PB/VIL/12
13th March 2015

**Telecom Regulatory Authority of India**
Mahanagar Doorsanchar Bhawan
Jawahar Lal Nehru Marg (Old Minto Road)
New Delhi -110002

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|---|---|---|
| **Kind attention:** | | **Shri Manish Sinha, Advisor-(F&EA)-I** |
| **Subject** | : | **Draft Telecommunication Tariff (Sixtieth Amendment) Order, 2015** |
| **References** | : | **TRAI's Consultation Paper dated 27th February 2015** |

Dear Sir,

This is in reference to the above captioned Consultation Paper.

Please find attached herewith Vodafone inputs on various issues for your consideration please.

Yours sincerely,
For **Vodafone India Limited**

**P. Balaji**
Director- Regulatory & External Affairs

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**Vodafone Response to the Draft Telecommunication Tariff (Sixtieth Amendment) Order issued by TRAI on 27 February 15**

## Background

This is with reference to the Draft TTO (Sixtieth Amendment) issued by TRAI on 27 February 15, proposing a reduction in the ceiling tariff for national roaming services.

The reduction has been proposed on the grounds that:

1. The average tariff levels for national roaming are much higher than the revenue realization in the Home Service Area.

2. The ceiling tariffs prescribed in 2013 have not helped in bringing down tariffs to cost based levels [with a reasonable mark-up for normal profits]

3. There is a lack of competition witnessed in the national roaming market.

4. Therefore there is a need to prescribe cost based ceiling tariffs for voice calls while on national roaming.

5. TRAI has thus relied on certain recent regulatory interventions where the TRAI has reduced the interconnection usage charges for various elements of a call, viz.
   a. The cost of access prescribed at 40p/minute by it in the context of ILD calling cards
   b. The cost of mobile termination prescribed at 14p/minute
   c. The cost of carriage prescribed at 35p/minute
   d. The incremental cost of roaming at 10p/minute, as determined by it in 2013

   TRAI has thus proposed the following reduction:

| Item | Existing Ceiling Tariff | Proposed Ceiling Tariff | Proposed Reduction |
|---|---|---|---|
| Outgoing Local Voice Call | Re. 1.00/min | Re. 0.65/min | -35% |
| Outgoing NLD Voice call | Re. 1.50/min | Re. 1.00/min | -33% |
| Incoming Voice Call | Re. 0.75/min | Re. 0.45/min | -40% |
| Outgoing Local SMS | Re. 1.00/SMS | Re. 0.20/SMS | -80% |
| Outgoing NLD SMS | Re. 1.50/SMS | Re. 0.25/SMS | -83% |

## Our Submissions:

In this regard, we would like to submit the following for the kind consideration of the Authority:

1. We would first like to submit that while the TTO pertains to review of tariffs for roaming services, however, this review will have far larger and wider repercussion as it will also impact the local tariffs that are being offered by the service providers.

2. Forbearance in local tariffs was introduced 2002 because it was felt that the market was competitive enough - competition has increased significantly since then, India has one of the highest number of operators in the world, one of the lowest tariff in the world and with negative profit margin of wireless industry - TRAI itself acknowledges these facts in its various documents.

3. Moreover, TRAI has repeatedly recognized that the operators are bleeding financially. As per published data of TRAI, it is observed that the wireless industry is making losses for last few years and industry's Return on Capital Employed (RoCE) is in negative. In its Consultation Paper on the Valuation and Reserve Price of Spectrum, 2013, TRAI noted that the industry had a cumulative debt of over 1.8 lakh crores & losses of around Rs. 17,500 crores. As costs have only gone up in recent years, this situation would have definitely worsened since 2013. As per recent recommendations[1] of TRAI, as on 31st March 2014, the total indebtedness of private TSPs was Rs 2,56,918 Crore.

4. We would also like to draw attention to the TRAI Consultation Paper on Valuation and Reserve Price of Spectrum dated 23 July 2013, where the TRAI had indicated that during the FY 2011-12, there is a loss/under recovery of Cost by as much as Rs. 15 per subscriber per month. Since then costs have only gone up. It is also submitted that cost of spectrum usage right has increased in many times, presently cost of acquisition of spectrum right is about 60% of total gross block/ investment.

5. In view of above facts, we strongly believe that there ought not be a case where the input costs keep going up, but the output tariff is brought down. To now consider a further reduction in tariffs against such a background will only add to the under recovery and make the businesses unsustainable.

**Comments on Computation of Cost-based ceiling tariffs for voice calls while on National roaming**

6. We note that the proposed tariffs for Voice on national roaming have been computed based on various cost components of a tariff, which has been decided based on different costing approach ( FAC Vs. LRIC+), different cost base ( Historical Vs current Cost), different source of information (Accounting Separation Reports Vs. Market information ) and different segment i.e. wholesale segment, therefore , just adding the various cost components as indicated in the table 4 of the draft TTO cannot be considered as work done and cost-based determination of roaming tariffs.

7. We also have concerns with regard to these costs/ cost components that have been estimated:

    - The cost of origination/access as determined by TRAI in the context of ILD calling cards is 40p/minute based on cost based and work done principles and TRAI has relied on accounting

[1] Recommendations on Definition of Revenue base (AGR) for the reckoning of License fee and Spectrum usage charges dated 6th January, 2015

separation reports (ASRs). In this regulation, TRAI has also recognized that the work done for originating or terminating the call is the same.

- However, in the case of estimation of MTC, TRAI has arrived at a cost of termination of 14p/minute – this is based on a LRIC+ model which pertains to a hypothetical operator – that is the costs assumed are not the real costs but hypothetical costs and only incremental costs have been considered for off-net incoming minutes. It is important to mention that in the given situation, the substantial portion of costs have not been recovered through incoming calls, whereas, as per TRAI's own principle it would be about Rs. 0.40 per minute for incoming call also.

**8.** We submit that the interconnection charges, in effect determine the cost sharing amongst operators, they do not in effect change the cost of the industry/operators. TRAI has also always maintained that any cost deficit in MTC can be made up through origination charges, which are under forbearance. By now setting tariffs based on cost of origination + carriage + termination, there is no element or margin left for forbearance.

**9.** TRAI has fixed the ceiling at average costs – which we respectfully submit cannot be the correct basis of ceiling tariffs which in any case have to above the costs. The very concept of a 'ceiling' is to provide headroom for innovation and free play of market forces.

**10.** The ceiling tariffs proposed by TRAI are very close to the average tariffs prevailing in the market. By fixing the ceiling at the average rate, whether for voice or for SMS, the operator will not be able to offer a higher tariff and the lower tariffs will also have to be raised so as to offset the reduction in the margins on other tariff plans, thereby resulting in almost a single tariff plan scenario – which will completely take away the flexibility to innovate and customize a tariff offering to suit the heterogeneous needs of our customers.

**11.** As we have suggested earlier as well, it is desirable for TRAI to introduce a practice of regulatory impact assessment before considering any regulatory intervention. This is the approach followed by best practice regulators and we have often urged the TRAI to adopt such a practice as well.

**12.** In any event, if the actual cost of an operator for an origination and termination is 80p, as per the TRAI's own calculation, then the tariff for roaming should not be based on a hypothetical cost. We, therefore, submit that a least for roaming purposes/tariff purposes, the cost of termination must be taken at 40p per minute as estimated by TRAI itself, in 2014.

We request that the TRAI may kindly re-consider a review of the national roaming tariffs for the reasons cited above. At the very least, the costs considered should be fully allocated costs with a reasonable mark up.

**New Delhi**
**13 March 2015**