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Mr. Arvind Kumar
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New Delhi – 110 002

Sub: Response to Consultation Paper on "Interconnection Usage Charges"

Dear Sir,

This is with reference to TRAI's Consultation Paper on "Interconnection Usage Charges" dated 19th Nov'2014.

In this regard, we hereby enclosed our response to the above mentioned consultation paper. This response has also been sent through e-mail at fn@trai.gov.in;

We hope TRAI will take our inputs into consideration.

Yours Sincerely
For **Aircel Group**

Ramesh K
Sr. General Manager –Corporate Regulatory Affairs

Encl: as stated above

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Aircel Group Response to TRAI Consultation Paper on Interconnection Usage charges (IUC), Dated 19.11.2014

Preamble:

Termination of calls generated by subscribers of other interconnecting service providers involves cost for which the service providers need to be fairly compensated. It becomes very important to have an effective interconnection usage charges (IUC) regime in place to facilitate interconnection arrangements among various co-operating and competing service providers and provide greater certainty to the settlements among them. The purpose of such an IUC regime is to ensure that all service providers are able to gain access, on reasonable terms and conditions, to the interconnection facilities and services necessary to provide efficient service to their own customers. The IUC should be only fixed with a purpose of actual and minimum cost reimbursements and not with a purpose of revenue generation.

We earnestly believe that there is a substantial potential for reduction in domestic termination charges from the present levels of Rs 0.20/minute. As per our estimates and based on ASR reports, the cost could be in between the range of 10 to 13 paisa per minute, as per Fully allocated cost methodology excluding CAPEX. To follow the true spirit of cost based IUC, the terminating IUC charges should be further reduced and resultantly, operator would be able to pass on the benefits as reduced tariffs to customers.

Keeping above in mind, our question-wise response is given as follows.

Question-wise Response

Q1: Which of the following approaches would be the most appropriate for Mobile Termination Charge and Fixed Termination Charge:
(i) Cost oriented or cost based;
(ii) Bill and Keep
Please provide justification in support of your response.
&
Q2: In case cost-oriented or cost-based approach is used for determining Mobile Termination Charge and Fixed Termination Charge, is there a need to give a glide path towards Bill and Keep and what will be the appropriate time frame to migrate to Bill and Keep regime?

Aircel Response:

We support the present approach of TRAI in fixing IUC as cost based with an exclusion of CAPEX. We do not support Bill and Keep or any glide path towards Bill and Keep. With the current costs levels, the

domestic termination charge can be reduced from the present levels of Rs 0.20/minute to the range of Rs 0.10 to Rs 0.13 per minute. This will help provide relief to customers in shape of tariff reduction.

While establishing an IUC regime the impact on competition, prices, quality, incentives and investment in fixed and mobile network has to be seen. The service provider needs to be fairly compensated for its investments and operational expenses through appropriate components of IUC to drive growth of telecommunications services. The goal of economic efficiency is generally achieved by establishing charges that are as close to cost as possible, and are specifically based upon cost causation. That is, when certain costs stem from the activities of a given service provider or customer, they should be recovered through charges levied on that service provider or customer. **Hence, it is recommended to go with a cost based approach.**

The Bill and Keep Regime is not recommended as in this method the service providers do not pay any termination charges to each other and continue to enjoy interconnection services on mutual and reciprocal basis. This method does not work if the traffic flows are imbalanced or the service providers are at different stages of network deployment. It may not properly compensate the service providers and may not encourage development of efficient networks. Further, it may create a situation wherein any operator may decrease tariff towards other operators and choke/congest the network of other terminating operator. This may also impact outgoing call facility and tariff thus being levied. The Authority is also well aware of the missed call facility, which is presently being misused by some of the commercial entities wherein no charges are being paid to any operator.

Q3: Which method of depreciation for the network elements should be used and what should be the average life of various network elements?

Aircel Response:

We recommend that only relevant OPEX should be considered for calculation of termination charge. Hence, the depreciation component may not be required. Our response to Question 7 & 8 below may also be read as part and parcel of response under this question.

Q4: Should TRAI continue with a pre-tax WACC of 15% as used in framing other regulations, tariff orders, and regulatory exercises? If not, please state what pre-tax WACC would be appropriate for the present exercise, along with justification and computations.

Aircel Response:

We recommend that only relevant OPEX should be considered for calculation of termination charge. Hence, the pre-tax WACC component should not be considered during present exercise of review of IUC. Our response to Question 7 & 8 below may also be read as part and parcel of response under this question.

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We request that for consideration of pre-tax WACC for other regulations, tariff orders, it may please be taken up along with specific consultations for the said other regulations, tariff orders etc.

Q5: In case a cost-oriented or cost-based approach is used for prescribing Mobile Termination Charge and Fixed Termination Charge, which method would be the most appropriate for estimating these costs?

