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# Local Call Pricing: A Critical Element of a Successful Internet Policy

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# Local Call Pricing

- Network access models and pricing issues
- Importance of the local call pricing regime for success of the Internet
- Flat rate internet access call origination (FRIACO)



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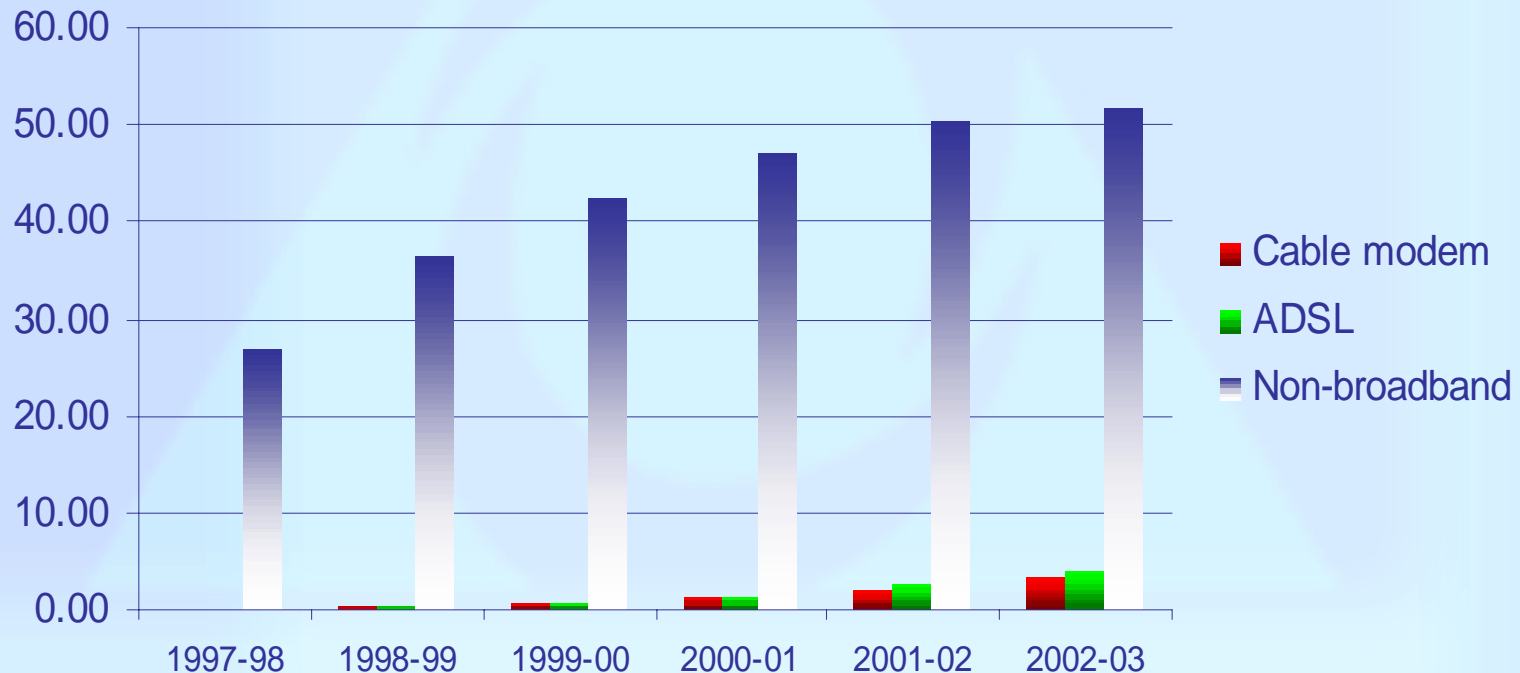
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# Narrowband is Now

Current projections show that growth of dial-up Internet access will exceed that of broadband access





