

Aircel/TRAI/Corr/2014/171

September 8, 2014

Mr. Arvind Kumar  
Advisor (NSL)  
Telecom Regulatory Authority of India  
MTNL Telephone Exchange Building  
Jawahar Lal Nehru Marg (Old Minto Road)  
New Delhi – 110 002

**Sub: Response to Consultation Paper on "Valuation and Reserve Price of Spectrum: Licences expiring in 2015-16".**

Dear Sir,

This is with reference to TRAI's Consultation Paper on "Valuation and Reserve Price of Spectrum: Licences expiring in 2015-16" dated 7<sup>th</sup> August, 2014.

In this regard, we hereby enclosed our response to the above mentioned Consultation Paper. The response has also been sent through e-mail at [traijams@gmail.com](mailto:traijams@gmail.com);

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 (Total 7 Pages)

Aircel Limited  
Corporate Identity Number:  
U32201TN1994PLC029608.  
E-mail: [corporate.al@aircel.co.in](mailto:corporate.al@aircel.co.in),  
website: [www.aircel.com](http://www.aircel.com)

Aircel Limited :



## Aircel Group Response to TRAI Consultation Paper on “Valuation and Reserve Price of Spectrum: Licenses expiring in 2015-16”

### Preamble

At the outset, we appreciate Authority's consultation paper on this important issue and it has fairly covered almost all the intrinsic issues involved with transparent and fair Spectrum Auction. However, with the approach taken for discussion on the key issues of block size, contiguity etc, we strongly feel that the consultation paper is highly tilted towards upholding right of acquiring Spectrum to Licensees whose license are said to be expiring in 2015-16. Ideally, this should be an open Spectrum Auction, which should provide equal rights and consideration to a new licensee and to existing licensee.

An existing licensee should also be encouraged to participate in auction, for bidding for incremental spectrum; it may require additional spectrum for usage such as improving QoS and providing its customers service delight. Restricting the minimum block size to 5 MHz in 900 MHz band, will discourage participation of existing operators and would provide undue advantage to other operators under the logic of continuation of services. It would be agreeable that only a new operator would require minimum 5 MHz spectrum to launch services however, an existing operator can be better off with a top-up spectrum in sub-units of 5 MHz as well. Overall, if there are 29 licensees who have license renewal/extension falling in 2015-16, there are much more other licensees whose licenses do not have renewal/extension falling in 2015-16; a list is given in the table below for illustration only. Further, in some circles, there would be licensees having 900 MHz but, their license is not up for renewal/extension as such, such operators should also be given an equal opportunity to go for additional top-up spectrum in 900 MHz in sub 5 MHz units.

**We request Authority to provide equal opportunity to all operators to participate in the Spectrum auctions.**

S. No.	LSA	Existing TSPs whose license renewal/extension falls in 2015-2016		Existing TSPs whose license extension/renewal does not fall in 2015-2016	
		Name	Count of TSPs	Name	Total No. of TSPs
1	Maharashtra	Idea, Vodafone	2	Aircel, Airtel, BSNL, RCOM, Tata, Telewings	6
2	Gujarat	Idea, Vodafone	2	Aircel, Airtel, BSNL, RCOM, Tata, Telewings, Videocon	7
3	AP	Bharti Airtel, Idea	2	Aircel, BSNL, RCOM, Tata, Telewings, Vodafone	6
4	Karnataka	Bharti Airtel, Idea	2	Aircel, BSNL, RCOM, Tata, Vodafone	5
5	Tamil Nadu	Vodafone	1	Aircel, Airtel, BSNL, Idea RCOM, Tata	6





