

VTL/Reg/TRAI/1409/4228
September 08, 2014

Sh. A. Robert J. Ravi
Advisor (CA & QoS),
Telecom Regulatory Authority of India
Mahanagar Doorsanchar Bhawan,
Jawahar Lal Nehru Marg (Old Minto Road)
New Delhi — 110 002

Subject: VTL Response on Consultation Paper on “Valuation and Reserve Price of Spectrum: Licences expiring in 2015–16”

Ref: TRAI Consultation Paper No. 50/2014 dated 7th August, 2014

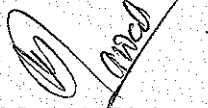
Respected Sir:

Videocon Telecommunications Limited thanks the Authority to provide an opportunity to give our comments to TRAI's consultation Paper on “Valuation and Reserve Price of Spectrum: Licences expiring in 2015–16”. Please find attached herewith soft copy of the response. Hard copy will be submitted to the Authority at the earliest.

We hope that Authority will take our inputs for consideration.

This is for your information and records please.

Kind Regards



Meena Bisht
Regulatory Affairs
Mobile #: 9310225538

Encl: as above

Videocon Telecommunications Limited
Plot No. 296, Udyog Vihar Phase-II, Gurgaon - 122 016, Haryana, India
Telephone: +91-124-671 0600 Fax: +91-124-671 0700

Registered Office :
171-C, 17th Floor, Mittal Court, C Wing, Nariman Point, Mumbai - 400 021, Maharashtra
Telephone: +91-22-2288 6399 Fax: +91-22-2288 6797

CIN No. : U72900MH2007PLC204763

www.videocontelecom.com

VTL Response to Consultation Paper

On

“Valuation and Reserve Price of Spectrum: Licences expiring in 2015–16”

At the outset we would like to thank the Authority for initiating this consultation Paper. All critical issues e.g. Spectrum pricing, Spectrum availability, continuity of services etc. involved in allocation of Radio Frequency spectrum have been raised for the consideration of the stake holder.

Unlike other natural resources, radio frequency spectrum is not consumed upon its usage. It is also liable to be wasted if it is not used optimally and efficiently. Radio frequency spectrum must be used efficiently, optimally and economically in conformity with the provisions of national and international laws.

We firmly believe that main purpose of this consultation Paper is not to just drive the revenue for the exchequer but to ensure sufficient spectrum allocation of this limited natural resource to ensure the un-interrupted services to the nation and make India one of the world's biggest telecom success stories.

Response to the issues:

Q.1. Please comment on the issue of making available additional spectrum in contiguous form (as discussed in para 2.5 and 2.13) in the 900 MHz and 1800 MHz band.

Ans: As per the availability of the spectrum (both contiguous and non-contiguous) given by Authority in the Table.2.2 in the consultation paper, we fully agree with view of the TRAI regarding additional spectrum in 900 MHz band as mentioned in para 2.5.

Regarding 1800 MHz band, Only in 7 LSAs, the quantum of spectrum that can be put up for auction in the 1800 MHz band is 5 MHz or more, in other circles, it will be less than 5MHz. - For a meaningful auction, at least 2 to 3 slots of 5 MHz in each LSA may be made available for the next auction to ensure adequate availability of spectrum for both existing as well as the operators whose licenses are due for extension. It may require undertaking a major exercise to harmonize the allocated spectrum by reshuffling among TSPs and getting vacated from defense.

Q.2. Please comment whether only contiguous blocks of minimum 5 MHz spectrum should be put for auction.



Videocon Telecommunications Limited

Ans: While it is most desirable to make available contiguous blocks for auction, but as also mentioned by the Authority itself in para 2.13 that non-availability of sufficient spectrum in contiguous blocks of 5MHz is a major concern for the industry, hence, it may be necessary to put up non-contiguous spectrum also for auction in some LSAs.

Q.3. What should be the block size to auction the spectrum in (a) 900 MHz band and (b) 1800 MHz band?

Ans: In some of the LSAs, the spectrum availability in the 900MHz band is limited and situation in 1800 MHz is also not favorable as only 7LSAs have spectrum more than 5MHz. The limited availability of spectrum poses a real challenge to ensure continuity of services. Hence, we suggest that for both the bands, block size of 200 KHz would be ideal to maximize the supply.

Q.4. What should be the minimum quantum of spectrum in the 900 MHz and 1800 MHz band that (a) a new entrant and (b) an existing licensee should be required to bid for?

Ans: For a new entrant, minimum quantum of spectrum in 900 & 1800 MHz bands should be 5MHz. For an existing licensee, the minimum quantum can be 0.6 MHz. in both the bands.

Q.5. Should the licensee whose licenses are due for expiry in 2015 and 2016 be treated as an existing licensee or as a new entrant?

Ans: If a licensee holds any spectrum in the band being auctioned, it should be treated as an existing licensee, else new entrant. Same principle to be applied whose licenses are due to expire in 2015 & 2016.

Q.6. Should the valuation exercise for 1800 MHz spectrum be undertaken afresh for all the 22 LSAs?

Q.7. Should the prices revealed in the February 2014 auction for 1800 MHz spectrum auction be taken as the value of 1800 MHz spectrum for the forthcoming auction in the respective LSA? Would the response be different depending on whether the forthcoming auction is conducted within one year of completion of last round of auction of February 2014 or later?

Q.8. If the prices revealed in the February 2014 auction for 1800 MHz spectrum are taken as the value of 1800 MHz for the forthcoming auction, would it be appropriate to index it for the time gap (even if this is less than one year) between the auction held in February 2014 and forthcoming auction? If yes, what rate should be adopted for the indexation?

