

The proposal for differentiated charges and the sustainability of rural networks in Peru

The development of mobile telephony will inevitably force fixed telephony providers to relocate their installations in other rural communities, which implies transaction costs for the rural operator because of the need to renegotiate and to learn about the new communities in which it will offer its services.

In these cases, the regulator's proposal for differentiated interconnection charges would be inadequate to address the situation of rural networks, because a comprehensive regulatory framework would be needed for rural areas.

Introduction

This paper discusses the current state of rural telephony networks in Peru and how they have been affected by mobile telephony. It also analyzes the proposed regulatory Resolution No. 007-2010-CD/OSIPTTEL and Resolution No. 005-2010-CD/OSIPTTEL, currently in effect, on regulatory measures for solving the problem.

The Telecommunications Investment Fund (Fondo de Inversión en Telecomunicaciones, FITEL) was created to address rural demand through programs to cover the access deficit. Initially, community public telephony service was provided and managed by a private company. The government established a set of tariffs for outgoing and incoming rural calls and identified the rural communities to be served.

Subsequent development has demonstrated the need to supplement the regulatory framework with non-tariff measures, including aspects related to relocation of public telephones when substitutes (mobile or fixed telephony) appear, service quality, technical conditions for interconnection (signaling, RDSI access) and interconnection charges to be paid to and from rural networks.

Current state of rural networks

The goal of FITEL programs 1 to 4 is to achieve maxi-

mum geographic coverage for public telephony service, subject to FITEL's budget constraints. It was determined that market mechanisms could not satisfy demand for telephony services in communities with fewer than 3,000 inhabitants, and that access should be provided for communities where the service would be self-sustaining over time. It was also believed that the spread of mobile telephony would occur in urban areas.

Between December 2005 and September 2009, however, mobile coverage increased from 433 to 1,497 districts, leading to an inverse relationship between mobile coverage and rural public telephony service, which has seen a decrease in outgoing traffic. Rural operators must therefore relocate their public telephones in order to make their operations sustainable.

There has also been a decrease in total minutes in FITEL projects, creating serious problems for the financial sustainability of rural networks.

Differentiated interconnection charges

It is obvious that FITEL programs 1 to 4 are unsustainable, and that regulatory measures are therefore needed to solve the problem. OSIPTTEL's regulatory proposal (Resol. No. 007-2010-CD/OSIPTTEL and Resol. No. 005-2010-CD/OSIPTTEL) poses the need for

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differentiated interconnection charges, but the proposal is not based on an evaluation of interconnection charges for the various rural networks or a review of the program's design. Such an exercise is necessary to determine whether the measure will really solve the problem of rural network sustainability.

A report prepared by Voxiva in 2009 includes estimates of interconnection charges that would allow recovery of efficient costs of rural networks. The report shows that the charges range from 0.19 to 0.26 per minute for termination in a rural network.

It is important to note that initially, it was established that government subsidies would only be provided during the first five years of operation, associated with recovery of investment and operating costs during that period.

Because these are long-term contracts, it is feasible to redesign the FITEL programs to ensure their sustainability, but a regulatory problem arises regarding the scope of the modification of the programs.

