VIDEOCON TELECOM

VTL/Reg/TRAI/1412/4352
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Subject: VTL Response on Consultation Paper on "Interconnection Usage Charges"

Ref: TRAI Consultation Paper No. 13/2014 dated 19th November, 2014

Respected Sir:

Videocon Telecommunications Limited welcomes the opportunity to give our comments to TRAI's consultation Paper on "**Interconnection Usage Charges"** Please find attached herewith our response on the same.

This is for your information and kind consideration please.

Kind Regards

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Encl.: as above

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Response to the TRAI Consultation Paper on "Interconnection Usage Charges"

The Incumbent and large networks engineer their networks on the basis of on-net/off-net retail price differential at the retail level and which makes their networks more attractive to customers. As smaller operators are 'forced' to offer low off-net call prices which leads to a large amount of off-net traffic and therefore there is a net outflow of traffic from the smaller network to the larger networks. Thus it makes it unprofitable and deters healthy competition as most incumbents set their on-net prices even below the level of the regulated MTC. Thus termination charges are anti-competitive. Hence, Bill and Keep regime is competitively neutral and prevents traffic skewness in favour of incumbents operators.

The main cost component in a voice call is termination charges. Termination charges of 30 p/min were first notified in 2003 and since then it has been reduced to only 20 paise/min. To align termination charges to actual cost, we suggest that termination charges should be done away with.

Q1: Which of the following approaches would be the most appropriate for Mobile termination Charge and Fixed Termination Charge:

(i) Cost oriented or cost based;
(ii) Bill and Keep

Please provide justification in support of your response.
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Q2: In case cost-oriented or cost-based approach is used for determining Mobile Termination Charge and Fixed Termination Charge, is there a need to give a glide path towards Bill and Keep and what will be the appropriate time frame to migrate to Bill and Keep regime?

Ans: We strongly believe that Bill and Keep approach would be most appropriate for Mobile and Fixed termination charges.

- Bill and keep is the most appropriate approach as Complexities related to Billing, AGR and other IUC disputes amongst operators will be resolved. However, TRAI has to take steps to facilitate provision of POIs in among operators in a time bound manner.
- BAK arrangement will also help in addressing the emerging network and operating models. As we are in the process to migrate to IP based NGN in near future is also a factor in favor of this approach which will enable TSPs to provide innovative tariff and services to the customers..
- A major goal of the BAK proposal is to show that efficient pricing could be attained under an interconnection regime that acknowledges communication is a shared service from which both the calling and the called party benefit, and accordingly requires the parties to share the cost of calls. It also identifies a number of "practical" areas in which BAK would improve upon the existing interconnection regime independent of any externalities that exist between the calling and called party, including eliminating many existing regulatory arbitrage opportunities, reducing the need for regulators to monitor and determine the incremental cost of individual networks for the purpose of setting cost-based interconnection rates for each network, and reducing the need to update such findings as the technologies of these networks evolve. BAK will also eliminate the expense networks currently incur in determining how many minutes pass from one network to another. Thus, BAK offers an interconnection regime that can both generate efficient prices and solve many of the practical problems facing the industry.

We also would like to submit that due to innumberable benefits of the Bill & Keep charging approach, TRAI in its affidavit before Hon'ble Supreme Court had supported and submitted that Bill & Keep regime should be implemented from 2014. Hence we request the Authority that Bill & Keep BAK should be implemented at the earliest. In case Authority believes that glide path is still required in 2014 then BAK may be considered within two years.

Q3: Which method of depreciation for the network elements should be used and what should be the average life of various network elements?
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Q4: Should TRAI continue with a pre-tax WACC of 15% as used in framing other Regulations, tariff orders, and regulatory exercises? If not, please state what pre-tax WACC would be appropriate for the present exercise, along with justification and computations.

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Q5: In case a cost-oriented or cost-based approach is used for prescribing Mobile Termination Charge and Fixed Termination Charge, which method would be the most appropriate for estimating these costs?
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Q6: In case your response to the Q5 is fully allocated cost (FAC) method, would it be appropriate to calculate IUC using historical cost data submitted by the service providers in Accounting Separation Reports (ASRs), Annual Reports/published documents or other reports submitted to TRAI?
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Q7: In the FAC method, what items/nature of OPEX should be considered as relevant for the termination cost? Please provide justification in support of your opinion.