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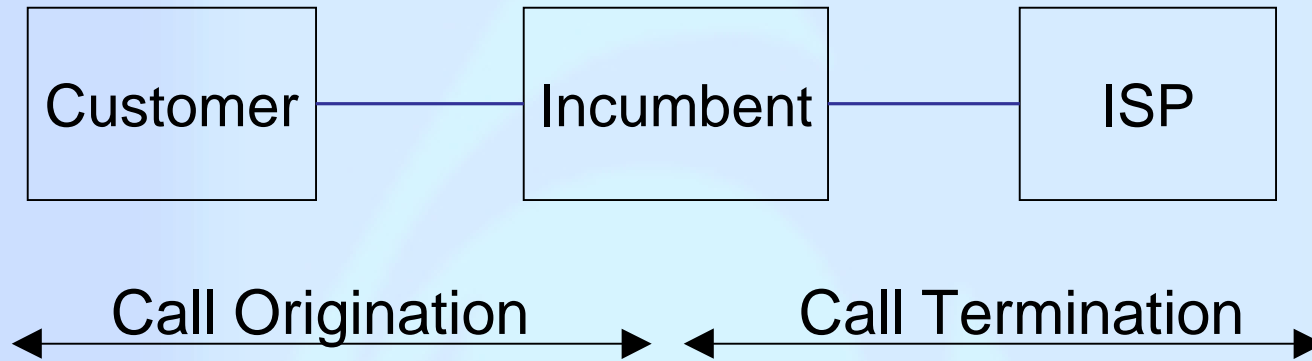


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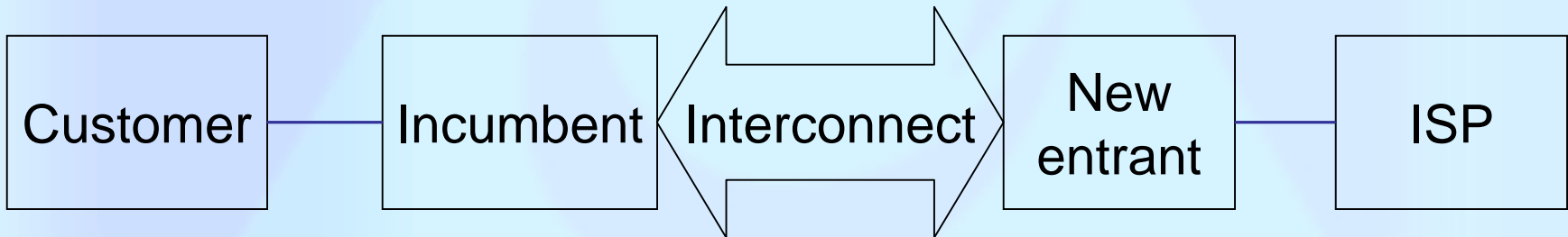


# Local call pricing models

## Traditional Model



## Competitive model





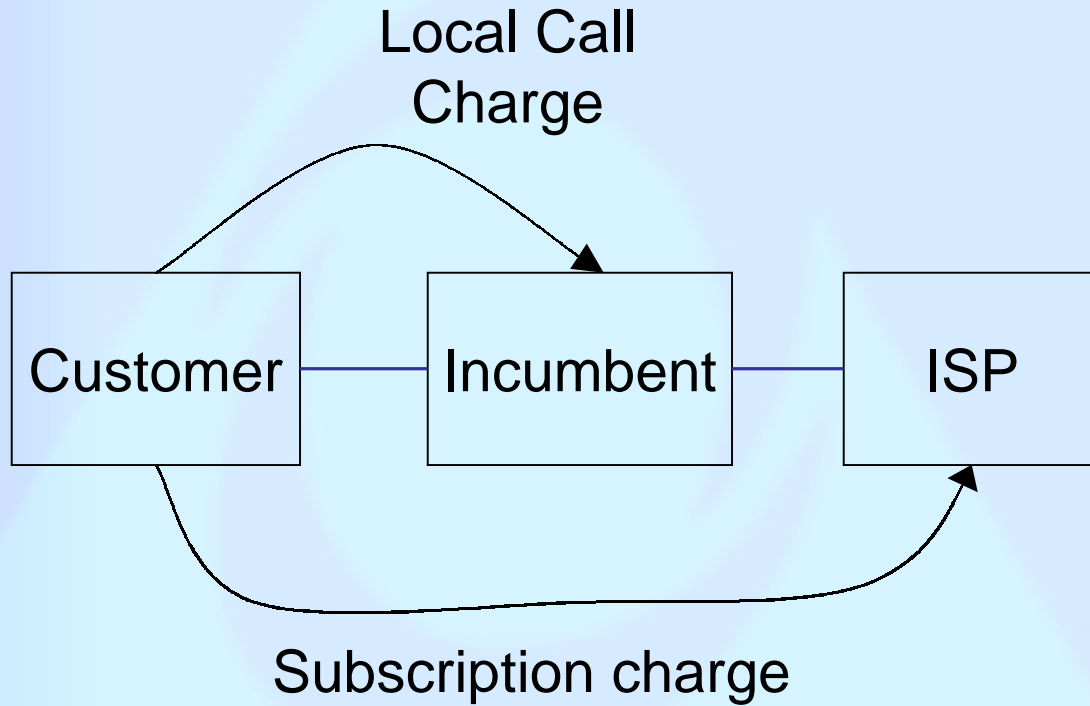
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# Retail Model





