

# Standard Cost Structure for Telecommunications Companies

# TELEPHONE RATES 1

- 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 SERVICEES

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

# PRICING

- MARGINAL COST
- FULLY DISTRIBUTED COST
- STREAMS:
  - CONNECTION
  - SUBSCRIPTION/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 developed Universal Service Funds?
- What cost structure is applicable?
- DISCUSSION