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Sub : **Consultation Paper on Review of Interconnection Usage Charges (IUC) dtd 31st December 2008**

At the outset we wish to congratulate TRAI for bringing out a very comprehensive consultation paper on all aspects of Interconnection Usage Charges. Cost based IUC constitute the corner stone for effective interconnection between various service providers providing Access, NLD & ILD services in India. Various telecom licenses have been issued from time to time over the last 14 years to various companies by the DoT for providing different telecom services. Since various licenses were awarded at different times. They are in different stages of setting up their networks. They have huge differences in their market share. Therefore, the cost based charges for providing the same interconnection service may vary considerably for different operators and we appreciate that it will be a very difficult task for the Authority to arrive at consensus and determine the IUC which is fair to all the parties involved in end to end completion of a call.

Internationally the Regulators in various European and other countries have prescribed asymmetrical termination charges so as to protect the interest of new entrants in the market and promote competition. DoT has issued a large number of Unified Access Service Licenses during the last 2 years and most of the new licensees are still in the process of establishing their networks. It will be in the fitness of things that TRAI adopts a similar approach while reviewing the IUC charges, particularly the termination charge. We do not subscribe to the view that asymmetrical termination charge might skew the traffic against the type of service whose termination charge is higher. Termination is the monopoly of the operator whose subscriber is being called. Most of the subscribers have subscribed to only one mobile connection and do not have multiple mobile phones from different service providers. Therefore, the calling party does not have choice of making call to another network having low termination charge. The new operators who are about to enter the market will have much higher volume of terminating traffic to the existing operators as compared to the incoming traffic from them. Therefore, the new operators will have huge net outflow of IUC. Asymmetrical termination charge will help the new entrants to compete effectively with the established players and survive in the intensely competitive access market in India.

With rapid increase in subscriber base of mobile networks (total ....subscriber as on 31.12.08) and addition of 8 to 10 million subscribers per month; the total minutes of usage of various networks has considerably increased as compared to the figure taken into consideration by the Authority for working out MTC in 2003/2006. The considerable difference in tariff for on-net and off-net calls of some of the established operators clearly shows that the cost based termination charge of these operators has considerably gone down and is much lower than the present MTC of 0.30 paisa per minute, laid down vide IUC Regulation of October 2003.

TERMINATION CHARGE FOR INTERNATIONAL INCOMING CALLS :

Though ideally on the principle of work done there should be no difference in termination charges for call originating in different networks i.e. for Local, STD & ISD calls. However, in respect of ILD calls the settlement rates between different operators have generally been negotiated on the principle of reciprocity. The termination charges charged by operators in different countries for the outgoing ILD calls from India are considerably higher than the termination charge of Rs. 0.30 per minute prescribed by Regulation in India. Earlier when TRAI had prescribed considerable amount of ADC on incoming ILD calls, the total charges payable by ILDOs for terminating incoming ILD calls was higher or of the same order as the termination charges payable on the outgoing calls. However, with the abolition of the ADC regime in India the termination charges on ILD calls are now skewed against the Indian Access Operators. We agree with the Authority that in order to avoid prolonged negotiations and disputes between the ILDOs and Access Providers, the termination charge for ILD calls must also be regulated. However, keeping in mind the fact that the Indian operators have to pay weighted average termination charge of Rs. 3 per minute for outgoing ILD calls, we recommend the termination charge for the incoming ILD calls should be fixed in the range of Rs. 1-2 per minute.

REVIEW OF CARRIAGE CHARGES :

Though a number of new NLD licenses have been issued in the last 2-3 years, most of the new licenses are providing only IPLC circuits to various BPO and other companies. Moreover, most of the private NLDOs are having their NLD networks in limited areas and are not having any infrastructure in remote and rural SDCAs.

