TELECOM REGULATORY AUTHORITY OF INDIA

February 23, 2006

PRESS RELEASE No. 16 /2006

TRAI ISSUES AMENDMENT TO INTERCONNECT USAGE CHARGES REGULATION, 2006

TRAI today issued an amendment to the IUC Regulation after receiving comments from stakeholders on the consultation paper and holding Open House Discussions at Bangalore and Delhi. TRAI's main thrust in this regulation is to give further relief to domestic consumers. Salient features of the Regulation are as follows.

- The total amount of ADC shall be reduced to Rs.3335 crore and estimated ADC for BSNL would be Rs. 3,200 crore. Substantial reduction (about 33%) in the amount of ADC
- There will not be any ADC on per minute basis on domestic calls.
- ADC on International Long Distance traffic shall continue to be on per minute basis but at a reduced rate of Rs 1.60/minute (more than 50% reduction) for Incoming International calls, this in turn will reduce arbitrage and hence grey market. ADC on outgoing international calls have been reduced to Rs.0.80/minute (reduction more than 65%).
- All licensees of Unified Access Service, Cellular Mobile Telephone Service, National Long Distance Service and International Long Distance Service shall pay **1.5**% of their AGR as ADC to the BSNL. BSNL will retain ADC chargeable as percentage of its AGR. Unified Access Service Licensee/BSOs retain ADC as percentage of AGR of wireline subscribers and the balance shall be paid to the BSNL.
- For estimation of ADC as a percentage of AGR, of access providers, the revenue from the rural subscribers shall be subtracted.

- The UASLs/BSOs other than BSNL would retain ADC in terms of percentage of AGR and also on outgoing international calls from their wireline subscribers.
- No change in mobile and fixed termination charges from the existing level of Rs.0.30 per minute.
- Death of distance acknowledged by moving over to a ceiling carriage of Rs. 0.65/minute irrespective of distance.
- No ADC charge on rural revenue of operators to incentivize penetration of telecom services in rural areas.
- Strengthening of monitoring mechanism of payment & receipt of ADC by operators.
- This Regulation shall come into force w.e.f. March 1, 2006.
- Summary of Estimated ADC for Year 2006-07

Stream	**ADC Rate**	**ADC in Rs. Crores**
Revenue Share	1.5% of AGR for all Telecom service providers after deducting revenue from rural subscriber from access providers' AGR	1278
International Incoming Calls	Rs. 1.60 per Minute	1800
International Outgoing Calls	Rs. 0.80 per Minute	257
Total		3335

TRAI has already stated in previous Regulations that ADC Regime should ideally be merged with the USO Regime overtime say in about 3-5 years i.e., ADC should become zero by financial year, 2008-09. To achieve this the ADC has been reduced to two –third of RS.4800 crore (as per 29th October, 2003 Regime), i.e. 3,200 crore ADC to BSNL in 2006-07.

TRAI had indicated in the 29th October, 2003 Regulation that it could consider migrating to a revenue share regime for ADC recovery but it was not possible to implement this regime earlier because it would have increased the burden on fixed line rental and local call charges. Now, since the revenue base has increased substantially (AGR of access providers, NLDOs & ILDOs would be around Rs. 90,000 crore in 2006-07) and TRAI has also decided to reduce the ADC amount as it is a depleting Regime this percentage revenue share will be significantly lower than before, and therefore, migration to revenue share regime will not have any significant impact on rental and local call charges. Further there will not be any per minute ADC on domestic calls paving the way for reduction in these rates.

TRAI has also taken note in particular, that AGR will be around Rs.90,000 crore in 2006-07. Therefore, this is an appropriate time to switch to revenue share as now there will be less percentage across the sector. There will not be per minute ADC on domestic calls which will pave the way for reduction in domestic call charges.

TRAI also observed with the policy initiative to reduce per minute ADC from time to time on incoming international calls (from Rs.5.50 to Rs.4.25 to Rs.3.25) there is substantial increase in minutes of international incoming calls. It shows that there was a high elasticity of demand in incoming international minutes but the same elasticity was not available in outgoing international minutes as mostly marginal subscribers are being added in the recent past. TRAI would continue to monitor this trend and would initiate any further review, if required.

TRAI 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. The AGR of ILD sector was around Rs.1600 crore and ADC which is around Rs.2,000 crore is not part of the AGR of the ILD operator. If this amount is to be recovered from ILD sector then percentage revenue share would be very high and unreasonable.

Due to these reasons, the TRAI decided that it would be better to charge ADC in terms of per minute basis both for incoming and outgoing international calls as is the prevailing practice. Since, the incoming and outgoing international call minutes have gone up substantially, therefore, ADC on per minute basis for both incoming and outgoing calls has come down.

The main criteria adopted by TRAI while deciding the rates of ADC was to maintain the total collection of ADC at around the present Rs.2,000 crore from international traffic, as also to reduce the burden on domestic subscribers. The balance ADC would be recovered from the percentage of AGR.

Termination Charges

TRAI has reviewed the termination charges but decided not to change the present rate and keep them same for both mobile as well as fixed. Due to increase volume of traffic, TRAI estimated and found that mobile termination charges as well fixed termination charges could be lower than the present specified level of Rs.0.30 per minute. TRAI expect that mobile service providers would increase their penetration in interiors and there is evidence that this is happening. TRAI also expect that the operators will increase their network capacity to match the phenomenal growth of mobile subscribers. TRAI also noted that mobile termination charges are 12-24 times lower than the prevailing mobile termination charges in various countries.

Carriage Charge

TRAI had fixed a ceiling carriage charge of Rs.0.65 per minute. TRAI is aware that this ceiling limit is higher than value of Rs.0.20 per minute fixed for calls up to 50 kms in the existing regime and there may be a tendency for some operators to charge this higher amount. One alternative before the TRAI was to prescribe a fresh ceiling for distance up to 50 kms. The other alternative was that should such a situation arise, competitive forces will encourage other operators to set up infrastructure to cover such distances. Therefore, TRAI has decided to retain only one distance independent ceiling for carriage charge. The situation will be kept under observation and if required, a review will be carried out.

The Regulation will be put on TRAI's website (www.trai.gov.in) during the course of the day.