TELECOM REGULATORY AUTHORITY OF INDIA
NOTIFICATION

New Delhi, the 28th August, 2000

No.301-8/2000-TRAI (Econ.). – In exercise of the powers conferred upon it under sub-section (2) of section 11 of the Telecom Regulatory Authority of India Act, 1997 to notify, by an Order in the Official Gazette, tariffs at which Telecommunication Services within India and outside India shall be provided, the Telecom Regulatory Authority of India hereby makes the following Order.

The Telecommunication Tariff (Ninth Amendment) Order 2000
(3 of 2000)

Section I

Title, Extent and Commencement

1. Short title, extent and commencement :
   (i) This Order shall be called "Telecommunication Tariff (Ninth Amendment) Order 2000."
   (ii) The Order shall come into force with effect from 1st October, 2000.

Section II

Tariff

2. For items (5) and (6) in Schedule I, Basic Services (other than ISDN) in the Telecommunication Tariff Order, 1999, notwithstanding the dates mentioned there-in, the rentals specified for the period 1st April, 1999 to 31st March, 2000 shall remain in operation also for the period 1st April, 2000 to 31st March, 2002.

3. For item (12) in Schedule I, Basic Services (other than ISDN) in the Telecommunication Tariff Order, 1999, notwithstanding the dates mentioned there-in, the implementation of tariffs/ pulse rates/ charges specified for the period 1st April, 2000 to 31st March, 2001 shall be operative from 1st October, 2000 to 31st March, 2002.

Section III

Explanatory Memorandum

4. This Order contains at Annex A, an Explanatory Memorandum to provide clarity and transparency to the tariffs specified in this Order.

By Order,
HARSHA VARDHANA SINGH,
Economic Adviser

Annex A

Explanatory Memorandum

1. One of the main objectives of the Telecommunication Tariff Order, 1999 ("TTO '99") relating to basic services was to rebalance tariffs which envisaged an increase in rentals and a

reduction in long distance call charges, i.e. for STD and ISD. The re-balancing was to be implemented in three phases. The first phase was implemented in May, 1999. The Authority in its Order of March, 1999 had worked out the revenue implications of the tariff re-balancing exercise at paragraph 63 (Table 9) of the Explanatory Memorandum to TTO '99. It was estimated that the first phase of the re-balancing exercise would result in overall positive revenue (plus Rs. 233 crores) for the incumbent operators. In paragraphs 12 and 73 of the Explanatory Memorandum, the Authority had also agreed to compare the actual revenues with its own projections of the revenue implications for the incumbent and that if at the end of the first year, the actual scenario turned out to be significantly different it would take necessary corrective measures.

2. After the notification of TTO '99, and consequent upon the announcement of New Telecom Policy (NTP) 1999 in March 1999, Secretary, Department of Telecommunication, wrote to TRAI stating, inter alia, that:

"Since the tariff order of 9th March was announced by the TRAI, there have been significant developments by way of the announcement of a New Telecom Policy yesterday which significantly alters the economics of the Telecom Sector as a whole. The new policy stipulates a shift to a Revenue Sharing arrangement with a one time Entry Fee. The policy also stipulates that TRAI recommendations will be sought by the Government on the aforesaid issue. The methodology employed and the calculations therein for calibrating tariff rates would therefore in the light of these developments undergo significant changes. While, therefore, implementing the tariff order of 9th March, 1999 for the first year, TRAI, should rework the tariff rates in the light of these developments for the subsequent period so that the new rates are in synchronisation with Government's New Telecom Policy.

3. A review by the Authority thus had to be carried out both in the light of actual situation being substantially different from that envisaged under the TTO '99 and pronouncements of a new policy by the Government, i.e. NTP 1999, which came after TTO '99 was announced. NTP 1999 has set very ambitious teledensity targets for the country, namely, 15 per cent by 2010. It also envisages an increase in rural teledensity from 0.4 to 4 by 2010. This has necessitated a re-look on the impact of the tariff structure, on affordability, and on the consequent demand and teledensity, particularly of rural teledensity which is projected to rise to 4 per cent by 2010.

4. TTO '99 specified a standard tariff package, and allowed service providers to give alternative tariff packages together with the standard tariff package. The DTS (and MTNL) provided an alternative tariff package, under which rentals were not changed for rural subscribers, nor for urban subscribers making up to 200 metered call units (MCUs) per month. In addition, there was no reduction in the number of free calls that were provided in urban and rural areas. While this policy improved affordability of the tariffs for low callers, it also resulted in lower revenues than could have been earned if the standard tariff package were to be implemented. It is estimated that by not implementing the standard tariff package, revenues were approximately Rs.1,100 to Rs. 1,200 crores lower than the amount of revenue which could have been earned had the standard tariff package been implemented in 1999-2000.

5. The standard tariff package envisaged a decrease in STD/ISD call charge and an increase in rentals in order to re-balance tariffs and prepare the grounds for further opening up of the basic services. The change in STD/ISD call charge and rentals was considered too steep to be implemented in one step and, therefore, a three stage phase-in was specified. Most of the tariff change was to be achieved during the first two phases itself. The first phase was implemented on 1st May, 1999. The second phase was scheduled to be implemented with effect from 1st April, 2000.

