No. MTNL/RA/TRAI CP on Review of IUC/2008
Dated: 27.5.2011

To,
The Secretary,
TRAI,
New Delhi.

(Kind attention: Shri Arvind Kumar, Advisor (I&FN)

Subject: Comments on TRAI consultation paper on "Review of IUC" dated April 27, 2011.

Kindly refer to TRAI consultation paper No. 4/2011 dated 27th April 2011 and addendum dated 29th April 2011 on **Review of Interconnection Usage Charges.** The comments of MTNL on various issues raised in the consultation paper are as below:

1. Do you agree that the IUC regime determined through this consultative process should be applicable for 3 years? If not please indicate your preferred time period with justification.

Ans. Yes, we agree that the IUC regime determined through this process should be applicable for 3 years.

2. Keeping in view the time period indicated by you in question 1, which of the following approaches would be most appropriate for the Indian telecom sector?

(a) Cost oriented or cost based; (b) Bill and Keep;
Please provide justification in support of your answer. In case you feel that the approach should vary according to service, please explain why?

Ans. Cost based approach based on work done principle would be most appropriate for the calculation of IUC charges.

3. In case your answer to question 2 above favours the cost oriented approach, would it be appropriate to permit Bill and Keep between service providers who have symmetric traffic?

Ans. There is no need to permit bill and keep between service providers with symmetric traffic as IUC settlements will itself take care of the symmetric traffic.

4. If the cost-oriented or cost based approach is used for Interconnection Usage Charges, do you agree that fully allocated cost can be used with historical cost data submitted by various service providers in their audited Accounting Separation reports, published documents or any other information submitted to TRAI? If not, please give your alternate solution with explanation, required data and proper justification.

Ans. Yes, we do agree.

5. Should CAPEX be included in calculating/ estimating termination charge? If so, which network elements from the ASR data should be included in the cost base?

Ans. CAPEX should include all types of costs including 3G spectrum upfront charges. However, the same percentage of CAPEX should be taken into account for IUC calculation as the percentage of revenue from the IUC to the total revenue.

6. Do you agree that with inclusion of CAPEX in the calculation of termination charges, rental/ administrative or any other fixed charge component should be removed from the retail tariff by regulatory intervention? If not, please give reasons.

Ans. No, as the rental also takes care of subscriber acquisition cost, billing cost, bad debt etc.

7. Should TRAI continue with the existing rate of return of around 15% in the form of pre tax WACC as adopted in other regulations? If you do not agree with the above, please state what should be the rate of pre- tax WACC, along with justification for your proposed rate.

Ans. Yes.

8. Would it be appropriate to adopt Straight Line Method with an average life of 10 years for all network elements for taking into account depreciation? If you do not agree with this proposal, please give your alternative method with justification.

Ans. No, it would not be appropriate to adopt Straight Line Method with an average life of 10 years for all network elements for taking into account depreciation. Rather Diminishing Value (Written Down value) Method would be more appropriate as Fully allocated cost with historical cost is proposed to be adopted vide Question 4.

9. Do you agree with the proposal for treatment of the cost items as indicated in Table 3.2? If not, please give your proposal with justification.

Ans. Yes. We agree.

10. Do you agree that revenue can be used as a driver for segregating the cost pertaining to VAS services from the total cost indicated in the ASRs? If not, please provide a template with appropriate method for separating the cost items for value added services from the cost data provided in the ASR.

Ans. To make the approach consistent and equitable, the approach suggested may be adopted.

11. Should termination charges be asymmetric in respect of existing operators and new entrants or between different types of networks? What should be the criteria to distinguish between an existing operator and a new entrant? Please justify your answer.

Ans. No, there should not be any asymmetric termination charges with respect to existing and new entrants as:

- The termination charges are to be calculated on cost based and work done principle.

- Despite having the same termination charge for old and new operator, new entrants started offering lower tariffs, it is believed that they are not offering any tariff below the cost. Further, new entrants have a technological advantage and the cost is continuously reducing.

- Change at this stage will affect the investment plan of the old operators which was based on long term.

However, we are in favour of asymmetric termination charges on the basis of networks i.e. wireline or wireless as the termination charges for fixed line network should be higher in comparison to wireless networks since the CAPEX and OPEX for fixed lines is almost 4 times as compared to mobile networks. M/s Airtel showed its concern in this regard while responding to pre-consultation paper that this may force service providers to raise the tariffs for mobile to fixed network calls and hence would discourage the subscribers from calling to fix line numbers and would be detrimental to fix line business. To overcome this problem, it is proposed:

- There should not be any termination charges for calls from fixed line network to mobile network.

- Fixed line termination charges should be twice the mobile termination charges.