6	Kerala	Idea, Vodafone	2	Aircel, Airtel, BSNL, RCOM, Tata	5
7	Punjab	Bharti Airtel, Idea	2	Aircel, BSNL, RCOM, Tata, Vodafone	5
8	Haryana	Idea, Vodafone	2	Aircel, Airtel, BSNL, RCOM, Tata, Videocon	6
9	UP West	Idea	1	Aircel, Airtel, BSNL, RCOM, Tata, Telewings, Vodafone	7
10	UP East	Vodafone	1	Aircel, Airtel, BSNL, Idea, RCOM, Tata, Telewings, Vodafone	7
11	Rajasthan	Vodafone	2	Aircel, BSNL, Idea, RCOM, Tata	5
12	MP	Idea	2	Aircel, Airtel, BSNL, RCOM, Tata, Videocon, Vodafone	7
13	WB	RTL	1	Aircel, Airtel, BSNL, Idea, RCOM, Tata, Vodafone	7
14	HP	Bharti Airtel	2	Aircel, BSNL, Idea, RCOM, Tata, Vodafone	6
15	Bihar	RTL	1	Aircel, Airtel, BSNL, Idea, RCOM, Tata, Telewings, Vodafone	8
16	Orissa	RTL	1	Aircel, Airtel, BSNL, Idea, RCOM, Tata, Vodafone	7
17	Assam	RTL	1	Aircel, Airtel, BSNL, Idea, Vodafone	4
18	NE	Bharti Airtel	2	Aircel, BSNL, Idea, Vodafone	4
Total Licensees			29		108

### Question-wise Response

**Q1. Please comment on the issue of making available additional spectrum in contiguous form (as discussed in para 2.5 and 2.13) in the 900 MHz and 1800 MHz band.**

#### AIRCEL comments:

The spectrum as allocated over the years has been deployed by various operators in their networks and the various coverage and capacity plans deployed using the carriers allocated. Any changes in the currently allocated spectrum to undertake any such exercise such as formation of contiguous carriers is fraught with wider implications in terms of customer connectivity challenges as the operators will have to reconfigure their network to the new allocations. Further, this would lead to cost burden for existing operators to undertake this exercise and would also have detrimental effect to the financial health of existing operators.

It is felt that such an exercise should thus be undertaken only with wider industry and technology consensus on best means to minimise customer impacts and lower costs, which may be re-compensated to the operators.



**Q2. Please comment whether only contiguous blocks of minimum 5 MHz spectrum should be put for auction.**

**AIRCEL comments:**

This would lead to more fragmentation and left-over spectrum. Putting only contiguous block of 5 MHz for auction, would be against the spirit of level playing field since, it would only suit new operators including licensees up for renewal/extension.

Telecom growth requires ample availability of the spectrum in order to ensure the networks can continue to meet the connectivity needs in an economical manner. The authority has also recognized the lack of spectrum being faced by the industry in its endeavour to provide economical and ubiquitous mobility to all. To ensure the maximum amount of spectrum is made available for the telecom operations it is felt that all available spectrum should be made available in the auctions, removing any conditions which impose criteria limiting the availability or suiting the availability to some segment of operators.

For existing operators, auctions are the only mode left to acquire additional spectrum and improve its technical and business efficiency. For this, additional spectrum would be needed and this need can't be compared with the need of a new operator/renewal licensee. Every operator including existing can make multiple use of additional spectrum in 900 or 1800 MHz bands, if they are made available in 200 KHz block size. For example an acquisition of additional 3 carriers of 200 KHz by operator having 4.4MHz spectrum would enable such 5MHz spectrum which can be made contiguous in line with submission in the Q1.

**Q3. What should be the block size to auction the spectrum in (a) 900 MHz band and (b) 1800 MHz band?**

**&**

**Q4. What should be the minimum quantum of spectrum in the 900 MHz and 1800 MHz band that (a) a new entrant and (b) an existing licensee should be required to bid for?**

**AIRCEL comments:**

We support a uniform policy and approach to be taken for block size. It should not be to suit some circumstances and interests of specific operators or licensees and should be selected to maximise the possible means to deploy the spectrum in any technology. The market driven pricing of such spectrum blocks which have widest possible usage options would lead to optimum utilization and most efficient spectrum auction.

