RELIANCE Telecom
Anil Dhirubhai Ambani Group

RTL/TRAI/LT/08-09/1838
05th February 2008

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Shri Lav Gupta
Pr. Advisor (FN)
Telecom Regulatory Authority of India
Mahanagar Doorsanchar Bhavan
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New Delhi - 110002

Subject: COAI Comments on TRAI Consultation Paper on Review of Interconnection Usage Charges

Dear Sir,

This is in reference to the COAI's comments on TRAI's consultation paper on Review of Interconnection Usage Charge. RTL is a member of COAI but it does not concur with the issues mentioned below. We have taken up with the COAI on all these issues and have given our viewpoints; but, unfortunately, our views have not found place in the submission of COAI. A Copy of our letter sent to COAI for incorporation of our views is also attached. As such the response may not be taken as a response of all the members of the Association.

The Costing Methodology and Cost inputs

2. Though the COAI is correct in stating that the FLLRIC is most commonly used methodology for estimating costs for termination of calls but most of the assumptions considered for preparation of LRIC model by them are aimed to inflate the call termination related costs. The LRIC has been adopted by regulators so that no inefficient costs or sunk costs are transferred to the competitor. The whole idea of LRIC or FLLRIC is to ensure that no operator has any advantage over the competitor by transferring more costs than what is required under efficient running of the business. Following are some of the assumptions used by COAI which are not consistent with the current market situation and the overall principle of LRIC methodology:

	COAI Assumptions	Correct Assumption
Infrastructure Sharing	Assumed 30% of passive infrastructure is shared by new operators	New operators should be assumed to share nearly 100% passive infrastructure
Call Mix	Highly tilted call mix towards outgoing calls(75%)	There should be fair distribution of incoming and outgoing call 55:45
Depreciation	Tilted annuity model leading to front-loaded depreciation	Economic depreciation, considering true value of assets
Industry Benchmarks	Higher equipment cost and lower MOU assumptions	Industry benchmarks for equipment cost and Mou

Submitted on 5th Feb 09

Apportionment and allocation of cost for termination

3. The network costs are common for carriage of voice and other value added services like SMS, MMS, content based services, GPRS etc. Since the network costs are common, the costs should be apportioned appropriately and attributed to the respective products and services.

4. Since the tariffs are under forbearance, it would be more appropriate to apportion the costs on the basis of revenue and not on the basis of network usage. The correct cost apportionment driver in the case of VAS is revenue and not the cost In case the Authority allows minimal apportionment of costs on the basis of usage then on one hand more costs will be allocated for termination of calls which would not be beneficial for competition and customer and on the other hand it would minimize costs for the VAS service including the premium service like tele-voting, ringtones, jokes etc. COAI has loaded complete costs on the MTC though the same network is used for the other value added services.

5. Therefore the revenue likely to be earned from the VAS should be completely excluded from the revenue requirement estimated for the MTC.

MTC for Rural Rollout

6. The COAI has suggested an IUC regime which enables expansion of service to the rural and uncovered areas.. The termination charges cannot be used to fund the rural rollout. Operators are going to spend at least Rs 15000 to Rs 20000 Crores on networks in next fiscal but net termination gives the leading operators only around Rs 500 Crores which is only a fraction of the total investment.

7. The Termination charges are borne by the competing networks. It would not be reasonable to expect creation of rural networks of few operators through funding from other operators. The new operator may have a reduced incentive to expand its network to rural areas, roads, train lines etc. The support required for the rural rollout if any, it should be funded through USOF and not based on competitor's support through MTC.

Asymmetric Termination Charges for the International Calls

8. The asymmetric domestic and International termination charges are not justified. The termination charges on incoming international calls need to be regulated and cannot be kept under forbearance. The negotiations between ILDOs and access providers if allowed would bring in uncertainty and number of disputes in the market.

9. The proposal would again lead to the situation of grey market which is not desirable. This will result in loss of revenue for the government and promoting incoming calls without monitoring.

Impact of Termination Charges on the Retail Tariffs

10. COAI has incorrectly stated that the retail tariffs are function of competition. The termination charges have direct bearing on the competition and retail tariffs and therefore any proposal for termination charges should be examined in terms of its implication on consumer benefit and enhancement of competition.

