A regulation that supports, enables and makes viable International Long Distance Operator (ILDO) is required. Viable ILDOs should have the capacity of creating calling card services from abroad to India and from India to abroad.

Q.1. 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.

Comments:

Realistic Cost Based approach based on the relevant costs covering the work done including all activities and international business development costs without any arbitrage or artificial loading or differentiating the traffic on origination basis, etc should be applied.

Q.2. 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?

Comments:

Yes, the cost based approach should continue for present. There should be a glide path towards Bill and Keep because in future going by the international trend and technological evolution towards IP networks, Bill and Keep is likely to become the norm. A time frame of three years to achieve and implement this is suggested.

Q.3. Which method of depreciation for the network elements should be used and what should be the average life of various network elements?

Comments:

Straight line method may be used for providing depreciation for network elements.

The average life of active network elements may be kept as 5 years and passive network elements may be kept as 10 years.

Q.4. 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.

Comments:

As in the telecom business for the small and medium new enterprises the bankability for the telecom project is low, debt cost is high and perceived risks by the financial institution is very high, the present WACC needs to be upwardly revised to 18% taking into account the increased cost of capital including debt as well as equity.

Q.5. 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?

Comments:

It is recommended that a forward looking approach based on realistic incremental cost should be adopted as is done in many developed and developing nations. Hence, LRIC based costing methodology is suggested.

Q.6. 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?

Comments:

No, Historical data should not be used for calculating IUC using FAC method. Historical data does not take into account growth, technology evolution, efficiency gains and reduction in per unit cost. For example, cost per gigabyte of server, memory, storage, and network is far lower today and expected to reduce further in future.

Also as another example, originally networks were designed for 25 milli erlang traffic and the envisaged traffic was much lower because of high cost of CPE as well as calling rates.

Using Historical cost, we are incentivizing operators to continue to use inefficient networks and thereby penalizing the consumers. Furthermore using Historical cost/Annual reports/published documents encourage operators to rely on higher costs than are actually required to be incurred currently or in future.

Q.7. 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.

Comments:

Only the elements/activities which are directly related to the termination should be considered. Any element /activities whose cost has been allocated to some other product/service should not be considered again.

This is to ensure that double recovery of any incurred cost is not allowed. Costs of International business development is, inter alia directly relevant and becoming more and more significant for the ILDOs and hence need to be considered.

Q.8. 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?

Comments:

Only the elements of CAPEX which are directly related to the termination should be considered. Any element /activities whose cost has been allocated to some other product/service should not be considered again. Also any CAPEX which falls under “sunk cost” should not be considered.

Spectrum is an asset and part of the company’s capitalization and hence should not be treated on par with other tangible assets.

Q.9. 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.

Comments:

Average life of active network elements (equipment) should be reduced to 5 years due to faster technological development leading to faster obsolescence. For passive network elements, the current average life of 10 years may be retained.

Q.10. 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.

Comments:

No, the cost associated with all non-voice service and supplementary services should not be taken into account for determining voice termination charge.

Q.11. 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.

Comments:

Yes, we agree with the methodologies explained for various variants of LRIC as explained in the Annexure.

Q.12. 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**

Comments:

The most suitable method for determining the termination cost may be LRIC+ as it takes care of some portion of common cost also along with termination as per LRIC model. This will be actual representation of all relevant logical costs.

Q.13. In case your response to the Q12 is LRIC+, what are the common costs that should be considered for computation of termination costs?

Comments:

The proportionate cost based on the time spent by the concerned employees of the Corporate office may be one of the common costs. Other common costs inter alia may be proportionate administrative cost of Corporate office.

Q.14. 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?

Comments:

Yes, because there is a need to determine the termination charges on real cost based, it may be appropriate to specify different termination charges for fixed and mobile termination.

Q.15. 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?

Comments:

To make a business case for the ILDOs for providing this service, there is need to ensure the cost recovery by specifying the minimum charges for the work-done by such ILDOs. There is also a need for timely and economical interconnection to be achieved. For this there should be an interconnect location in each circle where all Service Providers are available for interconnection. Such a common interconnection location reduces cost, increases efficiency, and enables interconnection with all Service Providers through cross-connects. Hopefully such interconnects will get full support of UASL in a timely manner and economical cost-based charges.

