

Aircel/TRAI/Corr/2014/ 224

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Jawahar Lal Nehru Marg (Old Minto Road)
New Delhi – 110 002

Sub: Response to Consultation Paper on "Valuation and Reserve Price of Spectrum: 2100 MHz Band"

Dear Sir,

This is with reference to TRAI's Consultation Paper on "Valuation and Reserve Price of Spectrum: 2100 MHz Band" dated 2nd Dec'2014.

In this regard, we hereby enclosed our response to the above mentioned consultation paper. This response has also been sent through e-mail at 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

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Aircel Group Response to TRAI Consultation Paper on 'Valuation and Reserve Price of Spectrum: 2100 MHz Band'

Preamble

We express our gratitude to the Authority for its endeavor to ensure adequate spectrum is made available in the upcoming auction and thus the auction can efficiently allocate spectrum for the maximum benefit of the country. Improving the spectrum supply is an important imperative.

The consultation paper raises important aspects linked to spectrum ownership limits and MRO conditions which can be addressed within auction rules and would ensure the fair and competitive market scenario, with application of consistent rules and regulations across spectrum bands and auctions. Overlooking these during the auction may lead to scenarios which may cause highly skewed competition leading to formation of extremely lop-sided market. The attempt to ensure exemplified by authorities repeated recommendation on spectrum ownership limits, and related measures.

The spectrum valuation has been exhaustively carried out by TRAI in response to various DOT references and discussed with all stakeholders vide its consultation process. The valuation is best determined as mentioned previously by TRAI by means of probabilistic average valuation that captures the range of possible valuations that have been attempted. This is true as any of these valuations could actually materialize during the Auction with some of the bidding participants having business cases based on one approach while others have different business case. Recent successful auctions have also indicated a successful validation of this method as captured in Authority's September 2013 Recommendations.

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

Aside, we would also like to bring to the attention of Authority an important issue which has been pending due to the want of action from Licensor as well as owing to limited availability of 2100 MHz spectrum post 2010 auctions.

Issue related to Interference in the blocks allotted in 2010 under Auction:

- A. Making sufficient spectrum available is an important imperative; to make interference free spectrum available is also equally important. Spectrum being auctioned at market determined price by the DoT should be awarded with assurance of it being interference free. The allocation of 2100 MHz spectrum carriers done under the 2010 auction suffers high levels of Interference in various circles and regions like in Punjab circle for Aircel. Owing to this, we are not able to commercially exploit the value of 2100 MHz spectrum and are also not able to provide services



to the originally designed levels of planned capacity or quality in various regions of Punjab using the 2100 MHz carrier as allocated.

- B. An interference prone spectrum, while having been allotted for Mobile broadband and thus supposedly contributing to Digital India target, has much lesser ability for data throughput which hinders the effort to meet NTP-12 target even post these spectrum allocation.
- C. It is also pertinent to note that in the absence of interference free spectrum, it is highly challenging for Aircel (or any other Operator) to meet the QoS thresholds or to recover its investments made for winning this premium spectrum in auction.. In some regions of Punjab the subscriber's discontent on the 3G services is palpable due to reasons attributable to interference.
- D. The delay in resolution is leading to considerable and continuous drain on the operational cost and the huge potential revenue loss in addition to competitive disadvantage
- E. Aircel has been representing this issue of interference in 2100 MHz band since 2011 to the DoT and WPC etc at various occasions, however, the issue remains unresolved till date and we are still struggling to get clean spectrum in Punjab to roll out the services to the desired and planned level of performance, despite paying market determined price in the 2010 auctions and subsequently the network deployment costs.
- F. Aircel has been requesting DOT via numerous representations to allot us an alternate clean block of 2100 MHz in Punjab. The Authority is aware of and has been very kind as well to intervene in past.
- G. Now with fresh spectrum getting released and expected to be available with DoT, it is our rightful expectation and a legal right that the Licensor should firstly allocate the clean spots to the existing 2010 winning bidders, who had been allocated interference prone spectrum.
- H. **We would thus request the Authority to make specific recommendation to the Government to provide interference free spectrum to all such winning Parties of May'2010 Spectrum Auction whose present allocated spectrum is interference prone like Aircel in Punjab, before newly released carriers are put to auction.**

Keeping all above in view, our question-wise response is as following:



Question-wise Response

Q1. In the auction for 2100 MHz spectrum held in 2010, certain roll-out obligations were mandated for the successful bidders. Stakeholders are requested to suggest if any changes are required or whether the same roll-out obligations should be mandated in the forthcoming auction, along with justification.

