

**Direction under Section 13 of the Telecom Regulatory Authority of India Act,
1997 as amended by TRAI (Amendment) Act, 2000**

INTERIM ORDER FOR IUC

To all Service Providers

1. Following the notification of the 24th Amendment to TTO and IUC Regulation dated 24th January, 2003, the Authority has received several communications in respect of various concerns with respect to the IUC regime, its sustainability and its impact on the market. The TRAI issued a Consultation Note on the IUC on 30th April, 2003 the objective of which was to seek suggestions for an interim solution to address certain inconsistencies between long distance tariffs and the Interconnect Usage Charges (IUC) Regime. The main issue in the consultation note for consideration was that when the tariff for long distance call in a particular distance slab is lower than the sum of originating, carriage and terminating charges including ADC then, how these charges should be distributed among originating, carriage and terminating service providers to match the offered tariffs.

2. The Authority, taking into account the prevailing cellular services long distance tariffs, had approved BSNL's long distance tariff for fixed services which were less than the sum of originating, carriage and termination charges including ADC. Such tariffs of the incumbent could not be called as predatory since the rationale of reducing tariffs was to remain in business and not to eliminate competition. The issue then came that if tariff is less than the sum of originating, carriage and termination charges including ADC, then how these charges should be adjusted. The authority was also seized of the fact that for intra circle calls, the circle wide license holder may carry the traffic on his own network.

3. The Authority received responses from a number of service providers. In addition on the basis of an open House discussion held on 3/6/2003 at New Delhi, other suggestions in the context were -

- 50% pro rata modification of origination, carriage and termination may be considered.
- Accounting separation needs to be expedited
- Tariffs should be allowed to be frozen at the current level
- Origination + Carriage + Termination charges should be considered as the floor price.
- Cellular should also pay ADC
- In the interim period, no ADC should be payable

4. On the issue of tariffs for long distance, the Authority noted that dynamic call by call selection and carrier pre selection are not yet in place. The Authority also noted that the roll out of new entrant NLDO's network to different parts of the country will also take some time and therefore the new entrant NLDOs may work out interconnecting arrangement with existing NLDOs. The Authority also noted that standalone access providers may have some specificities in comparison to integrated telecom service providers.

5. In coming to the decision, the Authority took into account the technical feasibility, the competitive situation in the market and the ramifications of the interim order on the stand alone access providers as well as stand alone NLDOs.

6. The Authority noted that as far as technical issues are concerned dynamic call by call selection and carrier pre-selection are yet to take place. This in turn has brought about the fact that access providers need to provide certainty to their subscribers on both the long distance tariffs as well as their respective carriers. Hence the access provider has to inform subscribers well in advance as to their respective NLD/ILD tariffs as part of the standard and alternative tariff plans. The Authority also noted in addition that the roll out of the new entrant NLDOs network to different parts of the country is likely to take some time for which the new entrant needs to work out interconnection agreements with existing NLDOs and access providers. This, therefore, pointed to the need for access providers including standalone to declare their tariffs given their relative position vis-à-vis integrated operators.

7. Yet another consideration of the Authority in arriving at the decision was to verify whether the traffic weighted averages worked out for the following scenario i.e. local intra circle, inter circle, local combined with national long distance (intra circle + inter circle) and ISD calls and local combined with intra circle calls led to a position wherein weighted retail tariffs were greater than IUC costs. The Tables in this respect are given in Annexure-I underlying the fact that these are indeed positive and thus in an overall sense there would be no undue losses. The Authority also recognised that while there may be negative values (i.e. tariff - IUC charges) on a segment by segment basis, it is imperative to view the various tranches of the long distance networks in an intra

circle and inter circle context using traffic weighted averages so as to determine the `out of pocket` nature of the originating access provider. The results show that in all cases there is a positive number.