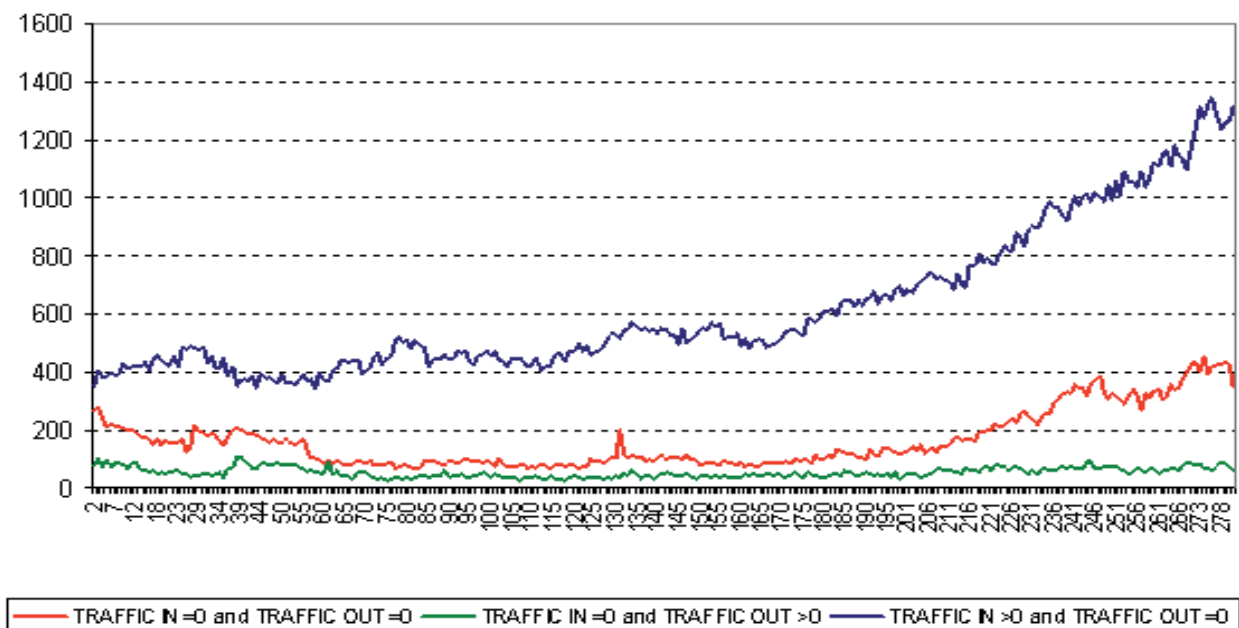
Special care must be taken to ensure that the partner does not take advantage of the post-contract advantage to obtain extraordinary benefits.

Given this contractual constraint, the government should propose a new design for the programs to ensure long-term sustainability. It is important to take into account unforeseen cost increases and the unforeseen decrease in demand for access or use in various communities. These modifications must also lead to a reduction in the use of additional public funds and tariff distortions.

The modifications must involve a review of the mechanism for adjusting tariffs and interconnection charges.

It is important to note that the proposed intervention distorts the establishment of access prices aimed at encouraging greater competition, in that new differentiated access prices for non-rural networks would be higher than the long-term incremental costs that the regulator would have estimated when setting the non-differentiated rate.

Figure 1 Number of lines with zero traffic (incoming, outgoing or both), by week: 2004-2008



The questionable element is not the proposal for differentiated charges, but that the modification implicit in the FITEL programs does not appear to respond to a comprehensive understanding of the problem of sustainability of rural telephony networks or a vision of the problem of universal service, which should be evident in the rationale for the resolution published for comments or that of Resolution No. 005-2010-CD/OSIPTTEL.

The proposed measure appears to be an isolated effort to resolve a financial problem of rural operators, regardless of whether a significant distortion in access prices is introduced, and with no assurance from the regulator that the differentiation in interconnection tariffs will not be used to cover inefficiencies or obtain a certain level of profitability for rural

“The modifications must involve a review of the mechanism for adjusting tariffs and interconnection charges”

operators.

An increase in revenue for a regulated monopolistic operator, related to an unforeseen contingency, must be accompanied by the efficient use of that revenue.

Conclusions and Recommendations

The recent development of rural networks in Peru shows a downward trend in terms of outgoing and incoming traffic toward those networks. For such networks, this inevitably undermines financial sustainability.

The establishment of differentiated charges is part of a policy aimed at making rural networks sustainable, in that it seeks to avoid significant adjustments in tariffs for outgoing and incoming rural calls and call termination in rural networks.

Questions about the proposed measure arise from the lack of an overall regulatory approach showing that the measure would be part of a broader vision for development of rural networks. This must be reflected in the definition of a method for regulation

of rural tariffs. In this policy brief, we suggest that, because the proposal would result in distortions in other networks' access prices, it is necessary to prove that the differentiation is sufficient to ensure the sustainability of the rural networks, seeking efficiency in the operation of those networks.

The proposal does not indicate what kind of oversight will be implemented to avoid the detouring of traffic, beyond suggestions of conventional administrative sanctions.



DIRSI
Diálogo Regional sobre
Sociedad de la Información

Horacio Urteaga 694
Jesús María - Lima 11. Perú
Teléfonos: (51 - 1) 332 6194 / 424 1856
Fax: (51 - 1) 332 6173

info@dirsi.net
www.dirsi.net



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