Even established operators like Bharti and VSNL (re-named as Tata Communications) are having their networks connecting major cities only. Therefore, in most parts in the country there is virtually no or very little competition available. BSNL is still charging carriage charge of 0.65 per minute for carriage of calls beyond 50 kms. Similarly Bharti Airtel has increased their carriage charges sometimes back from about 40 paisa per minute to 60 paisa per minute. In view of the fact that the total MOUs of STD traffic have considerably gone up during the last 2-3 years and some of the NLDOs are also charging carriage charge of Rs. 0.35 to 0.40 per minute in the areas where they have their networks, there is a need to review the carriage charge and fix a lower cost based ceiling. Similarly, there is a need to review the transit charges of Rs. 0.19 per minute and carriage charge of Rs. 0.20 per minute for carriage of calls between LDCA TAX and SDCA.

PRICING METHODOLOGIES :

As mentioned in the Consultation Paper, there are a number of different pricing methodologies being used in different countries. With the changing technology and considerable reduction in equipment cost over the last 5 years and the more intense exploitation of the networks by the incumbent operators, the costs of providing various interconnection services have definitely come down.

In our view FLRIC model will be the most appropriate for determining the MTC for Incumbent Cellular Mobile Networks. However, the charges as determined by this method should be compared with the MTC worked out on Fully Allocated Costing (FAC) methodology which was earlier adopted by the TRAI in 2003/2006.

In case of Fixed Network, BSNL and MTNL have about 80% of the subscribers. Fixed teledensity in the country is going down since the last few years and we have now less than 40 million fixed line subscribers in the country. In 2003 when the fixed termination charge was arrived at under Fully Allocated Historic Cost method based on the BSNL's cost data, it worked out to Rs. 0.23 per minute. However, the FTC was fixed at Rs. 0.30 per minute so as to have uniform MTC and FTC and the additional revenue accruing to fixed line operators was adjusted against the ADC payable to them. Since hardly any new fixed line networks have been set up since 2003 and due to depreciation over the last few years the residual cost of BSNL/MTNL's networks has considerably gone down, there is a definite need to revise downwards the termination charge payable for wire line networks.

REVIEW OF POINTS OF INTERCONNECTION (POI) AND PORT CHARGES :

As per existing Regulations the Cellular Mobile Networks can have POIs at Level I and Level II TAXS of BSNL. Direct interconnection at SDCA level was denied by BSNL on the ground that their small SDCC Tandems Exchanges were not capable of providing interconnection to a large number of access providers. However, in case of the NLDOs, BSNL is refusing the POI at Level II TAX and insisting on NLDOs to deliver traffic at SDCA level only. With the licensing of a number of NLDOs the same situation exists today for interconnection of NLD networks with BSNL as was the case for interconnection of cellular mobile networks in 2001-2002. BSNL is also not accepting intra circle traffic for cellular mobile networks carried by private NLDOs at the SDCA POIs of NLDOs even though it is permissible under the NLD license. In our opinion, it will be better to have interconnection of all networks (both access as well as NLD) at Level II TAX. The carriage of calls from LDCA TAX to SDCA should be responsibility of the fixed line operator as a part of the Termination service. In case of calls to Cellular Mobile Networks, the operators are required to carry the call from the MSC to a BTS located anywhere in the service area where the mobile subscriber may be located/roaming at a particular time. Compared to this the carriage of call from the LDCA TAX to the terminating SDCA will be over a much lesser distance.

Ports constitute an essential network element for exchange of traffic between the interconnecting operators. Therefore, there is no justification in charging separate port charges. The cost of providing ports should be merged with the termination charge (MTC or FTC as the case may be).

In the light of the above general comments we are giving below our inputs on the various questions listed in Chapter 6 of the Consultation Paper.

Q.1 What components of Interconnect Usage Charge (IUC) should be reviewed?

Ans: In our view the following components of IUC should be reviewed

a) MTC
b) FTC
c) Incoming ILD Termination Charges
d) Carriage Charges

While reviewing the IUC components, we propose that transit charges and port charges should also be reviewed simultaneously and must form a parts of IUC components of IUC Regulation of TRAI.