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Q8: Should CAPEX be included in calculating termination cost? If yes, what items of fixed assets from the ASRs ought to be considered relevant for termination cost? How should costs incurred by service providers for acquiring usage rights for spectrum be treated?

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Q9: Would it be appropriate to take an average life of 10 years for all network elements without any salvage value for the purpose of depreciation in the FAC method? If not, please suggest an alternative method keeping in view the categorization of network elements prescribed in Accounting Separation Regulations, 2012, along with justification.

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Q10: Is there any need to adjust costs associated (as reported in ASRs) with products other than voice calls, for the purpose of computing termination cost using the FAC method? If yes, please suggest the appropriate cost driver along with justification.

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Q11: Do you agree with the methodologies explained for various variants of LRIC, including the detailed description of computation of the termination cost using LRIC model in the Annexure? If not, please give your answer with justification.
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Q12: In case it is decided to go for an LRIC model for determining termination cost, which is the most suitable variant of LRIC for the telecom service sector in the country in the present circumstances and why?
(i) LRIC
(ii) LRIC+
(iii) Pure LRIC

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Q13: In case your response to the Q12 is LRIC+, what are the common costs that should be considered for computation of termination costs?
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Q14: In case there is a significant difference in the mobile termination cost and fixed termination cost, will it be appropriate to prescribe different mobile termination charge and fixed termination charge?

Ans: The above questions are not applicable as we have suggested Bill and Keep approach.

Q15: The Authority has already prescribed access charges to facilitate the introduction of calling cards. Is there any other issue which needs to be addressed so that the consumer gets the most competitive tariff for ISD calls?

Ans: We strongly would like to submit that prescribed charges for ILD calls through calling card needs to be further reduced to Rs. 0.20/- for both mobile and fix line user. This will enable operators to provide competitive rates and increase international outbound calling.

Also keeping rates high for fix line users will be detrimental for penetration of ILD calling through calling cards in Rural areas.

Q16: Do you feel that the Authority's intervention is necessary in the matter of International Settlement Rates? If so, what should be the basis to determine International Settlement Rates?

Ans: We submit that currently Authority's intervention is not required.

Q17: Is there a need to fix a floor for international carriage charge for incoming provider and the ILDO to safeguard the interest of ILDOs?

Ans: Considering the current international scenario where whole world has become a global village. International travelling & calling has increased substantially and also network cost has come down drastically. Thus for the benefit of consumer, there should not be any floor price for International carriage charge.

Q18: What is the most appropriate level for International Termination Charge? Should it be uniform or should it depend on the originating country/region? Please provide full justification for your answer.

Ans: We believe that International settlement rates for India termination should be decreased as most callers into India are the NRIs and thus rate decrease will indirectly benefit Indian consumers also. Further, rate decrease will result into increased incoming minutes and also will decrease the traffic through illegal channels, if any. All this together will result in positive impact on the Telecom Industry. Also International IUC should be reduced to Rs. 0.20/- or revised domestic IUC, whichever is lower.

Further, termination charge should be uniformed and can-not be based on the originating country/region as this will lead to CLI tempering by originating /transit carrier to take benefit of lower tariff.

Q19: What should be the methodology for determining the domestic carriage charge? Is there a need to specify separate carriage charges for some specific geographic regions? If yes, on what basis should such geographic regions be identified? How should the carriage charges be determined separately for such geographic regions?

Ans: Deomestic carriage charge should be on market average. There is a need to review carriage charges. Ceiling price may be brought to the level of average range of carriage charges being levied and settled between Access service providers and NLD license holders in order to reduce the negotiations.

Q20: Is there a need to regulate the TAX transit charges or should this be left to mutual negotiations? In the event, the transit charge is to be regulated, please provide complete data and methodology to calculate TAX transit charges.

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Q21: 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.

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Q22: If the costs 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. As by in large TAX is provided by BSNL only, it should be considered on the cost provided by BSNL. As the BSNL has converted all their TAXs to IP technology TAXs and the cost of equipment and maintenance has been drastically come down. Hence, we submit that the transit charge should be brought down from the existing prescribed rates.