Videocon Telecommunications Limited

Ans. to 6,7 &8: There is no need to undertake fresh exercise to determine value of 1800 MHz. spectrum. Market price discovered in Feb. 2014 auctions can be taken as the value of 1800 MHz in the respective LSAs if the auctions are held by Feb. 2015.

There is no need to index the value of spectrum for the time gap between the auction held in February, 2014 and forthcoming auction.

Q.9. What should be the criteria for defining a 'market clearing price'? Can the auction determined price be considered as market clearing price, when (i) the demand for spectrum is greater than the supply and when (ii) the demand is greater than or equal to the supply? Can the auction determined price be considered as the market discovered price?

Ans: A market clearing price can be said to have been achieved if demand was higher than supply and the reserve price was breached. The auction determined price in Feb. 2014 auction may be considered as the value of spectrum in respective LSAs.

Q.10. Should the valuation of spectrum and determination of reserve price be done only for those LSAs where market clearing price was not achieved for 1800 MHz spectrum in February 2014 auction?

Ans: Nothing much will be achieved by undertaking fresh exercise for valuation of spectrum in those LSAs where market clearing price was not achieved. Hence in our opinion it is not required.

Q.11. Should the auction determined price for LSAs where market clearing price was achieved in February 2014, be taken as equal to the value of spectrum?

Q.12. Should the market determined price be taken as the value of spectrum in all LSAs?

Q.13. Should the value of spectrum in the LSAs where market clearing price was not achieved be estimated by correlating the sale prices achieved in similar LSAs where market clearing price was achieved with known relevant variables (paragraph 3.19)? If yes, please suggest which single variable is best suited for this purpose?

Ans. To 11,12 & 13:

As already suggested in Ans. 9, the auction price determined in Feb. 2014 may be considered as the value of spectrum in all LSAs. There is no need to estimate the value of

Videocon Telecommunications Limited

spectrum by correlating with known variables etc. in those LSAs where market clearing price was not achieved.

Q.14. Can multiple regression analysis be gainfully employed for this purpose given the limited number of sample data points?

Q.15. Should the value of spectrum in 1800 MHz band be assessed on the basis of producer surplus on account of additional spectrum?

Q.16. Is there any need for a change/revision of any of the assumptions adopted by the Authority in producer surplus model in the Recommendations of September 2013? Justify with reasons.

Q.17. Should the production function model based on the assumption that spectrum and BTS are substitutable resources be used as a valuation approach (as was done in the earlier valuation exercise)? Please support your response with justification/calculations/relevant data and results.

Q.18. Should the revenue surplus approach be used to arrive at the value of 1800 MHz spectrum? Do you agree with the assumptions made?

Q.19. Should the values contained in the Report of 8th February 2011 for spectrum up to 6.2 MHz be incorporated after indexation in the calculation of the average value of the 1800 MHz spectrum in the current exercise?

Q.20. Should the prices revealed in the February 2014 auction for 1800 MHz spectrum auction be used as one of the values of 1800 MHz spectrum?

Q.21. Apart from the approaches discussed as above, is there any other approach for valuation of spectrum that you would suggest? Please support your answer with detailed data and methodology.

Q.22. Would it be appropriate to value 1800 MHz spectrum as the simple mean of the values thrown up in all the approaches? If no, please suggest with justification that which single approach should be adopted to value 1800 MHz spectrum?

Ans. 14 to 22: As already suggested in answers above, there is no need to carry out fresh valuation of spectrum in 1800 MHz. It is a fact that demand was palpable in all 22 LSAs during February, 2014. Of the offered spectrum, 80% was bought by the bidders and - in all the 22 LSAs (except one) existing TSPs in an LSA bought spectrum in that LSA. This indicates that the realized price of 1800 MHz spectrum in February, 2014 auction may be considered as the value of spectrum in respective LSAs.

Videocon Telecommunications Limited

Q.23. Should the value of 900 MHz spectrum be derived on the basis of the value of 1800 MHz spectrum using technical efficiency factors (1.5 times and 2 times) as discussed above?

Q.24. Should the economic efficiency approach as discussed above be used to calculate the premium for the 900 MHz spectrum, based on the additional CAPEX and OPEX that would be incurred on a shift from this band to the 1800 MHz band?

Q.25. Is there any other method that could be used for arriving at the valuation of the 900 MHz spectrum? Please support with detailed methodology.

Q.26. As in the case of the September 2013 Recommendations and adopting the same basic principle of equi-probability of occurrence of each valuation, should the average valuation of the 900 MHz spectrum be taken as the simple mean of the valuations obtained from the technical and economic efficiency approaches (and any other method)?

Ans. to 23, 24, 25, 26:

As market determined/realized prices are not available for 900 MHz spectrum except for 3 metro LSAs (Delhi, Mum, Kolkata) where prices were revealed in the auction held in February 2014. It would not be prudent to estimate the value of 900 MHz in the other circles based on information available for 3 metros, hence the average value of different valuations done for 900 MHz may be applied to get value of spectrum.

Q.27. Should the reserve price of 1800 MHz spectrum in the forthcoming auction be fixed equal to the realized price of 1800 MHz spectrum in the February 2014 auction? If not, what should be the ratio between the reserve price for the auction and the valuation of the spectrum?

Ans: Where realized price was higher than reserve price and demand was greater than supply, reserve price can be 80% of the realized price or the reserve price in Feb. 2014 auctions whichever is higher. For others, reserve price can be equal to auction determined price.

Q.28. If the realized prices in the February 2014 auction for 1800 MHz spectrum is taken as the reserve price of 1800 MHz for forthcoming auction, would it be appropriate to index it for the time gap (even if less than one year) between the auction held in February 2014 and forthcoming auction? If yes, what rate should be adopted for the indexation?

Ans: Any indexation is not at all desirable while fixing the reserve price.