**For 900/1800 MHz:** Block size of 200 KHz (paired) and minimum 25 blocks for new operators. For existing operator, minimum of 3 blocks. There should be no priority linked and fair market driven auction should take place.

RS



For new operators or renewal/extension operators: In the license service areas where the spectrum availability during the auction is limited to lesser than 5MHz such a winning bid operator can be allotted the available spectrum, with the committed allocation of remainder quantum of spectrum upon availability. Such a winning bid operator may be asked to provide partial payment for the spectrum available at the time of auction, with the remainder payment deferred till the allocation of remaining spectrum.

**Q5. Should the licensee whose licences are due for expiry in 2015 and 2016 be treated as an existing licensee or as a new entrant?**

**AIRCEL comments:**

The licensee whose licenses are due for expiry in 2015 and 2016 should be treated as an existing operator for the spectrum bands (900 & 1800 MHz to be considered one for this purpose) where their entire allocated spectrum is due for renewal.

**Q6. Should the valuation exercise for 1800 MHz spectrum be undertaken afresh for all the 22 LSAs?**

**AIRCEL comments:**

No, there is no need for fresh valuation exercise as we do have more pragmatic market/auction based valuation which is only 6 months old.

**Q.7 Should the prices revealed in the February 2014 auction for 1800 MHz spectrum auction be taken as the value of 1800 MHz spectrum for the forthcoming auction in the respective LSA? Would the response be different depending on whether the forthcoming auction is conducted within one year of completion of last round of auction of February 2014 or later?**

**AIRCEL comments:**

The prices revealed in Feb'2014 should be taken as the value of 1800 MHz Spectrum for the forthcoming auction in respective LSA.

**Q.8 If the prices revealed in the February 2014 auction for 1800 MHz spectrum are taken as the value of 1800 MHz for the forthcoming auction, would it be appropriate to index it for the time gap (even if this is less than one year) between the auction held in February 2014 and forthcoming auction? If yes, what rate should be adopted for the indexation?**

**AIRCEL comments:**



The prices revealed in the recent auction Feb'2014 are only 6 months old as such, should be taken as the value of 1800 MHz Spectrum for the forthcoming auction in respective LSA, without any indexation.

**Q9. What should be the criteria for defining a 'market clearing price'? Can the auction determined price be considered as market clearing price, when (i) the demand for spectrum is greater than the supply and when (ii) the demand is greater than or equal to the supply? Can the auction determined price be considered as the market discovered price?**

**AIRCEL comments:**

In India, we have unique structure of license wherein they are divided into 22 service areas under 4 categories. Further, the diversity increases with multiple operators per circle and different license expiry dates. The operators are further diversified, into GSM only or CDMA only or GSM & CDMA both players. There are operators who are Pan-India players, with some being regional.

This presents a varied dynamics and operators have separate business plans for different circles. It is well settled economic principle that better product would have better demand similarly, circles wherein revenue and subscriber potential is more, would be more sought after as compared to others. In spite of such possibilities there were scenarios where in multiple service areas, a significant portion of the spectrum was not bid for in the auctions.

Considering above, the market discovered price in the service areas where the entire spectrum was sold (i.e. Demand was greater than or equal to supply) should be the same as has been determined in the auction.

In the circles where the auction resulted in demand being lower than supply, the market discovered price is clearly lower than the reserve price. The market discovery of the price for spectrum should be linked to prior used reserve price and lowering the same by 75% as a ratio to encourage further auction activity at lower price levels.

**Q10. Should the valuation of spectrum and determination of reserve price be done only for those LSAs where market clearing price was not achieved for 1800 MHz spectrum in February 2014 auction?**

**&**

**Q11. Should the auction determined price for LSAs where market clearing price was achieved in February 2014, be taken as equal to the value of spectrum?**

**&**

**Q12. Should the market determined price be taken as the value of spectrum in all LSAs?**

**&**

**Q13. Should the value of spectrum in the LSAs where market clearing price was not achieved be estimated by correlating the sale prices achieved in similar LSAs where market clearing price was achieved with known relevant variables (paragraph 3.19)? If yes, please suggest which single variable is best suited for this purpose?**

**AIRCEL comments:**

Kindly refer to above response for Q No 9.