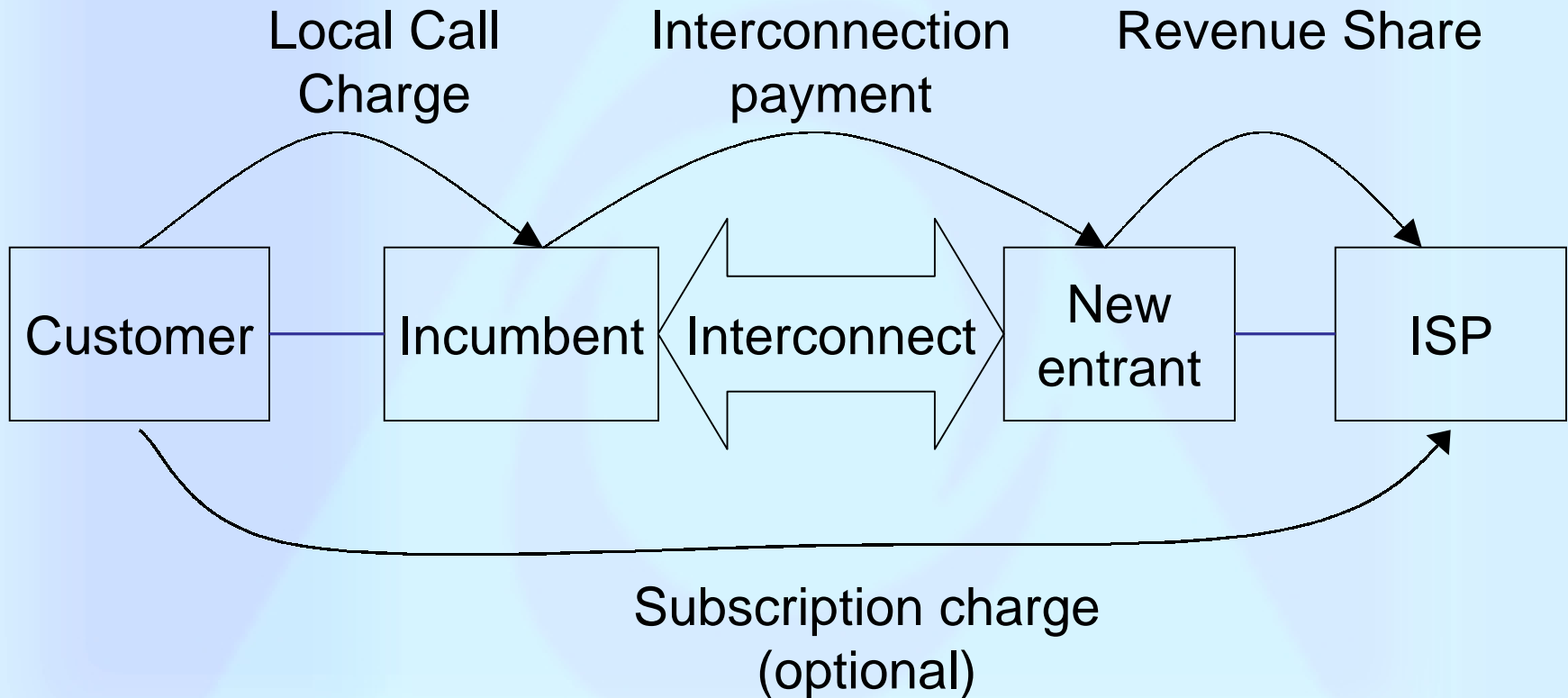
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# Retail Model -- Local Competition





