for investment.

Our strong view is to re-introduce reciprocal termination charges to provide equitability. Such a move benefits all.

5. Conclusions

Finally, best principles for cost of providing a unit of service, should factor in an acceptable rate of return as well fund generation for the growth of the sector.