6. As the end of the first phase was approaching, DTS represented to the Authority that as a result of the tariff changes, their revenues were adversely affected. In their letter dated 8th March, 2000, DTS communicated to TRAI that during the financial year 1999/2000, "the net adverse impact on the revenues of DTS may be in the range of approximately Rs.2000-2200 crores." As such DTS requested the Authority to review the TTO '99 which stipulated a further reduction in long distance charges w.e.f. 1st April, 2000 so that the DTS does not face further loss of revenue, curtailing its capability to finance further expansion programmes, particularly in loss-making urban as well as rural areas, which is considered essential to meet the teledensity targets.

7. The Authority decided to conduct a review of the tariff re-balancing exercise as envisaged at paragraphs 12 and 73 of the Explanatory Memorandum of TTO '99.

8. To conduct a review, the implementation of the second phase of tariff re-balancing exercise was deferred by a period of four months. This period had to be further extended by one month because some service providers submitted data at the end of the four-month period leaving no time for its proper analysis by the Authority. On receipt of data from service providers, TRAI has completed its tariff review, the important findings of which with respect to growth of DELs and MCUs are summarised in Tables 1, and 2 below:

Table 1. Percentage Increase In Metered Call Units (MCUs) and Direct Exchange Lines (DELs) During 1999-2000

	Projected in TTO, 1999	Actual Increase		
		DTS	MTNL	DTS and MTNL
MCUs	12.9%	10.95%	7.37%	10.2% (12% in last six months)
DELs	18%	25.36%	7.82%	22%

Source: DOT (letters dated 31st May, and 1st and 3rd August, 2000)

9. Table 1 above shows that the principal incumbent DTS was able to achieve the projected average percentage increase in DELs and the increase in MCUs was somewhat lower than that envisaged in the TTO '99. This is also valid if we consider the average achievement of DTS and MTNL together. Further, the rate of MCU increase for the last six months of the year suggests that response of STD volume to price decline will be more pronounced in the second year than in the first year of the tariff re-balancing; the increase in overall MCUs in the last four months of the financial year was 13.2 per cent. This would indicate that with the additional time for which the first phase of tariff change has been implemented, i.e. the period beyond 31st March, 2000, the overall performance regarding DELs and MCUs has been similar to what was estimated in the TTO 1999. An important point in this context is that though the overall increase in DELs and MCUs has been close to that envisaged in the TTO '99, the increase in international call MCUs was much below expectation, even if we consider only the second half of the financial year.

10. Despite DEL and MCU growth being similar to anticipation, revenues may be lower than expected because the standard tariff package was not implemented and due to a greater than anticipated fall in average charge per call. TRAI reviewed the revenue situation on the basis of the information provided by the service providers, using the methodology that had been

used by DOT for estimating revenue reduction when requesting TRAI for a review in March, 2000. With the data available at that time, DTS had anticipated a reduction in rental and call revenue of approximately Rs.2,150 crores.

11. TRAI's calculations are based on more recent data, shown in Table 2 below.

Table 2. Metered Call Units (MCUs), Call Revenue, Average Charge Per Metered Call Unit, Rental Revenue for 1998-99 and 1999-2000 for DTS and MTNL

	DTS		**MTNL**	
	1998-99	**1999-2000**	**1998-99**	**1999-2000**
MCUs (crores)	11,390	12,638	3,374	3,638
Call Revenue (Rs. crore)	11,180	12,280	3,704	3,717
Average charge per MCU (Rs.)	0.98	0.97	1.10	1.02
Rental revenue (Rs. crore)	2,643	3505*	887	920*

Source: DOT (letters dated 31st May, and 1st and 3rd August, 2000)
* Includes TRAI estimate of amounts for rentals relating to the year 1999-2000 collected in the year 1998-99 and taken credit for in the accounts of that year.

12. Prior to the finalization of TTO '99, DOT had provided its projection of DOT/MTNL call and rental revenues. These were without taking into account the proposed tariff re-balancing. For 1999-2000, the DOT projected these revenues to be Rs. 23,253 crore. This estimate was based on a charge of Rs. 1.243 per chargeable call, a rate which obtained in 1997-98 and which DOT expected to continue if re-balancing was not to be introduced. The projected amount was slightly adjusted by TRAI to Rs. 23,181 crore, as reported in the Explanatory Memorandum to the TTO '99. TRAI made its own estimates in respect of revenues for 1999-2000 taking into account the various changes envisaged in its proposals for tariff re-balancing. Assuming a 10 per cent volume increase in STD/ISD traffic due to tariff reduction, a situation which TRAI considered as most likely in the first year of tariff re-balancing, it estimated revenues for the year 1999-2000 to be Rs. 23,414 crore. This estimate was based on figures provided by DOT in respect of average charge per chargeable call, which they expected to obtain consequent upon the tariff re-balancing in 1999-2000. At the time of the present review, the actual call charges for the year 1998-99 (i.e. the year immediately preceding tariff re-balancing) was made available. This worked out to about Rs.