AIRCEL Response:

1. We believe roll out obligations as being mandated as part of the 900MHz/1800MHz spectrum auction rules should be applicable for all the spectrum bands which are henceforth auctioned. Any spectrum band and/or technology specific roll out obligations that were mandated earlier should now be made uniform for future allocations of spectrum; thereby moving towards a uniform minimum roll-out obligation for all technology and spectrum bands.
2. The minimum roll-out obligations which are being currently mandated as part of the spectrum auction are produced below: "At least 10% of the Block Headquarters (BHQs) of the Licensed Service Area (LSA) shall be covered by the end of three years from the effective date of License or date of allotment of spectrum won in the auction process, whichever is later. Additional 10% of the Block Headquarters of the LSA shall be covered in each of two subsequent years i.e. at least 20% and 30% coverage of the block headquarters of the LSA has to be achieved at the end of 4th and 5th year respectively."
3. We believe that any technology based and/or spectrum band based MRO obligation regime is counter-productive to the various efforts being undertaken to make the application of the various rules and regulations uniform and technology neutral.
4. At the same time the new minimum roll-out obligations should only be mandated for operators who win spectrum in 2100 MHz first time in any LSA.
5. However, the real issue is the practical issues in meeting the MRO obligations due to related rollout challenges imposed by ROW issues, permissions, device ecosystem development as well as the testing challenges linked to implementation of the TSTP. The Authority in the paper has already captured the fact that till now DoT has only issued provisional TSTP, which has lots of practical implementation problems.
6. We request the Authority to take up this issue with the Government and request them to include the relaxation linked to practical rollout challenges within the MRO regime as well as address the testing challenge linked to highly intensive TSTPs.

A handwritten signature in black ink, consisting of stylized, overlapping loops and lines.

7. We also recommend that the start date of roll-out obligations should be taken as the date when Government issues a final TSTP and list of rural SDCAs. Further, we request the Authority to take up issue of existing MRO obligations and recommend commencing MRO obligation for 3G operators prospectively from the date all the above issues are clarified, mutually resolved and a final TSTP issued.

Q2. Whether a bidder should be allowed to bid for more than one block of spectrum, in case a sufficient quantum of spectrum (more than one block in LSA) is put to auction?

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Q3. Whether the spectrum caps (of 50% of the total spectrum in a band/25% of the total spectrum assigned across bands) prescribed in recently held auctions in the 800/900/1800 MHz bands should also be prescribed for the upcoming auctions in the 2100 MHz band?

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Q4. In case only one block of 5 MHz of spectrum in 2100 MHz is available in an LSA, should only those TSPs be allowed to participate who do not have 2100 MHz spectrum in that LSA at present?

AIRCEL Response:

1. The 2010 Auction for the 3G and BWA spectrum contained rules which permitted a bidder to bid for maximum of a single block for the 2100 MHz and 2300MHz band.
2. 3G spectrum is a highly premium spectrum which permits the operator to provide high speed services. A scenario change from 2010 auction rules which permits operators to acquire more than one 5MHz carrier ought to be avoided. Bidding rules should be consistent with 2010 auction rules in the case of 2100 MHz spectrum and existing 3G operators should not be eligible to bid for one more block of spectrum. Bidding rules should also in consonance with 2010 auction rules for 2100 MHz, limiting the bidding by any new operator to one block of 2100 MHz spectrum.
3. It is understood that 2100 MHz spectrum will be primarily used for providing high speed data services, a scenario with acquisition of large contiguous blocks of spectrum would create an unfairly large competitive force and further skew the market.
4. We believe that in such scenarios an operator already holding one block of 2100 MHz in any LSA should not be eligible to bid for another block of 2100 MHz in the current round of auctions.
5. The Authority may however recommend to have secondary market of Spectrum trade with uniform and neutral rules related to technology and spectrum band establishing only limiting 25% across all bands and 50% intra-band within a LSA.



Q7. Should the value of spectrum in the 2100 MHz band be estimated on the basis of the producer surplus model outlined in Chapter III? Please provide your views on the assumptions made. Please support your response with justification, calculations and relevant data along with the results.

