Dated 22nd December 2014

Annexure -I

ITU-APT Foundation of India's Response to TRAI Consultation Paper on Interconnection Usage Charges (IUC)

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.

We believe that under the present charging regime i.e. Calling Party Pays (CPP), only cost oriented or cost based approach can be implemented.

It is submitted that Interconnect Usage charges (IUC) should be determined on cost based and work done principle. Interconnection usage charges should be arrived at by using a robust cost based model, which includes all costs which are necessary to provide/complete the network services / products.

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?

No, there is no need to give a glide path towards Bill and Keep (B&K). As per information available with us, nowhere in the world, B&K has been implemented under the CPP regime.

Q3: Which method of depreciation for the network elements should be used and what should be the average life of various network elements?

We believe that for the purpose of calculating depreciation, TRAI should take into consideration the average useful life of the asset based on information provided by operators.

The average life of network assets varies from 7 to 10 years and the life of IT equipment/ computer is approximately 3 years.

It is suggested that in case of Fully Allocated Costing (FAC) approach, a simple average approach of 10 years may be followed for various network elements, which has already been used by TRAI in its various telecom pricing. For intangible assets, it may be averaged across the right of use.

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.

No, we believe that there is need to re-examine the present level of Pre-Tax WACC since it was determined in 2002-04.

We believe that in light of the inflationary pressures and increased in the business& financial risk in the telecommunication sector due to regulatory costs and uncertainty in the policies, therefore, we suggested that TRAI may consider a Pre-tax WACC in the range of 19~20%.

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?

And

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?

And

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.

And

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?

And

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.

And

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.

We believe that the adoption of **an Accounting Separation Reports (ASR) based FAC model** would be most appropriate approach which may also considered thefuture cost of spectrum paid by the operators, for the determination of the termination charge.

It is submitted that all costs (OPEX+ CAPEX) which are necessary for the network services must be considered for determination of IUC. The Following cost items may be considered under the ASR based FAC Model:

Sl. No	Particulars	Cost to be considered for termination cost
	Opex	
1	Pass through Charges i.e.IUC	No
2	Employee Cost	Yes
3	Administration Cost	Yes
4	Sales & Marketing	Yes[1]
5	Maintenance charges	Yes
6	Government Charges (LF+ SUC)	Yes
7	Network Operating Cost	Yes
8	Other operating Costs-	Yes
9	Other Costs- Loss of sale of fixed assets (net)	No
	Capex	
10	Finance Charges (Excluding Interest on Loans)	Yes
11	Depreciation/Amortization	Yes

[1]Relevant portion may be considered

	(Spectrum)	
12	Return on Capital Employed (WACC Rate * Capital Employed)	Yes
	Total Costs (Opex+ Capex)	

We also request that the data source should be consistent across all estimations of various interconnection costs.

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.

And

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

And

Q13: In case your response to the Q12 is LRIC+, what are the common costs that should be considered for computation of termination costs?

We note that TRAI has not used LRIC or its variants for any other telecom pricing of other network services;therefore, there should asimilarity in the costing approach.

Under the present circumstances, <u>we believe that the above questions are not relevant now, since TRAI has adopted the FAC model for other network services / products.</u>

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?

We believe that there should be common MTC & FTC prescribed by TRAI.

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?

And

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?

And

Q17: Is there a need to fix a floor for international carriage charge for incoming international traffic or prescribe some revenue share between access service provider and the ILDO to safeguard the interest of ILDOs?

And

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.

We believe that ILD segment may be left with the market forces under the light touch regulation.

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?

It is submitted that under the prevailing competition in the market and the fact that rates are already below the ceiling, **TRAI to continue with uniform carriage charges ceiling of 65 paisa per minute.**

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.

No specific comments

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.

And

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

No specific comments

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