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Consultation Paper on Interconnection Usage Charges (IUC)

Introduction

The Interconnection of various networks is a pre-requisite for a Telecomm Service Provision, without which a two way conversations between the consumers is well nigh impossible. The Interconnection Usage Charges (IUC) regime is an essential element of facilitating transfer of network costs between two different service providers for the use of the infrastructure created by them. An efficacious, impartial, reciprocal IUC regime is pivotal for seamless connectivity across networks. In light of this, the IUC Consultation paper is an important initiative undertaken by the Authority (TRAI).

Choosing the Cost-Based Approach

We understand that the cost based approach is the more prudent methodology to regulate termination charges. The Cost based model is based on a pretty sound economic logic. The cost based method is a transparent mechanism and it has been seen to be followed in several other countries as well. **We do not believe that the other methods at play, be it bill and keep (BAK sender keeps all Para 2.13 of the consultation paper) or the revenue sharing arrangement (BAK Para 2.17) is suitable for our market**. It is also prone to be abused by various players, if implemented. Given, that we have a calling party pays (CPP) regime in place, the adoption of the BAK or revenue model wouldn't be advisable. There is a strong likelihood of serious disruption as well with the BAK model.

Opting for the LRIC method in Costing

The long-run incremental cost method (pure LRIC) is a model which seems appropriate for costing purposes.

We do not find the fully-allocated cost (FAC) model suitable, since it is not in line with the international best practices as well as due to the fact, that it is not a forward looking approach and tends to skew the estimation of future network costs. Pure LRIC based termination charges do not add to network common costs that are also supporting data and services, thereby implying that their operators will need to consider the provision and pricing of coverage and capacity for retail services un-subsidized by incoming termination charges. The pure LRIC is an approach which now seems to have garnered international recognition as well, with regulators in Europe and other parts of the globe using it.

Possibility of the Glide Path

The Authority must look at carrying out relevant study to look at present day numbers of local, long-distance and international long distance traffic, as well as the future projections involved. **With ever-increasing traffic, the regulator could examine the prospects of a glide path in the future. For example,** if the domestic traffic were to be go up by a 2x factor, then the termination charge could also be reduced along similar proportions (by say, 8-10p). It would have been good to have the various segments of traffic statistics.

Role of Transit Charges

We reckon that the transit charges should be encouraged. It incentivizes those who do not have the benefit of completely equipped network facilities, to use transit facility. The transit facilities must be enabled in a manner, so as to have a system wherein a call can be delivered to the nearest transit point. Putting up a network is a capital-intensive exercise and thus, the window for transit facilities must be facilitated. A reasonable transit charge is win-win for both an incumbent and a new comer.

However, the transit charges should be reduced to the range of 5-10 paisa, certainly less than that of termination charge. It must be kept in mind that a new comer using transit facilities should be able to retain a reasonable share. The transit levy should not place a burden on the end consumer or the new comer. The transit tariff can be apportioned out of a reduction in the levy of termination or access charge. The transit and termination charges should be such, that it does not increase the present status quo on the levy to the end consumer. The transit charge cannot be higher than the termination charge.

International Settlement Charges

We are of the view that when it comes to international settlement charge, it can be a cumbersome and sensitive affair as multiple jurisdictions are involved. However, the Termination Charge to be paid by ILDO to Indian access service provider, which is 40p/minute at present, must be increased. It has been seen that operators in several jurisdiction have imposed steep settlement rates, especially in countries in the Middle East as well as France and Middle East. These have to be paid by Indian ILDOs for traffic from India to those countries. We cannot allow for such disparity given it affects the business of the Indian ILD operators, as well as access service providers. While a differential charge or the application of a principle of reciprocity might not be feasible given that it can result in arbitrage and open up a grey market that could result in the re-routing of these calls, we must seek to address the loss in margins faced by the Indian ILD operators in the substantial costs it incurs in markets elsewhere. An increase in International termination charge would be beneficial to the Indian service providers.

The highly skewed ration of incoming to outgoing traffic might benefit the TSPs, but is not useful for the consumer at India end. Eventually, it is him who ends paying more for an outbound call caused by higher termination charges at the other end.

Concluding remarks

Broadly, we submit before the Authority that the following steps must be taken to put in place an efficacious IUC regime - (a.) choosing the cost-based approach (b.) opting for the pure long-run incremental cost method, when it comes to costing (c.) examining the possibility of a glide path for the future (d) encouraging minimal transit costs without burdening the end-consumer, and (e) revisiting the international settlement charges, because the present arrangement of lower termination cost at India end only benefits the distant end consumer as well as the Indian TSPs.

Issues for Consultation

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.

Prima facie, there has to be a termination charge. We understand that the cost based approach is the more prudent methodology to regulate termination charges. The Cost based model is based on a pretty sound economic logic. The cost based method is a transparent mechanism and it has been seen to be followed in several other countries as well. We do not recommend that the other methods at play, be it bill and keep (BAK) or the revenue sharing arrangement is suitable for our market. It is also prone to be abused by various players, if implemented. Given, that we have a calling party pays (CPP) regime in place, the adoption of the BAK or revenue model wouldn't be advisable. There is a strong likelihood of serious disruption as well with the BAK model. For reasons above BAK must not be adopted.

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?