AIRCEL Response:

1. Producer surplus model as outlined in the Authority's Consultation Paper is similar in its approach to the previously outlined scenarios in the 2013 as well as 2014 Consultation papers. However, we would like to highlight some of the criteria's which we believe ought to be addressed to more accurately determine the valuation based on the Producer surplus model. The approach as outlined by the Authority is based on derivation of Producer surplus for "one existing average TSP" in each of LSAs.
 - i. The approach for determination of "Number of 3G data (Internet) subscribers of hypothetical average TSP's in an LSA" as outlined in the section 3.13(i) relies on the HHI of the segment.
 - ii. This number is then proposed to be utilized to determine the overall 3G data capacity requirement of "hypothetical average TSP's in an LSA" leading to determination of 3G node B required for the As-is scenario (1 carrier of 5MHz) versus (2 carrier of 5MHz).
2. We believe the HHI of the segment is not an accurate identifier of the measure which can be leveraged to determine the overall 3G data capacity requirement of "hypothetical average TSP's in an LSA".
3. A "hypothetical average TSP's in an LSA" servicing 3G subscriber often offers the 3G services to its own 3G subscribers as well as various ICR and National Roaming subscribers. While the HHI can be used to determine the "own 3G subscribers" of a "hypothetical average TSP's in an LSA", it would not give a accurate measure of overall sum of subscribers (Own + ICR + National Roaming).
4. We believe it would be more accurate to rather assume fair market distribution to determine the "Number of 3G data (Internet) subscribers" served by "hypothetical average TSP's in an LSA".

Q5. Should the indexed value of May 2010 auction determined prices of 2100 MHz spectrum be used as one possible valuation for 2100 MHz spectrum in the forthcoming auction? If not, why not? And, if yes, what rate should be adopted for the indexation?

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Q6. Should the value of the 2100 MHz spectrum be derived on the basis of the value of the 1800 MHz spectrum using the technical efficiency factor (0.83) as discussed in Chapter III?

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Q8. Should the value of spectrum in the 2100 MHz band be estimated on the basis of the growth in data usage outlined in Chapter III? Please provide your views on the assumptions made. Please support your response with justification, calculations and relevant data along with the results.

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Q9. Would it be appropriate to value the 2100 MHz spectrum as the simple mean of the values arrived from different valuation approaches as discussed in Chapter III? If no, please suggest with justification which single approach should be adopted to value the 2100 MHz spectrum?

AIRCEL Response:

1. We agree with Authority in its assessment that spectrum valuation is best determined by means of probabilistic average valuation that captures the range of possible valuations that have been attempted.
2. The average valuation derived on basis of all approaches as outlined above may thus be recommended as the Valuation of the spectrum.

Q10. What should be the ratio adopted between the reserve price for the auction and the valuation of the spectrum of 2100 MHz band?

AIRCEL Response:

1. We believe it is highly desired to proceed with uniformity in approach of determining the reserve price to valuation ratio for various spectrum bands.
2. Authority has in its various previous recommendations to DOT on the spectrum valuation and reserve price has consistently recommended the reserve price should be 80% of spectrum valuation. Thus, the same approach should be used for determining the reserve price to valuation ratio for 2100 MHz.
3. We thus believe that the reserve price should be 80% of the 2100 MHz's valuation as determined by the Authority.

ADDITIONAL COMMENTS

Additional Issue related to Auction and Valuation of Partially available spectrum:

We note that DoT vide its letter dated 16.10.2014 (annexed with the consultation paper under response) has sought TRAI recommendations on the 2100 MHz spectrum, for both the cases i.e. spectrum available in entire service area and spectrum partially available in a service area.



We have observed that TRAI has perhaps, inadvertently not provided for any specific question with regard to partially available spectrum. However, we are providing our views on the same as below. We request the Authority to kindly take note of same and also issue recommendations to Government on this important issue.

1. We believe that 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.
2. 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. Towards this objective, we would request Authority to recommend that 2100 MHz spectrum whenever available across partial geography of any LSA should also be auctioned.
3. The auction of the partially available 2100 MHz in the various LSAs would lead to significantly meeting the Authority's previously provided recommendation to Auction entire 60MHz of 2100 MHz spectrum, without interlinked delays of obtaining a vacation from the current state agencies which are using these spectrum in remainder geography of the LSAs.
4. In order to arrive at valuation of these spectrums blocks of partially available 2100 MHz and thus reserve price, we believe the approach outlined in the 2014 Auction's NIA and its extract given below, should be continued with and may be recommended.

"For the Service Areas, where the spectrum is not available in some of the districts, while the bids will be sought for spectrum in entire LSA, the bid amount will be collected only for the spectrum available and the balance collected as and when spectrum is made available in each District, the amount being pro-rated to the population of that district(s) (as of census of 2011) and the balance period (of the 20 years).

Bid amount as mentioned above will be collected subject to the condition that the amount to be collected in future at the time of providing balance spectrum would be the balance prorated bid amount indexed on the SBI PLR prevalent for the period between finalisation of bid price and actual allocation made"

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