RS



Q14. Can multiple regression analysis be gainfully employed for this purpose given the limited number of sample data points?

&

Q15. Should the value of spectrum in 1800 MHz band be assessed on the basis of producer surplus on account of additional spectrum?

&

Q16. Is there any need for a change/revision of any of the assumptions adopted by the Authority in producer surplus model in the Recommendations of September 2013? Justify with reasons.

&

Q17. Should the production function model based on the assumption that spectrum and BTS are substitutable resources be used as a valuation approach (as was done in the earlier valuation exercise)? Please support your response with justification/calculations/relevant data and results.

&

Q18. Should the revenue surplus approach be used to arrive at the value of 1800 MHz spectrum? Do you agree with the assumptions made?

&

Q19. Should the values contained in the Report of 8th February 2011 for spectrum up to 6.2 MHz be incorporated after indexation in the calculation of the average value of the 1800 MHz spectrum in the current exercise?

&

Q20. Should the prices revealed in the February 2014 auction for 1800 MHz spectrum auction be used as one of the values of 1800 MHz spectrum?

&

Q21. Apart from the approaches discussed as above, is there any other approach for valuation of spectrum that you would suggest? Please support your answer with detailed data and methodology.

&

Q.22. Would it be appropriate to value 1800 MHz spectrum as the simple mean of the values thrown up in all the approaches? If no, please suggest with justification that which single approach should be adopted to value 1800 MHz spectrum?

**AIRCEL comments:**

Kindly refer to above response for Q No 8.

Q.23. Should the value of 900 MHz spectrum be derived on the basis of the value of 1800 MHz spectrum using technical efficiency factors (1.5 times and 2 times) as discussed above?

&

Q.24. Should the economic efficiency approach as discussed above be used to calculate the premium for the 900 MHz spectrum, based on the additional CAPEX and OPEX that would be incurred on a shift from this band to the 1800 MHz band?

**AIRCEL comments:**

RS



Yes, it should be 1.5 times and both technical and economic efficiency should be considered.

**Q.25. Is there any other method that could be used for arriving at the valuation of the 900 MHz spectrum? Please support with detailed methodology.**

**&**

**Q.26. As in the case of the September 2013 Recommendations and adopting the same basic principle of equi-probability of occurrence of each valuation, should the average valuation of the 900 MHz spectrum be taken as the simple mean of the valuations obtained from the technical and economic efficiency approaches (and any other method)?**

**AIRCEL comments:**

We recommend 1.5 times of 1800 MHz prices.

**Q.27. Should the reserve price of 1800 MHz spectrum in the forthcoming auction be fixed equal to the realized price of 1800 MHz spectrum in the February 2014 auction? If not, what should be the ratio between the reserve price for the auction and the valuation of the spectrum?**

**&**

**Q.28. If the realized prices in the February 2014 auction for 1800 MHz spectrum is taken as the reserve price of 1800 MHz for forthcoming auction, would it be appropriate to index it for the time gap (even if less than one year) between the auction held in February 2014 and forthcoming auction? If yes, what rate should be adopted for the indexation?**

**AIRCEL comments:**

The Feb'2014 auction is quite recent, and has been considered a very successful auction. As there may not be drastic changes in market dynamics and the overall telecom industry benchmarks. Therefore, reserve price may be kept at same level as the Feb'14 auction in the service areas where the auction led to discovery of market clearing price.

In the circles where the entire spectrum was not auction (demand being less than supply) the reserve price is expected to be higher than a market discovered price. In such service areas, the reserve price should be suitable lowered, arguably by 75%, and left for market forces to determine the value of spectrum.

x-----End of Document -----x