Aircel Response:

Owing to advantage of simplicity, we recommend Fully Allocated Cost (FAC) to be used, which divides the cost that the firm incurs amongst the services that it sells. It uses accounting data submitted by the service providers in their balance sheet, profit and loss accounts and accounting separation reports and is easy to develop, understand and audit.

In the LRIC model, if modelling and assumptions are not carried out properly then inefficiencies of the operators may creep in. It is possible to make use projections on the historical or current costs to bring in forward looking element in the analysis.

Based on the FAC methodology, interconnection charges can be set so as to recover minimal reasonable costs which service providers incur to provide termination facility to an another operator on reciprocal basis.

Q6: In case your response to the Q5 is fully allocated cost (FAC) method, would it be appropriate to calculate IUC using historical cost data submitted by the service providers in Accounting Separation Reports (ASRs), Annual Reports/published documents or other reports submitted to TRAI?

Aircel Response:

Yes, we support and recommend using of historical cost data submitted under ASRs/Annual Reports/published documents, for calculation of IUC.

FAC method is based on historic costs because accounting data reflect the firm's actual costs being incurred under OPEX and CAPEX and is also easy to audit. The cost allocation principles in Accounting Separation Reports indicate how various costs have been allocated/ apportioned to different products/ services/network elements. The ASRs, annual reports are the authentic documents and hence interconnection charges can be computed using historical cost data submitted by the service providers in Accounting Separation Reports (ASRs), Annual Reports/published documents or other reports submitted to TRAI.

Q7: In the FAC method, what items/nature of OPEX should be considered as relevant for the termination cost? Please provide justification in support of your opinion.

Aircel Response:

We recommend that only relevant OPEX should be used for the purposes of IUC calculations, and recommended items for the OPEX are as follows:

1. Employee cost,
2. Administration cost,
3. Maintenance cost,
4. Network Operating costs, other costs (excluding loss on sale of FA, investments) and
5. Licence Fee and spectrum charge (proportionately for termination charge).

Exclusions:

1. Pass-through charges (interconnection) charges shall be excluded in computing the termination cost.
2. Finance charges, Depreciation and amortization are basically in the nature of recovery of CAPEX and hence should not be taken used for calculating relevant OPEX.
3. Sales and Marketing costs, as these are incurred by an operator depending upon its marketing and sales strategy and may have additionally loaded costs. These costs an operator incurs for promoting its own business and it gets embedded in its origination charges (which are under forbearance) and loading this cost to IUC charges would be unjustified.

Deductions from OPEX:

1. The VAS services are substantial resource of revenue and helps in recovery of costs of an operator to service. We recommend that VAS revenue should be deducted from the relevant cost base, because these are an important and significant revenue source for recovering costs in present context. For deduction of VAS revenue, we suggest that the cost should be reduced in a proportion of VAS revenue to total revenue of an operator.

2. The Passive infrastructure sharing has brought significant change in the CAPEX/OPEX structure of the service providers. Hence, the amount paid as IP charges, which are basically in the nature of CAPEX should also be deducted from the relevant cost base to maintain consistency between the operators.

Q8: Should CAPEX be included in calculating termination cost? If yes, what items of fixed assets from the ASRs ought to be considered relevant for termination cost? How should costs incurred by service providers for acquiring usage rights for spectrum be treated?
&

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Q9: Would it be appropriate to take an average life of 10 years for all network elements without any salvage value for the purpose of depreciation in the FAC method? If not, please suggest an alternative method keeping in view the categorization of network elements prescribed in Accounting Separation Regulations, 2012, along with justification.

Aircel Response:

We support the present approach of TRAI to exclude the CAPEX including Spectrum costs, while calculating domestic voice termination cost.

1. The CAPEX consists of capital costs which an operator incurs considering its strategic business decisions and the services/products it intends to offer to its customer. For example, cost of any network element would depend upon various factors including how much advance and varied services and operator intends to give to its own customers. The increased cost of such network element may not add any perceived value to the interconnecting operator for terminating the call in that operator's network.
2. Similarly, the Spectrum being held or procured by an operator depends upon its own business case wherein the rate of return on the investment would correlate with the services and varied products it intends to offer to its customers. To further explain, an operator 'A' who has to terminate a call into operator 'B', would not have any value coming out if the operator is having 4.4 MHz, 5 MHz or for that matter 8 MHz. Same would be the case, that there would be no value for operator 'A', in case operator 'B' has 1800 MHz or 900 MHz etc.
3. Including spectrum cost for determining voice termination rate, would seriously jeopardize the competition and level playing field; for example if the call originating service provider has 4.4 or 5 MHz and the terminating service provider at 8 or 10 MHz. Thus, the originating service provider having 4.4/5 MHz would have to indirectly subsidize the spectrum costs of terminating service provider having 8/10 MHz, which otherwise is purely its assets and to be serviced by it and is to be best exploited through retail tariff and service offerings.
4. It is also imperative to state that the present telecom market is poised for high growth in data usage, which is already becoming a substantial chunk of the overall revenue. Certainly, the Spectrum is being used substantially for data services and which would increase tremendously in coming future with advanced services and technologies being launched. As such, it would be highly unjust to load the cost of Spectrum on the voice termination charges.

