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PRESENTATION

MINIMUM SUBSIDY COMPETITIVE AUCTION MECHANISMS FOR FUNDING PUBLIC TELECOMMUNICATIONS ACCESS IN RURAL AREAS AND TARIFF/INTERCONNECTION REGULATION FOR THE PROMOTION OF UNIVERSAL SERVICE/ACCESS

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Minimum Subsidy Competitive Auction Mechanisms for funding Public Telecommunications Access in Rural Areas and Tariff/Interconnection Regulation for the Promotion of Universal Access

Part II of Model Universal Service Fund Policies and Procedures

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Document Summary - I

- » Describes a set of processes and procedures for applying USF financing to construct and operate new public access telecommunications facilities in unserved rural areas in developing and least developed countries, based on minimum subsidy competitive auction mechanism
- » Focuses on public payphones as the “mandatory” designated service to be provided
 - » Other types of infrastructure, service delivery modalities and services, including regional operators, individual lines and telecentres, delivering basic and/or advanced services, may also be designated as “mandatory” and hence provided

Document Summary - II

» Brings together “best” or “promising” practices for each of the various processes and procedures, based on extensive research and on successful experiences in Chile, Peru and Colombia

- Post-liberalization, these countries did not impose universal service obligations on any specific operator(s)
- Instead, within the context of a sector liberalization policy and recognizing the limits of the market, countries designed pro-universal access regulatory frameworks and market-oriented universal access regimes based on providing incentives, not on imposing obligations

Document Summary - III

- Subsidies were generally financed by sector or general taxation; no operator can claim exclusivity for the subsidy; all operators could compete for the subsidy
 - Countries initially subsidized only public payphones in unserved areas; later added telecenters with Internet
 - » Empirical results show that to date, operators used subsidies to leverage 2 to 6 times as much additional investment in optional services
 - » **Appendix 1** provides a summary of these experiences
- » Provides analyses and recommendations for applicable consumer tariff and interconnection charges to promote universal service

Document Outline and Presentation Methodology

» Document Outline

- Section #1: Introduction
- Section #2: Development of Projects
- Section #3: Bidding Process
- Section #4: Consumer Tariffs and Interconnection Charges
- Appendix 1: Selected Minimum Subsidy Results
- Appendix 2: Indicative Contents of a Sample RFP
- Appendix 3: Illustrative Tariffs & Interconnection Charges
- References/Bibliography

» Presentation Methodology

- For each of Sections 2, 3,4 present four pages: a summary page, an outline page and one page each for two key issues

Section 2 Summary: Development of Projects

- » Describes how an USF Administrator (USFA) would design, develop and implement a multi-year Programme to implement specific Projects
- » Sets out the main parameters to take into account in defining the services/regions to be provided/served (mandatory service)
- » Describes the process to estimate the maximum and actual subsidy to be received by the selected operators

Section 2 Outline

- » Programme Design
- » *Key Programme Parameters*
- » *Determining the Subsidy*
- » Selection and sequencing of projects
- » Consistency with existing obligations

Section 2: Key Programme Parameters

- » Mandatory service(s) designation
 - Three main components, usually based on existing policy/legislation/regulation
 - Geographic/Population Coverage
 - Services Coverage
 - Time Duration

Section 2: Determining the Subsidy

- » Two complementary approaches used to determine the actual subsidy
 - Estimate the maximum amount using an economic/engineering cost model or benchmarking
 - Allow market determine the final amount of the required subsidy through a competitive bidding/auction process, subject to maximum subsidy
- » USF should only subsidize the uneconomic component of any project
 - profitable “commercial” projects should not be subsidised

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Section 3 Summary: Bidding Process

- » Describes the processes and procedures for how the USFA solicits bids, selects the operator in a competitive bidding/auction process and provides the applicable subsidy to the operator
- » Process based on and initiated by the request for proposal (RFP) document issued by the USFA
 - RFP includes the terms and conditions of the process, a specification of the actual projects that are being auctioned, the corresponding maximum subsidy amount available and other data/information
 - Indicative contents of RFP included in **Appendix 2**

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Section 3 Outline

- » *Competitive Bidding Strategy and Auction Design*
- » Transparency
- » Distinguishing the Process from Procurement
- » Attractiveness of Bid Opportunity
- » *Regulatory, licence and other fees*

Section 3: Auction Strategy and Design

- » Policy and economic trade-off
 - Objective is to minimise the actual subsidy amount to be disbursed, subject to the constraint that designated mandatory services are provided on schedule, for the entire specified time duration, at regulated consumer tariffs and at an acceptable quality-of-service
 - Direct trade-off between subsidy minimisation objective and the acceptable services constraint
- » Means to ensure acceptable mandatory services
 - Qualification Criteria
 - Bid, Performance and other guarantees, including disbursement schedule

Section 3: Licensing Regime

» Pro-universal service licence framework

- USFA should be able to work in context of an open and light-handed licensing regime
 - » Selected operators may be new and hence require to be licensed
 - No exclusivity provisions that prevent entry of new operators
 - No requirement on rural/regional licensees to establish presence outside of designated area
- Any type of fee paid by rural/regional universal service licensees, including entry and/or ongoing licence fees, will have a direct negative impact on bid attractiveness
 - **Result:** A higher subsidy amount being requested

Section 4 Summary: Consumer Tariffs & Interconnection Charges

- » Analyses consumer tariffs and interconnection charges that are applicable to the rural/regional licensee for the provision of mandatory services
- » These rates are the most important regulatory determinants of the success and viability of rural/regional licensees
 - Direct economic trade-off between these rates and the subsidy amount requested
 - **Appendix 3** develops illustrative benchmark consumer tariffs and interconnection charges

Section 4 Outline

- »Regulatory certainty
- »Regulation of consumer tariffs and interconnection charges
- »*Economics of rural universality*
- »*Level of consumer tariffs and interconnection charges*
- »Structure of consumer tariffs and interconnection charges

Section 4: Economics of Rural University

- »Low rural access levels due to two reasons:
 - **Demand:** Rural incomes tend to be lower, hence, income devoted to telecoms is lower
 - **Supply:** Rural networks are many times more costly to install and maintain than urban networks
 - Note, this is different from the issue of what technology may be most economical for any specific area/application

Section 4: Level of Consumer Tariffs and Interconnection Charges

» Traditional tariff and interconnection approach has placed higher emphasis on demand

- **Result:** Rural rates regulated to be below or at the same level as the corresponding urban rates
- Approach fails to take into account supply, resulting in rural under-provision

» Document develops and recommends asymmetric pricing in rural and urban areas

- Consumer tariffs & interconnection charges applicable to rural universal service licensees should generally be regulated to be higher than corresponding urban rates

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