The origination charge should continue to be forborne. However, the Authority may prescribe the ceiling for the origination charges in case of calls to free phone service and the calling cards issued by the operators.

Q2. In view of the details provided in the paper, please give your opinion whether TRAI should continue with the existing methodology of fully allocated cost with appropriate assignments for termination charge or changeover to LRIC or its variant. Please provide full justification.

AND

Q3. Should termination charge be strictly 'cost-based' or should the principle of 'cost-oriented' be applied taking into account other affecting factors? Give reasons in support of your answer.

Ans : As mentioned above charges should be worked out as per FLRIC model as well as the existing FAC model and the lower of the two should be adopted in case of existing/incumbent operators who are having significant market share. In case of new licenses the FAC model will be more appropriate. To encourage healthy competition Asymmetrical Termination Charges should be adopted; as has been done by the Regulators in many European and other countries viz, UK, Bahrain, Belgium, France, German, Greece, Italy, Switzerland

Q4. In the absence of cost data for value added services, how should the revenue of such services be taken into account for determination of termination charge?

Ans : Since different value added services like SMS, MMS, Ring Tones etc. are being provided by the various operators for quite sometime, it should be possible for the Authority to have a fairly reasonable estimate of the cost of providing different value added services. The revenue arising out of VAS, which is approx 10% to 12% of the total revenue of an operator, must be taken into consideration while determining the cost based termination charges.

Q5. Are asymmetric termination charges justified? If yes, which of the following should be the basis

(i) Existing service providers vs. new entrant

(ii) Urban lines vs. rural lines

(iii) Mobile termination charge vs. fixed termination charge

Give justifications for your answer.

Ans : As mentioned above the Asymmetric termination charges must be introduced by the Regulator for healthy competition and for the survival of the new entrants who have been issued UASL during the last 2 years. The new networks will be having much smaller number of subscribers as compared to the incumbent operators in any service area for the next 2-3 years. Moreover, the new operators will have to roll out their networks to comparable geographical coverage of the service area as the incumbent operators in order to attract the new subscribers and compete effectively with the existing operators. Therefore, the CAPEX and OPEX per minute of usage will be much higher in case of new networks, we strongly recommend for an early introduction of Asymmetric termination charges between existing and new operator.

In our view it is not feasible to have asymmetric MTC for rural lines vis-avis urban lines. Since a mobile subscriber may move anywhere in the service area it will be very difficult for the originating network to identify and verify where the called party is located in the service area at the time of termination of the call.

In respect of MTC Vs FTC, asymmetric charges could be introduced in case it is found by the Authority that there is a wide gap between the two based on the costing methodologies adopted. As per the first IUC Regulation of January 2003 there were asymmetric charges for MTC and FTC.

Q6. Should the existing practice of applying the same principles and methodology for calculation of fixed and mobile termination be continued? If not then what should be the methodology for fixed and mobile termination charges? Give full justification.

Ans : In our view, FLRIC model should be adopted for working out MTC for incumbent networks and FAC model for new networks. However, the MTC as arrived at on FLRIC model should be compared with the MTC arrived at under FAC model and lower of the two should be adopted as the new IUC. In case of fixed line networks, since neither any new networks are being set up nor the existing networks are being expanded due to fall in new demand and decreasing fixed teledensity; the existing FAC model should be continued.

Q7. Explain in detail the impact of the proposals being submitted by you for mobile and fixed termination charge on tariff and why?

Ans : With the reduction in MTC and FTC as envisaged by us and increase in competition in all service areas with the rolling out of services by new licenses who have been issued UASL in Feb/March, 2008, the retail tariffs are bound to decrease further. Even if a higher asymmetric MTC is prescribed in case of new entrants, the tariff should not increase due to intense competition.

Q8. Are asymmetric domestic and international termination charges justified? If yes, then whether international termination charge should be

fixed higher/lower than domestic, should be on reciprocal basis with other countries or left under forbearance? Give justifications.

