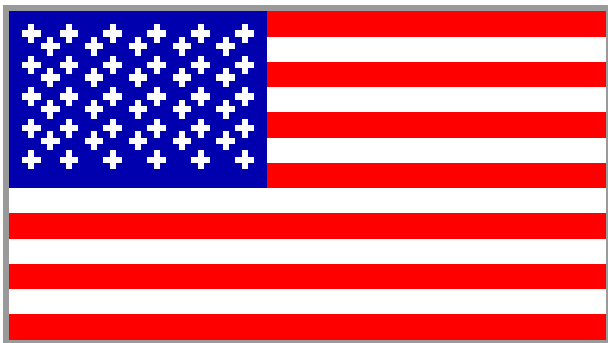
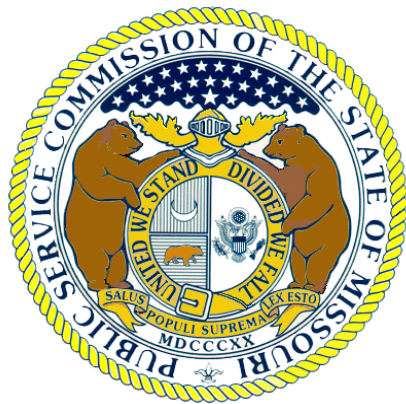


**Rwanda Utilities Regulatory Agency (RURA), National Association of Regulatory Utility Commissioners (NARUC) and Missouri Public Service Commission (MPSC) Regulatory Partnership Program**



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# Rate Structures/Methodologies

(Procedures for designing rates, data collection, price cap, rate of return, and hybrid models. How does a rate case proceed?)

Wednesday, October 27, 2004  
9:00

John Van Eschen

# Rate Structures/Methodologies Telecommunications

- Telecommunications History
- Different Forms of Regulation
- Interconnection Rates
- Interconnection Agreement Process

# Telecommunications History

- Wire line service
  - 183 million lines in U.S.
- Wireless service
  - 159 million subscribers in U.S.

# Wire line Service

- Long distance competition
  - Very competitive.
- Basic local service competition
  - Slow to evolve.
  - Market share figures?

# Wireless

- During the 1980's cellular spectrum was licensed to two wireless providers in a given market.
- Coverage is dependent on the extent wireless providers have built out their networks.
- Regulator is usually not involved in setting wireless prices.
- Number portability.

# Regulatory Jurisdictions

- State regulatory commissions:
  - Intrastate telecommunications services
- Federal Communications Commission
  - Interstate telecommunications services, international telecommunications services, wireless, media.

# Different Forms of Regulation

- Rate of Return regulation.
- Price cap regulation.
- Competitive classification.

# Rate of Return Regulation

- Company's earnings are controlled by regulator.
- No pricing flexibility
- Generally used in monopoly situations.
- “Residual ratemaking concept”

# Price Cap Regulation

- Qualifying for price cap regulation.
- Significant components of price caps:
  - Regulator no longer controls company's earnings.
  - Company has the flexibility to adjust prices below a maximum price cap level.
  - Mechanism or process to adjust price caps.
- Establishment of maximum rates.

# Mandatory Annual Price Cap Adjustments

- Mandatory annual adjustment to maximum rates charged for basic local service & switched access service:
  - Consumer Price Index for Telecom Services.
  - Gross Domestic Product Price Index minus any productivity offset established for telecom services by the FCC and adjusted for exogenous factors.

# Optional Price Cap Adjustments

- Can increase non-basic service rates by up to 8% per year.
- Rate rebalancing
  - increase local rates by \$1.50 & decrease switched access rates on revenue neutral basis.
  - Limits: 150% of interstate switched access rates. Four adjustments.

# Competitive Classification

- Company has complete pricing flexibility
  - Can raise rates on 10 days notice to the Commission and to affected customers.
  - Can decrease rates on 7 days notice to the Commission.
- Used when consumers have effective choice.

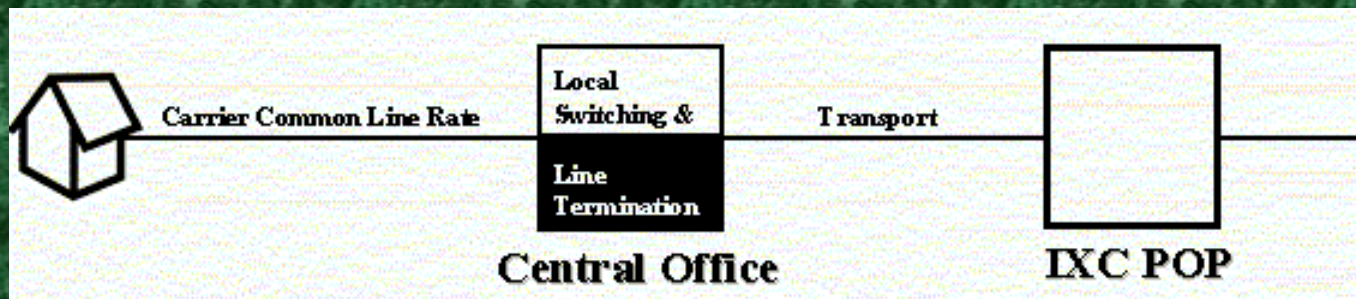
# Interconnection Rates

- Rates charged for exchanging traffic with other companies.
  - Switched Access Rates.
  - Resale, UNE's, reciprocal compensation.
  - Wireless interconnection rates.

# Switched Access Rates

- Billed by a wireline local telephone company.
- Paid by a long distance company or for certain wireless traffic.
- Technically switched access rates are intended to recover the cost associated with using the wireline local company's facilities to terminate or in some cases originate calls.
- Switched access rates are generally tariffed rates.
- On-going effort to dramatically change this form of inter-company compensation.

# Switched Access Rate Elements



# Resale, UNE's, Reciprocal Compensation Rates

- **Resale:** *% discount from retail rate.*
- **Unbundled Network Elements:** *Carrier selects the services/facilities they wish to use.*
- **Reciprocal Compensation:** *Rates applied for terminating traffic between two facility-based wireline local companies competing in same area.*

# Wireless Interconnection Rates

- Rates charged by a landline carrier for terminating wireless originated calls.
- Per minute rates but cheaper than switched access rates.
- Wireless interconnection rates can be found in interconnection agreement or tariff.

# Interconnection Agreements

- Interconnection Agreements are used to identify terms, conditions and rates of interconnection between:
  - A landline local telephone company and a competing landline company.
  - A landline local telephone company and a wireless company.

# Interconnection Agreement Process

Two companies try to negotiate an agreement.

- If they reach agreement then the interconnection agreement is submitted to state commission for approval.
- If they can't reach agreement then a party can file for mediation/arbitration.

Questions?