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# Retail Model: Problems

- Limits or prevents retail price competition
- Differing average call duration means per-minute rates for voice service are not cost-based



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# Lack of cost-orientation: call duration

- Cost of local calls is based on call setup + network usage
- Rates based on average length of voice calls over-recover costs of Internet calls as much as 20%
  - Voice call average ~ 3 minutes
  - Internet call average ~ 17 minutes outside US



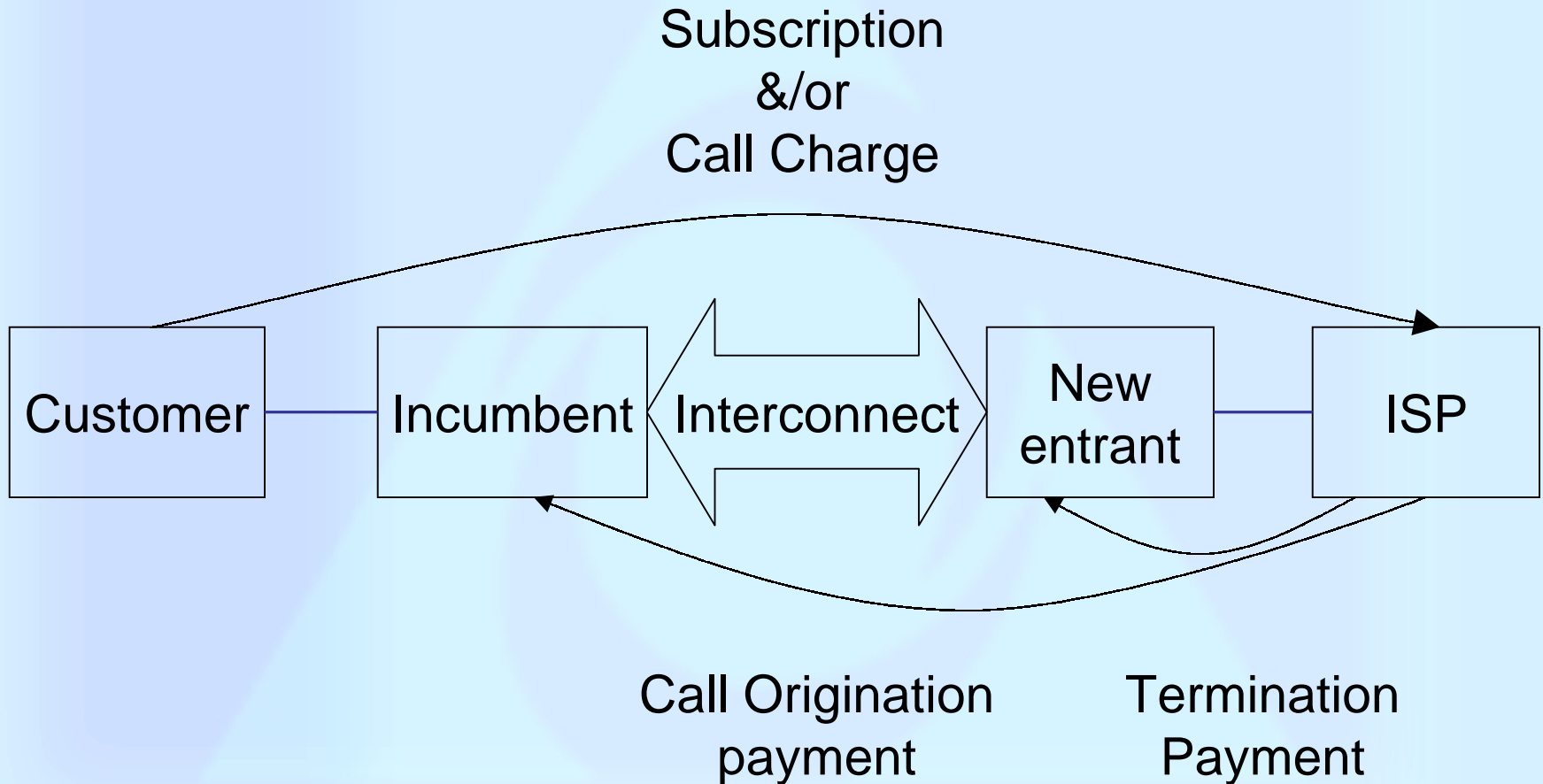
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# Wholesale Model: A Solution