12. Should the TRAI treat the work done in origination and termination of a call as identical for the purpose of determining termination charges? If not, please provide justification in support of your answer.

Ans. Yes, as the work involved in origination and termination of call is identical.

13. What should be the criteria to estimate the traffic minutes for the fixed line network as actual traffic minutes for the fixed network are not available with TRAI? Please provide justification in support of your answer.

Ans. It is part of basic service revenue report being sent to TRAI on quarterly basis.

14. Do you agree with the policy that origination charge should be under forbearance? Please provide justification in support of your view.

Ans. Yes, the present practice of keeping origination charge under forbearance should continue. Because of this, the operators are able to provide attractive tariff packages to different segments of the society. The competition in the market itself takes care of the origination charges.

15. Which of the following is the best option for International

Termination Charge?

(a) Left for mutual negotiation between access providers and ILDO
(b) Reciprocal arrangements with other countries
(c) Higher than the domestic termination charge
(d) Same as domestic termination charge

Ans. International termination charges should be higher than domestic termination charges and may be kept as Rs. 2.00 per minute.

16. Is there a need to specify separate ceilings for carriage charges for remote and hilly areas? If yes, how should the costs corresponding to remote/ hilly areas be segregated for carriage charges to/ from remote/ hilly areas, as the Accounting Separation Reports of the NLD operators provide only a consolidated cost for pan India operations?

Ans. Yes, higher ceilings for carriage charges for remote and hilly areas may be specified.

However, the present ceiling of 65 paise per minute for carriage charges should be reduced. With the shift to NGN switches and IP platform, the deployment cost has come down considerably. The carriage cost has reduced to the order of Rs 0.10 per minute irrespective of the area. MTNL is providing NLD services to its customers between Mumbai and Delhi on leased bandwidth and the carriage cost is barely 3-4 paise that too on TDM. On IP networks with own bandwidth this carriage should be much less. Therefore, the carriage cost for most parts of the country except hilly / remote areas should be less than 3-4 paise. Accordingly, a reasonable ceiling of 5 paise per minute for carriage charge for most parts of the country except hilly/ remote area is recommended. For remote/ hilly areas, the carriage charge ceiling may be kept as 10 paise per minute irrespective of distance /location is recommended.

17. Do you feel that TRAI should intervene in the matter of International Settlement Rates? If so, what should be the basis to determine International Settlement Rates?

Ans. No, not required.

18. 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.

Ans. Transit charges should be kept similar to carriage charges as these charges are for carrying the calls from Level-II TAX to SDCC tandem exchanges.

19. If the cost 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.

Ans. Additional network resources are used for transiting a call. Therefore, transit carriage charge can not be made zero.

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

Ans. The direct connectivity between the cellular networks of PSUs and the networks of mobile operators is already established, there is no need to regulate these charges any more. In case of any such rare requirement, the charges may be decided by the operators on mutual negotiation basis.

21. Is there any need to prescribe separate termination charges/ carriage charges for video calls? If yes, how should this charge be calculated in the absence of cost data? Please provide the methodology and data to be used.

Ans. Yes, as more network elements/ resources are used in video calls, termination/ carriage charges should be higher for such calls.

22. Do you agree that a deterrent termination charge should be imposed for commercial SMS? In your view, what would be the most appropriate level of termination charge for commercial SMS?

Ans. Yes, a deterrent termination charge should be imposed for commercial SMS. The termination charge for commercial SMS may be kept same as the charges for voice call termination.

23. Do you agree that Bill and Keep regime should be put in place for other types of SMS (non-commercial SMS)? Please provide justification for your response.

Ans. Yes, bill and keep regime should be kept for non-commercial SMS.

24. Is there any need to prescribe SMS carriage charges or should it be left for mutual negotiation? If SMS carriage charges are to be calculated, what methodology should be used to calculate these charges? Please provide all cost details and methodology.

Ans. As explained in response to Question 16 above, the carriage charge for voice calls is recommended as 5 paise per minute for most parts of the country except hilly/ remote areas where the carriage charges are proposed as 10 paise per minute. Compared to a voice call, the usage of carriage network for SMS is a miniscule fraction only and the cost of measurement and settlement may be more that the carriage cost. It is therefore proposed that this carriage for non-commercial SMSs may be taken as NIL. The compensation may be done through enhanced carriage of commercial SMSs, if required.

25. Do you agree that with the inclusion of all costs in the calculation of Interconnection Usage Charges, the item "incremental cost for roaming services" should be excluded from the computation of tariff ceiling for national roaming? If not, please give reasons.

Ans. No, incremental cost for roaming should continue to be included in the computation of tariff ceiling for national roaming.

(Mukta Goel)
DGM (RA)