Creation for mechanism for participating in net costs for Universal Service

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What is Universal Service?

Provision of "affordable access to basic voice telephony or its equivalent for all those reasonably requesting it, regardless of where they live."

Main features of Universal Service

* **Availability:** Nationwide, when and where required.
* **Accessibility:** To all on a non-discriminatory basis in terms of price, service and quality.
* **Affordability:** Priced so that most users can afford it.

“What does Universal Service Aims at” ?

Universal Service is desirable for social and political reasons. Lack of access to telecom service or unaffordable price diminish the opportunities for a person to participate in the mainstream. That is why Universal Service has been ensured by Government policy, legislation and/or regulation.

What does Universal Service Objective mean in two worlds – Developed and Developing?

The Universal Service Objective was set:

<u>In Developed World</u>

1) House hold penetration level nearing 90%.
2) Targeting few rather than majority of population.
3) When telecom infrastructure was fully developed.

What does Universal Service Objective mean in two worlds – Developed and Developing?

In Developing World

- When network penetration very low.
- GDP per head low.
- Network infrastructure inadequate

Shift of Emphasis from Universal Service to Universal access?

Availability, accessibility and affordability – the three cornerstones of Universal Service objective:

- Neither mutually exclusive
- Nor simultaneously achievable.

Therefore:

Shift needed from Universal Service Provision to Universal Access Provision.

What is Universal Access ?

Community Access as distinct from Individual Access Based on:

- Population Groups of certain Size:
- India: A telephone for each village

  A P.C.O. for every 500 people
- Maldives: A telephone on every island.

* **<u>Distance</u>:** A telephone within a certain distance:

  <u>India:</u> A rural phone within 5 Kms.

  <u>Niger:</u> A telephone within 50 Kms.

* **<u>Time:</u>** A telephone reachable within a certain time:

  <u>India</u>: An Urban P.C.O – within 5 minutes walk.

  <u>South Africa</u>: A phone within 30 Mts. walk.

What is Universal Service Obligation?

- Universal Service Provision is a burden
- Imposed by Govt. Policy, Legislation and/or Regulation
- Upon an operator/operators
- To provide basic telephony
- To certain geographic areas, locations or customers
- At a loss or below the cost
- Outside normal commercial considerations.

Why is there so much talk about U.S.O?

Monopoly environment:

Service pricing enable cross subsidization from profitable activities to loss – making ones without fuss.

Multi-operator Environment:

- Competition driving prices
- Activities motivated by profits
- Unprofitable activities sidelined / ignored/ avoidable
- Operator with U.S.O. looks for compensation
- Costs exaggerated/underestimated
- Costing U.S.O. very critical

What are net Costs of U.S.O. ?

- Total relevant costs of service provided to an uneconomic customer – total relevant revenue.
- Only this difference or part thereof is U.S.O. cost and needs a mechanism whereby all concerned contribute.

Why do we need a mechanism for participating in such costs ?

- U.S.O. being a burden is uneconomic and unprofitable.
- Operators avoid areas / Customers where costs exceed revenue.
- The Burden falls generally on incumbent.
- Equity demands that the burden is fairly and reasonably shared.
- A mechanism needed for ensuring participation by all.

What are different mechanisms available?

<u>Competitive Options</u>

- **<u>Franchising</u>** (Operators bid for subsidy)
- **<u>Overlapping Obligations</u>** (Several operators have U.S.O.)

❖ **<u>Pay or Play</u>** (Option given to Operators)

Franchising

- Loss making/uneconomic areas identified.
- Incumbent free to provide Universal Service for no payment.
- If incumbent unwilling, the areas put to bid.
- All operators including incumbent invited to bid for subsidy.
- Lowest satisfactory bid chosen by Regulator.
- If no better bid, incumbent paid at cost.

Overlapping Obligations

- U.S.O. imposed by license
- All operators with reasonable presence to build out in unprofitable areas.
- U.S.O. - a fixed percentage of build-out plan.
- Schedule of U.S.O. stipulated in license.
- Penalties for failure.
- Incumbent as a fall-back operator.

“Pay or Play”

- In competitive/multi-operator environment all operators must share the obligation.
- Either they “play” or “pay”
- Mostly new entrants avoid physical U.S.O. roll out.
- Certain equitable mechanism needed for U.S.O. contributions.

- Many countries opt for U.S.O. funding
- Mechanism of U.S. funding involves some form of obligation on all service providers.
- The obligation can take any form
  - A fixed levy on Revenues
  - License fee or part there of
  - Access Deficit Charge
  - Interconnect Charge
  - Sales Tax