8. Based on the above results, the Authority noted that the need for greater certainty in terms of the amounts that need to be paid as carriage and termination charge and in this context keeping in view the fact that till the implementation of call by call selection and pre selection takes place the choice of NLDO is being made by AP. In such a situation, the tariff and interconnection charges require to be implemented in a consistent manner which would require payment of carriage charge in a non-discriminatory manner to the NLDO and termination charge to the network where the call terminates.

9. Thus the decisions are -

- Payment of IUC carrier and termination charges is to be made by the originating access provider and the residual retained by him after payment of due carrier and termination charges to the NLDO and the terminating network.
- Access provider will have to file NLD tariffs till such time CAC/CPS is in place.
- Since the tariff reduction has been caused by the access provider, his margin must bear the burden of reduction of tariffs and originating charges only must be reduced.

10. It may be emphasized that this interim order is for a short period of time which will be replaced by a decision of the Authority following the completion of the larger IUC review. In view of the present situation with reference to carrier selection and the need for non-discriminatory treatment by NLDO`s of various access providers so that fair competition may prevail in this important area, the Authority is of the opinion that for the interim period the access provider must pay the specified carriage/termination charge for the NLDO/terminating network and keep the residual for itself, thus bearing the loss for causing the reduction in tariff.

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Annexure-I

BSNL

With Differential ADC

Type of Call	Distribution of Traffic*	Average Residual Tariff - Term	Average Residual Tariff - Term - Carriage	Weighted Average Residual (Tariff-T)	Weighted Average Residual (Tariff-T-C)
Local	78.00%	0.85	0.85	0.66	0.66

Type of Call	Distribution of Traffic*	Re-distributed among LD	Average Residual Tariff - Term	Average Residual Tariff - Term - Carriage	Weighted Average Residual (Tariff-T)	Weighted Average Residual (Tariff-T-C)
Intra Circle	12.08%	100.00%	0.96	0.42	0.12	0.051

Type of Call	Distribution of Traffic*	Re-distributed among LD	Average Residual Tariff - Term	Average Residual Tariff - Term - Carriage	Weighted Average Residual (Tariff-T)	Weighted Average Residual (Tariff-T-C)
Intra Circle	9.24%	100.00%	2.17	1.48	0.20	0.14

Type of Call	Distribution of Traffic*	Average Residual Tariff - Term	Average Residual Tariff - Term - Carriage	Weighted Average Residual (Tariff-T)	Weighted Average Residual (Tariff-T-C)
Local	78.00%	0.85	0.85	1.09	0.96
Intra Circle	12.08%	0.96	0.42		
Inter Circle	9.24%	2.17	1.48		
ISD	0.68%	16.60	16.60		

Type of Call	Distribution of Traffic*	Re-distributed among LD	Average Residual Tariff - Term	Average Residual Tariff - Term - Carriage	Weighted Average Residual (Tariff-T)	Weighted Average Residual (Tariff-T-C)
Local	78%	88.35%	0.85	0.85	0.88	0.81
Intra Circle upto 50 km	2.83%	3.21%	1.10	0.90		
Intra circle 51 - 100 km	3.40%	3.85%	0.50	0.05		
Intra circle 101 - 200 km	2.26%	2.56%	1.52	1.07		
Intra circle 201 - 500 km	1.80%	2.03%	0.92	0.17		
Intra circle >500 km	1.80%	2.03%	0.92	-0.18		

Assumption

- Traffic Data have been taken w.r.t. the distribution used to IUC calculation (Table 5 of IUC regulation) and have been calculated with the following scenario:-

- Local-I
- Intra Circle-II
- Inter Circle-III
- Local + Intra + Inter + ISD-IV
- Local + Intra circle

- The distribution of calls for Basic to other services have been assumed to be

Calls to Fixed	80%
Calls to WLL(M)	5%
Calls to Cellular (C)	10%
Calls to Cellular (M)	5%

- In respect of inter and intra circle traffic in the distance band 0-50 km we have assumed 50% of intra & 50% of inter circle calls.