



DNTA

Trends in Telecommunication Reform 2000

Economic Issues in Interconnection

David N. Townsend

November 2000

Economic Issues in Interconnection

What are the costs of interconnection?

- **Categories of costs**
 - > **fixed vs. variable costs**
 - > **dedicated vs. shared & common costs**
- **Costs engendered by interconnection:**
 - > **direct, fixed costs (circuits, facilities, unbundled elements)**
 - > **indirect, variable costs (traffic-related)**
- **Costs for different types of interconnection**
 - > **local and long distance networks**
 - > **fixed and mobile networks**
 - > **data/IP-based networks**

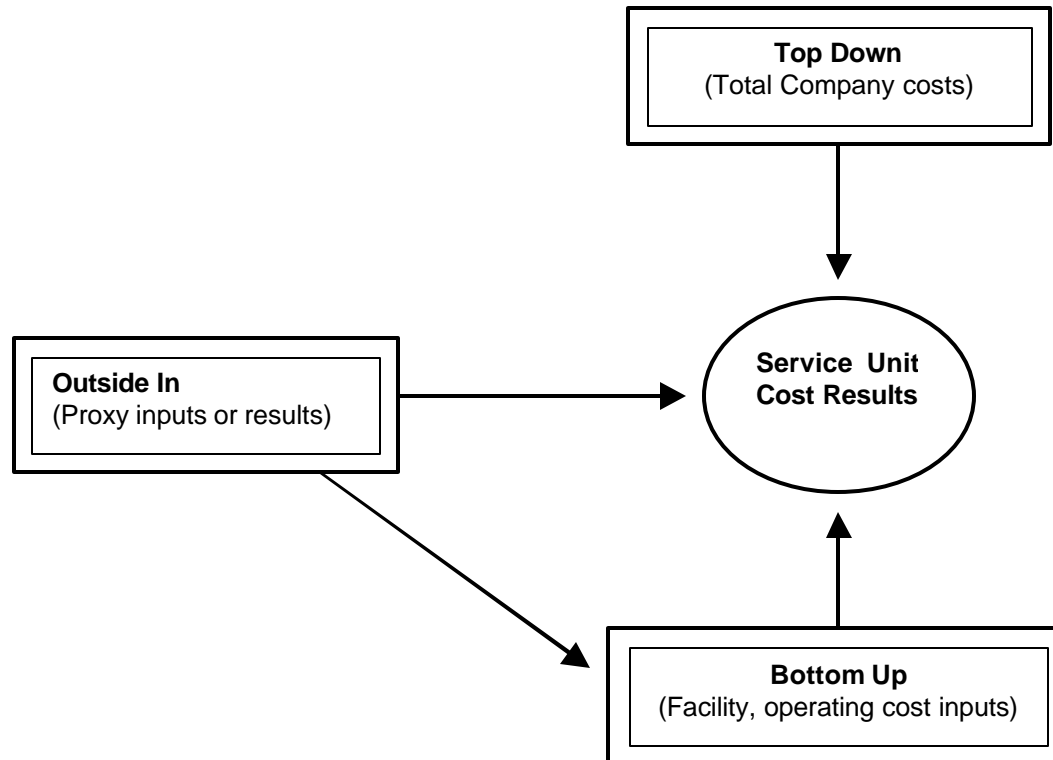
Economic Issues in Interconnection

How can interconnection costs be measured?

- **Theoretical frameworks**
 - > **Historical Fully Distributed Costs (FDC)**
 - > **Forward-looking, incremental costs (LRIC, TSLRIC, FL-LRAIC, etc.)**
- **Major categories of costs:**
 - > **Capital expenditures**
 - > **Operating expenses**
 - > **Personnel costs**

Economic Issues in Interconnection

Cost study approaches



Economic Issues in Interconnection

How should costs be recovered?

- **Cost recovery principles**
 - > **Efficiency**
 - > **Equity and competitive balance**
 - > **Laissez-faire**
- **Interconnection charges**
 - > **Cost-based charges**
 - > **Retail-based charges**
 - > **Price Caps**
 - > **Bill and Keep/Sender Keeps All**
 - > **Revenue sharing**