1.12 per chargeable call, i.e., lower than the call charge based on which the earlier estimate of Rs. 23,414 crore was made. A revised estimate of revenue has, therefore, been made taking the lower, and actual, call charge prevailing in 1998-99. This revised estimate amounts to about Rs. 21,870 crore. Any shortfall in revenue has to be judged from this base. As against this, the actual revenue earned in 1999-2000 amounted to Rs. 20,424 crore, resulting in a gross shortfall of about Rs. 1,450 crore. This amount includes the loss of revenue caused by not implementing the standard tariff package specified by TTO '99. Such loss of revenue to DTS/MTNL is estimated to be approximately Rs. 1,200 crore. The conclusion, therefore, is that the loss of revenue in 1999-2000 that can justifiably be ascribed to the TTO '99 is no more than Rs.250.00 crores.

13. Of the gross revenue shortfall of about Rs. 1,450 crore mentioned above, the respective shares of the incumbent operators,viz. DTS and MTNL are estimated to be Rs.600.00 crores and Rs.850.00 crores. As stated already, a substantial portion of this revenue decrease is due to non-implementation of the Standard Tariff Package.

14. The above revenue estimates have to be considered together with the declining costs of telecom equipment. This was one of the factors considered by the Authority while deciding upon the revenue effect of tariff re-balancing, as stated in paragraphs 70-71 of the Explanatory Memorandum to TTO '99. This aspect, and the service providers getting an extension of the period for the first phase of tariff re-balancing, now lead to the conclusion that the effect of the first phase of tariff re-balancing on revenue of the operators cannot be deemed to be severe. Another noteworthy point is that the Authority had expected an improvement in efficiency of the incumbent operator to also take care of some of the revenue decline occurring in the course of tariff re-balancing. Based on these considerations, the Authority is of the opinion that the decline in long-distance call revenue is not such as to warrant any further postponement of the second tranche of reduction in STD/ISD call charges envisaged in TTO '99.

15. Therefore, the Authority has decided that the proposed reduction in the STD/ISD rates for the second phase be introduced from 1st October, 2000. The Authority appreciates that a preparatory period of four weeks is required by the service providers to implement the changes in all the relevant exchanges, and to make other arrangements for effectuating the tariff changes properly.

16. Further, the Authority has decided that the second phase of STD/ISD tariffs will continue till 31st March, 2002. In all, therefore, the implementation of the entire TTO, 1999 will now extend over three years, i.e. from 1.4.99 to 31.3.2002.

17. A longer period for the second phase of tariff reduction has been permitted to enable the market to adjust to the effects of the recent policy changes in the telecom sector. Also, implementing the second phase over one- and a half years instead of one year would provide more time for the demand elasticity to manifest itself, and would give the incumbents some additional time for structural re-adjustment in an environment where competition is increasing in all segments of the telecom service market.

18. The third phase involves a decline in STD tariffs of about 11.5 per cent from the average level of these tariffs in 1999-2000. The first two phases together achieve a reduction in STD tariff of almost 85 per cent of the total reduction that has been envisaged in the TTO '99. The Authority has taken a note of the Government's decision to open the national long distance (NLD) market for free competition and expects that the STD rates, on their own will register a significant decline due to increased competition resulting from the entry of the private sector in the NLD market. The Authority intends keeping a close watch on these developments and in line with the latest trends in telecommunication regulation, proposes to examine adoption of a market driven approach to tariff re-balancing consisting of the effect of competition on the market and its growth.

19. The second phase of tariff change included also an increase in rentals for general user subscribers, i.e. subscribers making more than 500 MCUs per month of the billing cycle. The Authority has decided not to increase these rentals, mainly for the following reasons.

(a) The additional amount of revenue that would result from the rental increase envisaged in the second phase of tariff re-balancing is about Rs. 200 crore, i.e. less than 1 per cent of the total expected revenues next year. Such a revenue loss can reasonably be expected to be more than made up through improvements in the efficiency and productivity of the incumbent operator. Also, having observed that demand is sensitive to rental or access charge, the Authority expects that not increasing rentals would spur demand and result in additional revenues. While re-balancing tariffs as a matter of policy, the Authority considers it important to achieve a good balance between cost and affordability and help build up demand for telephones in a manner which while observing the teledensity target of 15 by 2010, will endeavour to protect the financial viability of the telecom services.

(b) The Authority has permitted additional time for the first as well as the second phase of the tariff re-balancing, which in turn implies accretion of additional revenues that would more than make up for the revenue increase that could be generated by the increase of rentals in the second phase.

(c) Equipment costs have continued to decrease. If forward looking cost of only the traffic non-sensitive portion of the network is reckoned for calculating rentals then that should work as a further check on their increase.

(d) During the tariff review, the Authority has reworked cost based tariffs on the basis of a revised methodology that is mentioned in paragraph 83 of the Explanatory Memorandum to the TTO '99. This methodology and the latest forward looking cost estimates, which will be subject of consultations in the near future, would involve a review and reconsideration of some of the basis for fixing rentals and call charge. Therefore, the Authority considers it proper to defer any further increase in rental till a review of the Tariff Order along with basis of costing is undertaken in January, 2002.