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# Wholesale Model: Benefits

- Allows ISPs to tailor retail pricing in a manner that maximizes consumer appeal/usage
- Fully compensates telcos irrespective of retail price

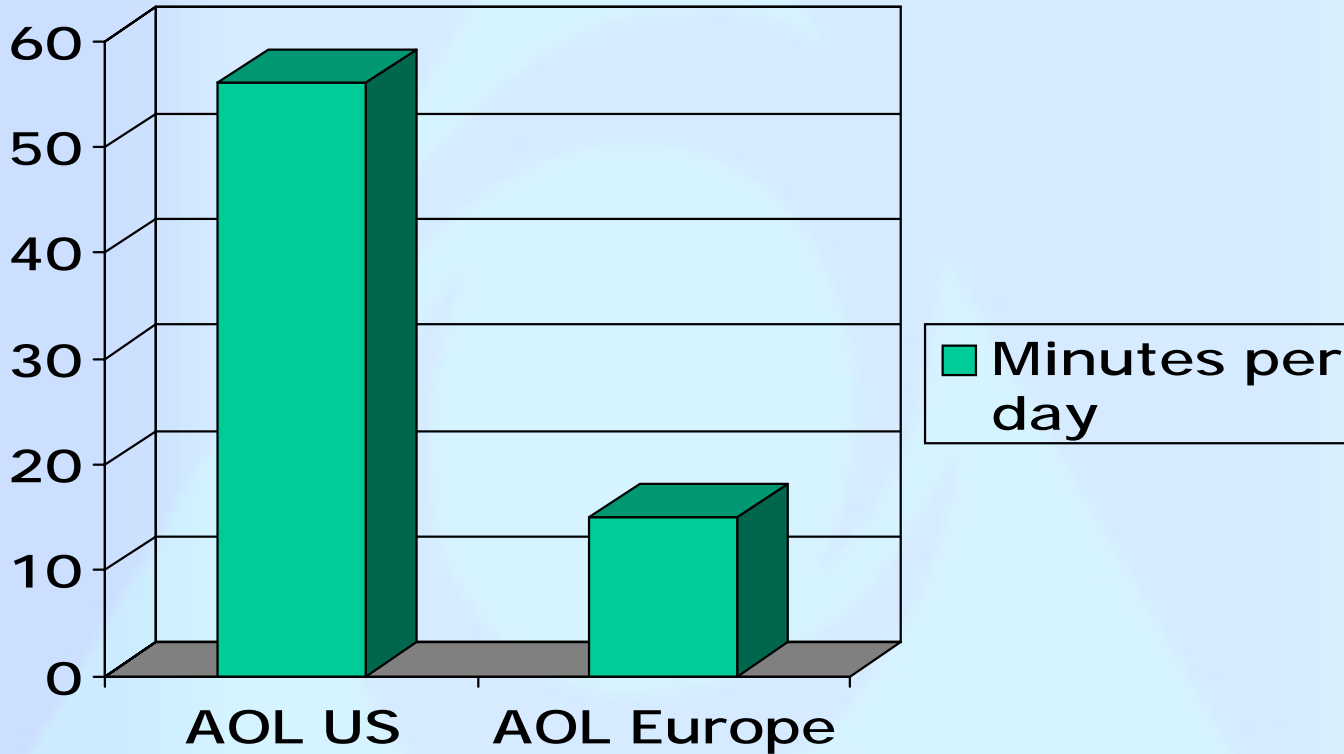


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# Metered Rates Inhibit Usage





