Standard Cost Structure for Telecommunications Companies
TELEPHONE RATES

- Local Exchange Service
  - Flat Rate
    - Residential
    - Business
  - Measured Rate
    - Residential
    - Business
  - Extended Area Service
  - Special Features (Call Waiting, Call Forwarding)
  - Nonrecurring Service Charges/One off charges
TELEPHONE RATES 2

• MOBILE
  - PREPAID
  - POST PAID
  - BUNDLED SERVICES

•LEASED LINES

• BANDWIDTH

• SPACE SEGMENTS
TELEPHONE RATES 3

• Other Local Service Offerings
  – Pay Telephone Service
  – Private Network Link

• Toll (Long Distance) Service
  – Interregional
  – Intraregional

• Access Services
  – Switched Access
  – Special Access /POP

• Interconnection

• Resale/wholesale
PRICING METHODOLOGIES

- Value of Service
  - Basic telephony
  - Premium (special numbers)
  - Data
  - Value Added
COST OF SERVICES

- DIRECT COST
- INDIRECT COST
- JOINT COST
- COMMON COST
- OTHER COST
PRICING

- MARGINAL COST
- FULLY DISTRIBUTED COST
- STREAMS:
  - CONNECTION
  - SUBCRIPTION/MONTHLY ACCESS
  - LOCAL CALL
  - DOMESTIC CALL
  - INTERNATIONAL CALL
DIRECT COSTS

Costs that can be attributed solely to the production of a specific item. E.g.
- access network
- national switching network
- national transmission network
- international switching network
- international transmission network
- Salaries and wages at central switching office
INDIRECT COSTS

• Opposite of direct cost
  - Shared (incremental and overhead)
  - Common (more than one output e.g. telecoms central office switch)
  - Joint (costs that produce more than one product in fixed proportion)
TYPES

• Volume sensitive or usage cost – costs that vary with output
• Fixed costs- do not vary with output
• Sunk costs – costs that cannot be avoided
• Service-specific fixed costs- fixed cost that do not vary with output
• Stand- alone cost- total cost of a specialised company producing only the service or services in question
JOINT AND COMMON COSTS

• JOINT COSTS
  - Arise when the production of one product results in the output of another
  - Requires that the joint products be produced in fixed proportions (ex: beef and hide)

• COMMON COSTS
  - Again, arise when the production of one product results in the output of another
  - Proportions can vary

• MUCH CONTROVERSY ON HOW THESE COSTS SHOULD BE ALLOCATED TO VARIETY OF SERVICES
COST ALLOCATION

- Capital Cost
- Operation and Maintenance Cost
- Other Accounting costs
  - To service
  - Network
  - Other Activities
SEPARATIONS

• Allocation of cost to identifies how expense, investment, and revenue are assigned to each service of an operator.
WHAT IS TO BE ALLOCATION

• General Accounting
  - Plant
  - Expenses
  - Revenues
  - Others

• Total Cost
  - Total costs are separated between regulated and non-regulated
  
  - Expenses and investment are placed into functional categories. These costs are then separated between services.
STANDARD COST STRUCTURE

• There is none - Explanation
• Movement on federal level to revise many of the per minute charges into flat, fixed charges or revenue based charges
• Problematic to some states because detrimental impacts to low volume users
• Making size of phone bill more fixed and customer has less discretion at the size of their overall bill
STANDARD COST STRUCTURE

• There is no country in Africa that has done in-depth cost study to determine cost structure, however countries like Tanzania
• Most countries are continuing with benchmarking of the European model
• While some countries have charging areas, others use radial structure.
• Some advocate subsidies for local residential rates by lower residential rates and higher business rates
UNIVERSAL SERVICE FUNDS - US EXAMPLE

• Federal law states a principle that rates in rural areas should be reasonably comparable to those services provided in urban areas (part of determination of responsible federal universal service fund distributions to companies)

• Federal law states a principle that Quality services should be available at just, reasonable, and affordable rates
UNIVERSAL SERVICE FUND

• The new Nigerian Communications Act 2003 provided for Universal Service Provision Fund
• Contribution will partly from annual regulatory fee
• Currently in process of bidding for a pilot project.
AND...

• How many countries have develop Universal Service Funds?
• What cost structure is applicable?

• DISCUSSION