

D. O. No. 101-5/2000 MN

Dated the 3<sup>rd</sup> October, 2001.

Dear Shri Ghosh,

1. This has reference to Department of Telecommunications letters no. 5-2/99-Regln.-II dated 21.5.99 and 13.10.99 seeking TRAI's recommendations on issues relating to Universal Service Obligation (USO). The letter also referred to the targets laid down in the NTP'99 and the means to raise the resources for USO.
2. A consultation paper was released on the subject by TRAI in July 2000. Open house discussions were held in different parts of the country and comments were invited from all stakeholders. A seminar in which international experts participated was also held on this subject in April, 2001 to discuss the methods of meeting USO followed in other countries and what could be the most appropriate model for us in India to adopt. Taking account of the different inputs received and after due deliberations, TRAI has finalized its recommendations on the specific issues raised by DOT as well as on certain other issues which need to be addressed to properly implement the USO policy.
3. At the outset, the Authority would like to clarify that although the DOT while talking about a levy for meeting Universal Service Obligations has used the expression Universal Access Levy (UAL), TRAI has used the expression Universal Service Levy (USL). The Authority has used the term Universal Service to cover both access, which means public access through Public or Community telephones, and provision of individual household telephones. Since the levy to be raised would support both the activities, it has been called by TRAI Universal Service levy (USL). The Authority has recommended that initially USL be fixed at 5% of the adjusted gross revenue as a part of license fee.
4. The Authority has recommended that implementation of USO should be divided in two clearly identifiable streams: First, for provision of public telecom and information services and, second, for provision of household phones in net high cost rural/remote areas. The Authority has also recommended that financial support be provided for installing VPTs/Public Tele Info Centres (PTICs) on priority basis. While the implementation of two streams would be simultaneous; provision of public telecommunication and information services should receive priority in support from USF. The Authority also recommends that the USO support policy be implemented from 1.4.2002.
5. While making its recommendations, TRAI has taken note of the fact that all VPTs are expected to be installed by the target date i.e. 31.3.2002. TRAI is of the view and has recommended that after achieving the target of one VPT in every village, a second Rural Community Phone (RCP) be installed in public places like schools

and primary health centers in villages with a population of more than 2000. The Authority has noted that a large number of existing VPTs do not have STD facility. Concerted efforts should be made by the incumbent and other operators to provide STD facility in all VPTs within the next three years.

6. To help bridge the digital divide, the Authority recommends strong pro-active steps for providing data communication facilities in villages so as to facilitate access to information services. It is, therefore, recommended that by 2004, about 35,000 VPTs should be upgraded to Public Tele-Info Centres (PTICs) and, based on techno-economic considerations, all VPTs should be upgraded to the level of PTICs by the year 2010. In addition, for high speed data & multimedia applications, such as tele-education and tele-medicine, the Authority has recommended that each block in the country should have at least one High Speed Tele- Info Centre (HPTIC) with access speed of more than 128 kbps.
7. The Authority has recommended that support from Universal Service Fund (USF) be provided for Net Cost ( i.e. Cost minus Revenue) of providing VPTs/PTICs and DELs in rural/remote SDCAs. Details on the relevant costs are in the main recommendations. These include, for instance, no capital recovery for VPTs or phones installed before 1.4.2002. For them, only operating expenses should be taken into account for estimating net cost. However, both capital recovery and operating expenses should be taken into account for VPTs, PTICs and phones installed after 1.4.2002. Also, in a multi-operator environment, the lowest Net Cost computed by the proxy model for the least cost operator in a SDCA, should be used as the basis to compute USF support available to all operators. This implies, availability of a proxy cost model to arrive at the optimal configuration of SDCA access network. One such model namely PLANITU developed by the ITU is already available in the country with Telecom Engineering Centre (TEC) and can be used for the above purpose with only minor modification/customization. However, the USF Administrator can develop a new model if he considers appropriate.
8. In regard to household phones in urban SDCAs, no USF support has been recommended as low calling household phones in these SDCAs will get support from high calling lines in the same area.
9. The Authority has recommended that initially USL be fixed at 5 percent of the adjusted gross revenue of all telecom carriers or operators, excluding 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. This figure i.e. 5 per cent of the revenue 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. The amount of USL i.e. 5 per cent of revenues, should come out of the license fee itself and should not be an additional levy. Hence, the license fee realized may be bifurcated into two parts. The designated portion of the Universal Service Levy may go the Universal Service fund

and the balance to the Consolidated Fund of the Government of India. In subsequent years, the Universal Service Administrator may revise this figure depending upon the requirement. In any case, this levy will continue to be part of the license fee itself, and as such, even if increased, it is not likely to impact either service providers or the consumers in any adverse manner.

10. The Authority has also given recommendations about the manner in which the Universal Service Fund is to be administered. For this purpose the Authority has recommended the creation of USF Administrator and a Board for administering USF, 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 Government, service providers, consumers and TRAI at the Member level. The selection of USF Administrator and the Board Members is to be done by the Regulator in consultation with the Government. The Universal Service Fund Administrator should be in position by 1.1.2002 to facilitate early implementation of the USO Policy.

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

12. One of the two part-time Members of the Authority, Dr. Rakesh Mohan has, however, 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 supplementary note is reproduced in full at Annexure- I. It would be observed that his 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 of impracticability of the approach. In Dr. Mohan's view because of a large number of SDCAs involved and the detailed nature of the data called for as well as uncertainties attached to the verification of such data the approach suggested is impracticable. The other Members of the Authority have considered the points made by Dr. Mohan very carefully and are of the opinion that the approach suggested though new to India is not unique. A number of other countries are following similar approaches for administering USO. The Authority believes that USF scheme as recommended is inescapable if the tele density in rural and remote areas is to be increased from the present about 0.5 to 4% to fulfil one of the main objectives of NTP'99. Without a support of the kind proposed in the recommendations achievement of this objective will remain a far cry. As regards the impracticability of the approach the Authority is quite clear and 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 effectively perform a number of economic, tariff and interconnect regulations. Being deterred because of the difficulties involved in data collection will amount to giving up important aspects of regulation. For the above reasons, therefore, the Authority considers that no modifications in the recommendations made in the main report are called for. Accordingly, it reiterates its recommendations as they are. A note responding to the points made by Dr. Mohan in his supplementary note which has the concurrence of all the four Members of the Authority is also placed at Annexure II.

We do hope that the government will find the recommendations acceptable and the Authority would recommend their implementation as per the time schedule indicated in the report. We thank the Government for giving us the opportunity of looking into this very important issue relating to the growth of telecommunications in the country.

With kind regards,

Yours sincerely,

( M. S. Verma)