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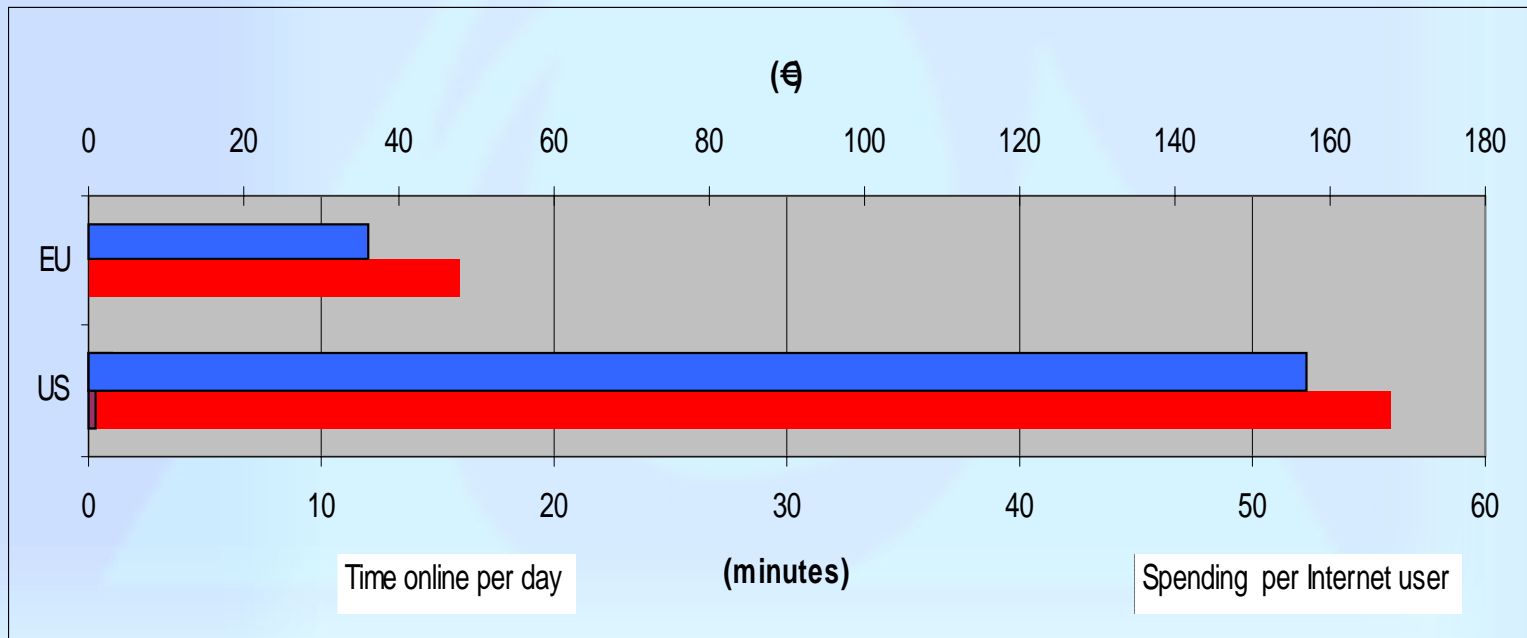


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# Dial-up Call Pricing

The amount of time spent on-line has a direct correlation to \$\$\$ spent





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# Benefits of Flat-Rate Internet Access:

- Expansion of the Internet economy, including job growth
- Improved opportunities for increased eCommerce and entrepreneurship
- More Internet users
- Longer Internet sessions
- Greater incentives for development of localized content



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# The problem with metered wholesale rates: Cost of networks do not vary by minute

- Network costs are determined by the amount of capacity built into the network
- Network costs do not, for the most part, vary according to minutes used, until capacity changes