Such common interconnection locations are generally prevalent across developed and many developing markets.

Viable ILDOs will improve the ratio of outgoing to incoming calls and the same has been identified by the TRAI as a major need.

Q.16. 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?

Comments:

Yes, the Authority's intervention is necessary in the matter of International Settlement Rates because non determination of carriage charges for the ILDOs is creating an opportunity for vertical price squeeze for integrated players and also deny the opportunity to Indian players to negotiate for cost-based settlement charges from international carriers.

Therefore, it is absolutely required that the Authority intervene in the matter of International Settlement Rates as each player in the chain should be compensated for the work-done for completion of the call.

The basis to determine the International Settlement Rates should be the work done by all the concerned Parties.

ILDOs perform **major** part of the work-done in handling of international calls:

- Bandwidth charges for carriage of call from international sources to ILDOs Indian POP (ILD Gateway).
- Switching function at ILD Gateway in Indian and abroad.
- Ensuring international traffic Quality Of Service (QOS).
- LIM and monitoring function in India.
- Billing domestic and billing international to handle multiple billing timeframes and currencies
- Reconciliation of minutes and Revenue Assurance.
- Management of managing multiple carriers for billing reconciliations.
- Bad debt and legal costs to settle and recover the receivable amount.
- Sales & Marketing in India and abroad.
- International travel and promotion of India as a destination.
- Network Operations Center 24 x 7 in India and abroad.
- Meeting various Regulatory Compliances including detailed Call Detail Records.
- Attending to demands from various Law Enforcement Agencies.
- Handing over traffic to NLDOs and Access Providers.

- Mobile Number Portability interconnect and compliance.
- Employee and office costs in India and abroad.
- Maintenance of accounts and audit thereof.
- Managing risks of foreign exchange rate variation

The minimum charge to be retained by the ILDO for the work done should also be specified as is done for other category of operators. This will enable the Indian ILDOs to negotiate better rates from International carriers. This will also enable ILDOs to increase their presence worldwide for effective and high quality calling services for Indian business and Indian diaspora.

Q.17. 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?

Comments:

Yes, there is an absolute need to fix a floor for international carriage charge. Instead of prescribing revenue share which was done in the olden days, a floor handling charge for the ILDO based on the cost of the work-done, as elaborated in answer to question No. 16, and also for increasing India's effective presence worldwide through international marketing and business development efforts is required to be specified.

Also, the current market situation has led to squeezing of the margins and resulting in losses for the entire ILDO industry. This also leads to loss of foreign exchange revenue to the country. In addition, the fluctuating charges lead to bad reputation in the international voice markets leading to compromise in call quality.

Q.18. 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.

Comments:

The International Termination charge should be at least 20 paise per minute.

YES, the international termination charge should be uniform and NOT depend on the originating country/region. Uniformity of international termination charges will simplify the settlement process.

Appropriate level for International termination charge will be one which takes into account the cost of various players involved as per the work-done by each of them subject to the minimum floor price. The actual termination charge may be left for the parties concerned to be commercially negotiated by ILDOs based on originating country, region, volume in addition to class of service.

Q.19. 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?

Comments:

It should be uniform across the country irrespective of the region to keep it simple and also to take cognizance of migration to packet (IP) based transport networks which lead to "Death of Distance".

Keeping in view the recent downward revision of DLC charges by TRAI, the TRAI should also reduce the ceiling of domestic carriage charges.

Q.20. 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.

Comments:

There is no need to separately specify the TAX transit charges as various cost elements of this activity are supposed to have been accounted for in the calculations for the termination charge.

Q.21. 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.

Comments:

Not required as mentioned in answer to Q.20.

Q.22. 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.

Comments:

As the basic principle, no network element cost should be allowed to recover twice. As all the relevant network elements would have been taken into account for calculation of the termination charge, there is no justification of specifying a separate transit carriage charge.

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