Therefore, from above it can be clearly seen that CAPEX especially Spectrum costs can't be loaded on the cost for deriving domestic voice termination charges.

Considering the CAPEX for calculating the voice termination charge would unnecessarily transfer the burden of business plans of the terminating service provider to the originating service providers.

Decisions like planning horizon, network dimensioning, and technology induction of a service provider should not affect the interconnecting service provider who should be required to pay the bare minimum cost. Service providers recover their CAPEX from the rental and the origination charge that is under forbearance. If CAPEX is also allowed to be recovered through the termination charge then termination charge would widely vary among the service providers since some of the service providers might have invested more in the capital expenditure keeping in view their future forecast and their business plan. Also, as per the current policy of the government, spectrum has to be acquired through auction. Also, the quantum of spectrum held by operators is dependent upon their business strategy which may be different for each operator. Hence, these costs should not be transferred to the interconnecting operator.

Another fact to be considered is that termination charge is not the only stream of revenue from which all CAPEX and OPEX needs to be recovered. There are other streams like fixed charges, origination charge, and revenue from value added services and so on.

Therefore, we strongly recommend that CAPEX should NOT be included in calculating termination cost.

Q10: Is there any need to adjust costs associated (as reported in ASRs) with products other than voice calls, for the purpose of computing termination cost using the FAC method? If yes, please suggest the appropriate cost driver along with justification.

Aircel Response:

Refer response to Question 7 above for the items of costs to be included / excluded from OPEX in computation of termination cost. We recommend below deductions to be made from OPEX.

Deductions from OPEX:

1. The VAS services are substantial resource of revenue and helps in recovery of costs of an operator to service. We recommend that VAS revenue should be deducted from the relevant cost base, because these are an important and significant revenue source for recovering costs in present context. For deduction of VAS revenue, we suggest that the cost should be reduced in a proportion of VAS revenue to total revenue of an operator.
2. The Passive infrastructure sharing has brought significant change in the CAPEX/OPEX structure of the service providers. Hence, the amount paid as IP charges, which are basically in the nature of CAPEX should also be deducted from the relevant cost base to maintain consistency between the operators.

Q11: Do you agree with the methodologies explained for various variants of LRIC, including the detailed description of computation of the termination cost using LRIC model in the Annexure? If not, please give your answer with justification.
&
Q12: In case it is decided to go for an LRIC model for determining termination cost, which is the most suitable variant of LRIC for the telecom service sector in the country in the present circumstances and why?
(i) LRIC
(ii) LRIC+
(iii) Pure LRIC
&
Q13: In case your response to the Q12 is LRIC+, what are the common costs that should be considered for computation of termination costs?

Aircel Response:

We do not recommend using LRIC methodology for determination of IUC charges. Our response to question number 5 above may please be read as part and parcel of response under this question.

The LRIC is an approach in which the cost of services is computed using an optimized model of the network and service production technologies. This LRIC method is based on various assumptions like identifying a hypothetical efficient operator which incurs costs that would occur in a competitive market. Further, the LRIC method uses 'long-run' costing in which the size of the network deployed is reasonably matched to the level of network demand. Faulty planning process and assumptions could lead to incorrect design of the efficient network and consequently incorrect costing and cost allocations.

The Forward Looking element implies performing the network design considering both present and future forecast of customer demand. The long range concept implies that the time frame is sufficiently large so that all costs can presumed to be variable, even the capital investments costs related to network capacity. The long time frame would however make the forecasts less reliable. A network designed on incorrect forecasts would give incorrect results. These models are, however, hard to develop. They are time-consuming and lead to high regulatory cost. They are not based on accounting procedures and therefore difficult to audit. Hence, it is recommended to use Fully Allocated Cost (FAC) for prescribing the termination cost. Refer response to Question 5 above.

Q14: In case there is a significant difference in the mobile termination cost and fixed termination cost, will it be appropriate to prescribe different mobile termination charge and fixed termination charge?

Aircel Response:

We recommend that there should be a uniform termination charge, as is presently being followed.

Q15: The Authority has already prescribed access charges to facilitate the introduction of calling cards. Is there any other issue which needs to be addressed so that the consumer gets the most competitive tariff for ISD calls?