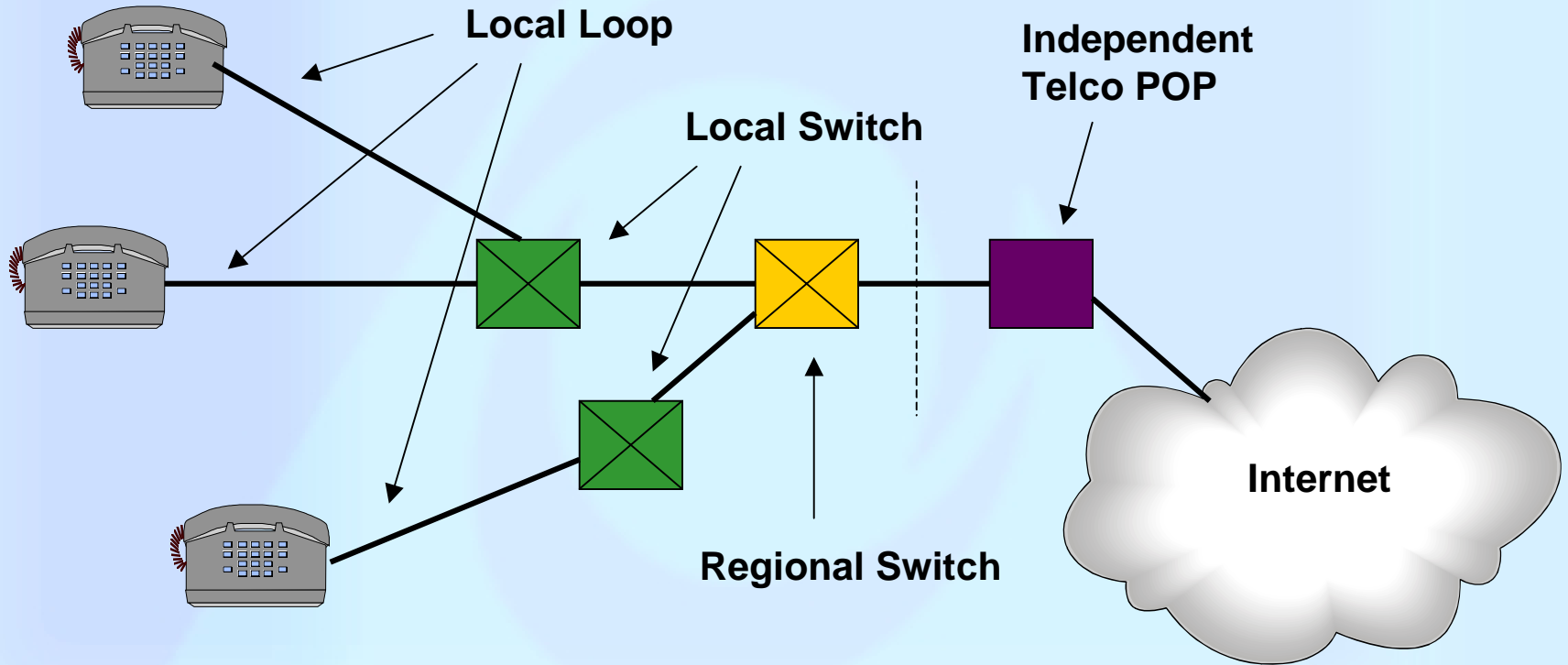
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# Network elements determine costs

Per minute rates can only approximately estimate network costs, since total cost of network is fixed and does not vary by minute.





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# Incumbent ISP/telco should not offer flat retail rate and metered wholesale rate

- Independent ISP must set retail flat rate based on estimated usage and take risk estimates are wrong
- If usage exceeds estimates, then per-minute costs may exceed flat-rate revenues
- Incumbent-affiliated ISP does not face such risks, since network costs are not variable by minute



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# The Answer: FRIACO

- FRIACO: Flat Rate Internet Access Call Origination
- Oftel decision: May 26, 2000  
[www.oftel.gov.uk/competition/fria0500.htm](http://www.oftel.gov.uk/competition/fria0500.htm)
- Requires BT to offer flat rate wholesale call origination
- Case brought by MCI WorldCom in response to BT's flat-rate retail offer
- Oftel found FRIACO necessary to avoid unfair competition from BT's flat rate retail offer



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# FRIACO: cost determination

- ISP/Interconnecting carrier leases amount of capacity needed
- Rates are based on share of network capacity, not usage



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# FRIACO: Benefits

- Compensates local carrier fully for use of network
- Allows ISP to take risk of lack of capacity or underutilization
- Is technology- and competitively-neutral



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# FRIACO: Momentum building

- Oftel decision May, 2000
- Dutch Regulator's decision May 30

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