The Authority must look at carrying out relevant study to look at present day numbers of local, long-distance and international traffic, as well as the future projections involved. With ever-increasing traffic, the regulator should examine the prospects of a glide path in the future. For example, if the domestic traffic were to be go up by a 2x factor, then the termination charge could also be reduced along similar proportions (by say, 8-10p). As long as the ratios of traffic originated and traffic terminated remain skewed, it would be unwise to even remotely suggest BAK. BAK is only possible, should the ratio be in the nineties. For an intelligent response, the Authority should make available the above mentioned traffic numbers.

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

We do support the use of an average life of 10 years for all major network elements.

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.

We believe the Authority should continue to use WACC of 15% (pre-tax), as it has been a past practice in most regulatory exercises and has been met with a reasonable amount of acceptance from most stakeholders.

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?

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?

<Combined Answer for 5 & 6>

The long-run incremental cost method (pure LRIC) is a model which seems appropriate for costing purposes. The LRIC method is a forward looking approach and takes into consideration the costs which are typically incurred over the long run.

We do not find the fully-allocated cost (FAC) model suitable as it is not in line with the international best practices as well as due to the fact, that it is not a forward looking approach and tends to skew the estimation of future network costs. Pure LRIC based termination charges do not add to network common costs that are also supporting data and services, thereby implying that their operators will need to consider the provision and pricing of coverage and capacity for retail services un-subsidized by incoming termination charges. The pure LRIC is an approach which now seems to have garnered international recognition as well, with regulators in Europe and other parts of the globe using it.

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.

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?

We do not think including CAPEX in the computation of termination is necessary.

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.

We do support the use of an average life of 10 years for all major network elements, as mostly after this period, the elements veer towards obsolescence.

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.

We are of the opinion that the data traffic must be taken into consideration, when computing termination charges. In today’s day and age, most network resources are used up in the delivery of voice and data services. It is therefore imperative that the Authority takes into consideration the data traffic in whichever methodology they choose to adopt.

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?

<Combined Answer for 11, 12 & 13>

The long-run incremental cost method (pure LRIC) is a model which seems appropriate for costing purposes.

We do not find the fully-allocated cost (FAC) model suitable as it is not in line with the international best practices as well as due to the fact, that it is not a forward looking approach and tends to skew the estimation of future network costs. Pure LRIC based termination charges do not add to network common costs that are also supporting data and services, thereby implying that their operators will need to consider the provision and pricing of coverage and capacity for retail services un-subsidized by incoming termination charges. The pure LRIC is an approach which now seems to have garnered international recognition as well, with regulators in Europe and other parts of the globe using it.

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?

We are not in favour of a different mobile termination and fixed termination charge as it will unnecessarily lead to situations which could result in arbitrage prospects.

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?

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.

<Combined Answer for 15, 16, 17 & 18>

It has been seen that the incidence of high tariffs for ISD calls in India is a primary factor responsible for the skewed ratio of outgoing to incoming calls. The ratio is in the range of 1:16 as evident from the data presented by the Authority in the paper of 4,633 million vis-a-vis 76,354 million incoming minutes. There are several reasons responsible for this. Two major ones are the relative economic affluence of people residing abroad as is seen from the Purchasing Power parity as well, of people in developed States. Also, there is a significant student diaspora abroad, in terms of people who move from India. But, the chief factor is the termination charges being quite low in foreign territories. This has effectively prevented the Indian ILD operators from earning more money. This provides a strong justification to increase our termination charge to align it with termination charges prevalent abroad, which Indian consumers have to shell out and that at a high cost, given the higher termination rates at the other end.

When it comes to international settlement charge, it can be a cumbersome and sensitive affair as multiple jurisdictions are involved. However, the Termination Charge to be paid by ILDO to Indian access service provider, which is 40p/minute at present, must be increased. It has been seen that operators in several jurisdiction have imposed steep settlement rates, especially in countries in the Middle East as well as France and Middle East. These have to be paid by Indian ILDOs for traffic from India to those countries, passed on to Indian consumers. We cannot allow for such disparity given that it could affect the business of the Indian ILD operators, more so it hurts the Indian consumer. While a differential charge or the application of a principle of reciprocity might not be feasible given that it can result in arbitrage and open up a grey market that result in the re-routing of these calls, we must seek to address the loss in margins faced by the Indian ILD operators in the substantial costs it incurs in markets elsewhere. The ILDOs might be less hurt than the Indian consumers. **The regulator could intervene to suggest passing on some benefits of this bulk earning to the Indian consumer, should they advocate for lowering of termination charge at the Indian end to bring in more incoming traffic.**

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?

We do not see feasibility in separate carriage charge for different geographic regions, even though it may be well thought out for regions which require specific attention. The primary issue with such a practice would be serious accounting difficulties in segregating the investment done in these regions from other places. Incentives for infrastructure development in the remote or hilly terrains may be looked at. There would also be unnecessary arbitrage prospects with differential carriage charges territory wise. In any case, it may pose less of an issue for a vertically integrated player.

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.

<Combined Answer for 20, 21 & 22>

We feel that transit charges should be encouraged. It incentivizes those who do not have the benefit of completely equipped network facilities, to use transit facility. The transit facilities must be enabled in a manner, so as to have a system wherein a call can be delivered to the nearest transit point. Putting up a network is a capital-intensive exercise and thus, the window for transit facilities must be facilitated.

However, the transit charges should be reduced to the range of 5-10 paisa. The transit levy should not place a burden on the end consumer. The transit tariff can be apportioned out of a reduction in the levy of termination or access charge. The transit and termination charges should be such, that it does not increase the present status quo on the levy to the end consumer. The transit charge cannot be higher than the termination charge.