Aircel Response:

We believe there is no other issue which needs to be addressed for introduction of calling cards except enforcement of existing Regulations related to calling cards.

Q16: Do you feel that the Authority's intervention is necessary in the matter of International Settlement Rates? If so, what should be the basis to determine International Settlement Rates?
&
Q17: Is there a need to fix a floor for international carriage charge for incoming international traffic or prescribe some revenue share between access service provider and the ILDO to safeguard the interest of ILDOs?
&
Q18: What is the most appropriate level for International Termination Charge? Should it be uniform or should it depend on the originating country/region? Please provide full justification for your answer.

Aircel Response:

The same is currently under forbearance. However, it is leading to a major issue of cut-throat competition leading to very low margins for ILDO's.

The termination charges in other counties are 8-10 times higher than in India. Without a regulated force, there is a cut-throat competition which has resulted in very low termination rate for incoming ILD call at ILD gateway level. While the loss of low rate impacts the ILDO however, it also hugely reduces the levies being paid to the DoT/Government on the money being earned from a call being terminated within India. The increase in termination rates will help India to earn valuable foreign exchange which currently is skewed against India by the imposition of these artificial trade barriers by international regulators in their home countries.

The country specific differentiation of the termination charges is not advisable in the current scenario for two reasons. Firstly, the International traffic is carried through various carriers in different countries, irrespective of the country originating the call, and this may lead to skewing of the traffic towards countries with lower termination charges.

We earnestly believe that TRAI should not intervene in International settlement charge however, it should fix a floor price to be charged for incoming international call handled at ILDO's Gateway switch i.e. the charge to be paid for handling, carrying and terminating within India.

The floor price should also pave way for a defined revenue share between the ILDO's and access operator. Presently, some of the larger operators play around tactics to minimize availability of other

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ILDOs terminating incoming ILD calls towards their captive subscribers. This puts artificial restrictions, limiting competition, and minimizes the business potentials of other ILDOs. Therefore, it is imperative that a floor price be fixed for all incoming International calls, at ILDO's Gateway end, considering the Indian context.

Presently, the charges being very low in comparison to outgoing, we recommend a rational approach be taken to set the floor price at a reasonable level, if not at par with other countries. Further, the floor price should also provide the revenue sharing between an ILDO and the terminating access operator, to upkeep the business interests of ILDO and creating market potential for them to become profitable. The ILDO's also have considerable work done in an incoming international calls which is linked to their overseas business tie-ups, creating infrastructure for carriage of call within India and outside India as well.

Keeping above in view, we strongly urge that the floor price for incoming international call be kept at Rs 1/minute at ILDO's end. Out of this Rs 1/minute, the termination charge to be paid to an access operator should also be increased from the present Rs 0.40/minute to Rs 0.60/minute and balance Rs 0.40/minute to be retained by the ILDO.

At the same time, we would like to raise the apprehension that increase in ILD termination rates would increase illegal activities related to Grey Call market, in the short term. However, there are adequate DoT guidelines and provisions under statute including criminal case, which can take care of this in a long term.

Q19: What should be the methodology for determining the domestic carriage charge? Is there a need to specify separate carriage charges for some specific geographic regions? If yes, on what basis should such geographic regions be identified? How should the carriage charges be determined separately for such geographic regions?

Aircel Response:

It is recommended that the regulated carriage charge ceiling of Rs 0.65 per minute should be retained. The NLD carriage market is largely competitive and there is a no need to review the present ceiling. Hence, the NLDOs should be allowed to fix any rate within a ceiling of Rs 0.65 per minute.

Further, there should not be any separate carriage charge for specific geographies. In the present call and billing architecture, the originating access operator is not aware as to in which circle/operator the call is getting terminated. In such scenario, it would be difficult for an access operator to settle such separate carriage charge with the NLDO's and may lead to disputes. Further, the tariffs for an STD call are designed in such a way that it includes the ratio of NLD carriage as well however, in case of separate charge for some geographies, it would be really difficult to build that cost in the STD tariffs.

Q20: Is there a need to regulate the TAX transit charges or should this be left to mutual negotiations? In the event, the transit charge is to be regulated, please provide complete data and methodology to calculate TAX transit charges.

&

Q21: How can the cost of providing transit carriage be segregated from the cost data in the ASR? Please provide a method and costing details to separately calculate this charge.

&

Q22: If the costs of all relevant network elements are taken into account in the calculation of the fixed line termination charge, is there any further justification to have a separate transit carriage charge? Please give reasons for your answer.

Aircel Response:

Since, the OPEX costs of all relevant network elements are taken into account in the calculation of the termination charge; there is no need to have a separate Transit carriage or TAX Transit charge. Hence, the same should be done away with.

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