Ans : Yes, there is a full justification for asymmetric domestic and international termination charges for incoming ILD calls. The higher ILD termination charges would not affect the domestic tariff payable by the Indian subscribers either for the Local, STD or ISD calls. The ILD termination charges for incoming calls should be prescribed by Regulation and not left to be negotiated between the ILDO and the terminating operator.

Q9. What should be the ceiling of carriage charge for long distance calls?

(i) Maintain at the same level

(ii) Increased/ decreased on the basis of current data

(iii) Higher ceiling for remote/ rural areas and one ceiling for rest

Please give sufficient reasons with data in support of your answer.

Ans : There is a full justification for reducing the ceiling carriage charges from the present prescribed ceiling of 65 paisa per minute. Even though a number of new NLD operator who have been licensed in the last 2-3 years, most of them are providing only IPLC and lease line services. Virtually no competition or very limited competition exists for carriage of calls to a number of geographical areas in the country. In such a situation the access providers have no negotiating power with the NLDO having network in such areas and the calls have been essentially handed over to 1 or 2 operators who are demanding maximum prescribed ceiling charges. Further, with the introduction of NGN based core networks, the media costs have come down drastically and virtually have caused the death of distance.

The Authority may consider providing higher ceiling for remote areas and one ceiling for rest of the country if there is considerable difference between the carriage charges for the two types of geographical areas.

10. Which of the following options should be the TAX transit charges for intra SDCA transiting?

(i) Maintained at the same level

(ii) Left to forbearance

(iii) Increase/ decrease on the basis of current data

Please give sufficient reasons with data in support of your answer.

Ans : In our view transit charges for intra SDCA transiting should be reviewed and the revised cost based charges should be prescribed..

Q11. What should be the transit/ carriage charge from LDCA to SDCA?

(a) No need to specify separately

(b) Under forbearance

(c) Increase/ decrease on the basis of current data

Please give sufficient reasons with data in support of your answer.

Ans : In our view there is no need to specify separate carriage charge from LDCA to SDCA or separate port charges. All POIs should be only at the Level II TAX, both for Cellular Mobile Networks as well as NLDOs. The cost of these elements should be merged with the termination charge as in the case of MTC.

Q12 India is preparing for launch of 3G mobile services. Which of the following option would you consider best? Give reasons, practicality and method of implementation of your choice.

(i) 3G termination charge same as 2G termination charge

(ii) Forbearance of 3G termination charge

(iii) Higher or lower 3G termination charge?

(iv) Should be considered at a later stage?

Ans :Except for BSNL and MTNL who have been allocated spectrum for 3G services no other operators have been able to get 3G spectrum so far. There is still uncertainty about the 3G auction as well as the number of blocks of 3G and BWA spectrum to be auctioned. It is still not known as to how many operators will roll out 3G services and how long they will take to provide reasonable geographical coverage in various service areas. The cost of providing 3G services as well as the extent of take off and demand for 3G services in India is still uncertain. Moreover the new 3G services like high speed internet, video streaming, video games etc. will be primarily On-Net services and Termination Charges may not be applicable.

Under these circumstances it will be premature to prescribe separate termination charges for 3G.

Q13. New developments like WiMax, HSPA, FMC, NGN and further advancements in access technologies are expected to complicate the termination scenario further. What should be done in the current review to take care of these future

Ans : As mentioned in reply to Q No. 12 above, it will be pre-mature to consider the impact of new technologies like WIMAX, HSPA, FMC, NGN etc. on the termination scenario. The impact of new developments should be considered as and when such networks are rolled out in India so that the data of actual cost of providing these services/networks and information about number of subscribers and extent of usage etc. is available.

We hope the Authority will find the above inputs helpful for review of the various IUC.

Thanking you,

Yours truly,
For **Loop Telecom Pvt. Ltd**.

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