11. The termination charge for most operators, particularly new and smaller operators, is an item of cost and not of revenue as they are net payer of termination charge. The termination charges have direct bearing on the retail tariffs particularly off-net tariffs. The termination charge is around 30-40% of the total retail cost and therefore higher the termination charge, higher will be the retail tariffs. Higher termination charges reduce the margins and their competitive ability to match established and larger operators. To enhance competition, it is imperative that termination charges are reduced so that no operator has an advantage of transferring undue costs to other operators.

Cost based termination charges or Cost oriented termination charges

12. The COAI has proposed the Cost based charges. However each operator has different costs and therefore will tantamount to different termination charges. The whole telecom scenario would be complex within a year when various technologies like CDMA, GSM, WIMAX, HSPA, FMC, NGN etc would be available. Each network will have its own costs and related government levies like spectrum fee. In this scenario it is impossible to find termination charges purely based on costs. The inter operator settlements when operators have [illegible] Therefore Bill and Keep regime is preferable. In the competitive scenario compensation.

13. The Bill and Keep regime is competitively and technologically neutral and will allow uniform compensation for all kind of networks. It will take care of most inter-operator disputes. The Bill and Keep regime will promote competition and provide even new technologies like 3G, WIMAX to effectively compete the existing technologies.

14. We would request the Authority that our views should be considered alongside the comments submitted by the COAI.

Sincerely,

For **Reliance Telecom Ltd.**

(Authorised Signatory)

Please Reply to: Sh. D. Singh
President
Fax: 30331781

Copy:

Shri Nripendra Misra, Chairman, TRAI
Shri A. K. Sawhney, Member, TRAI
Shri R. N.Prabhakar, Member, TRAI
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Shri N. Parameswaran, Pr. Advisor (RE), TRAI
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30/01/2009 02:33 PM

To trdua@coai.in, ahans@coai.in, spuri@coai.in, sbhatnagar@coai.in, tvram@coai.in
Subject Fw: TRAI Consultation paper on Review of Interconnection Usage Charges (IUC)

Dear Sir

Our comments/inputs on COAI's draft IUC paper are given below:

Q1 There should not be any termination charges for calls made from PCOs. The PCOs are main tool to meet the NTP'99 affordability objectives but little support from the government or the Authority is available for growth of this services. The current IUC regime considers the PCO originated calls and other private phones originated calls at par. The PCO users who are mainly from the poorer section of the society pay the same termination charges as any other commercial or residential user. The existing termination rates make PCO calls expensive.

Q2: There are certain issues like separate/hybrid FLLRIC model for 900 Mhz and 1800 Mhz spectrum, use of effective tax rate instead of corporate tax rates in the cost of capital, use of straight line depreciation method in place of WDV method, exclusion of sunk costs including entry fee, license and spectrum fee on net revenue received from MTC etc which were not addressed in COAI's earlier submission. The model also needs adjustment for revenues earned from VAS sevices.TRAI had also sought clarification on some of these points. COAI comments may touch these points.

There is no link of MTC with rural rollout. The USO fund is to be used to meet the universal service objectives and not the MTC. Therefore reference to rural urban divide is not correct.

Q4: The total revenue requirement from MTC is to be adjusted for revenue earned from value added services like SMS, MMS, other VAS like ringtomes, caller tunes etc. Since significant revenue is earned from VAS, there is neeed to adjust the total revenue requirement for estimating MTC by deducting this revenue.

Q6: As in Q 2.

Q7: Tariffs are dependent on input costs including MTC. Higher the termination charge, higher will be offnet tariff. The COAI is already in the Supreme court (Four state matter) challenging the TDSAT decision that there should be higher tariff in case there is higher input cost.

Therefore tariffs can increase if higher MTC of 35paise is proposed.

Q8: Asymmetric international and national termination charges are not justified. The TRAI had rightly observed in its Regulation dated 29.10.2003 that asymmetric international termination charges would not be in the interest of growth of telecom Industry. The comment is not supported on work done principle and against the TRAI Regulation dated 14.12.2001 which states that the interconnection charges shall be cost based.

Regards