

Sub: Consultation Paper on Interconnection Usage Charges.

Ref: TRAI Consultation Paper No. 13/2014

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The comments from Citizen Forum on the above paper are attached.

These comments may be treated as the response from citizen forum in the electronic format.

The hard copy is being sent separately.

Response to Consultation Paper No. 13/2014 on Interconnection Usage Charges

Q-1. For both mobile and fixed termination charges, Bill and keep method would be the appropriate approach for the following reasons.

- i) The telecom sector is showing signs of progressing towards consolidation on account of cancellation of licences of most new entrants the inability of even surviving smaller entities to attract capital for expansion, the recent regulatory measures aimed at aiding consolidation, and lastly maturing of market to support only reasonably large operators. In the emerging scenario, it is reasonable to expect only around half a dozen large operators in telecom arena in the coming years. In that event, it is unlikely that there will be very large differential in the customer base of the operators resulting thereby in a more even off net to on net call termination ratio. Such an outcome would be ideal for 'Bill and keep' procedure as it has the advantage of doing away with cumbersome periodical financial settlement issues.
- ii) There are already clear indications from recent trends and available statistics of 'data' emerging as the predominate growth area with the potential for substantially enhancing the ARPU. The proliferation of smart phones at lower price points, the advent of e-governance initiatives, ease of carrying out several every day activities through e-commerce portals and transformation in audio visual activities from stationary sources to networked electronic medium have all contributed to this shift towards 'data' communication with clear signs of sustained high growth in the coming years as we transcend towards a more networked world. Therefore, unarguably, 'data' consumption of customers will increase exponentially with corresponding increase in its revenue potential with commensurate reduction in the relevance of voice calls. All these developments will have the effect of positively influencing the 'bottom line' of telecom operators and resulting in diminishing role of termination charges in the overall tariff policy.
- iii) The state of the art in technology is converging on a single platform for communications, computers and broadcasting on 'internet protocol' networks. Telecom operators are already in the process of upgrading their networks to IP technology. This development provides for an entirely different treatment of termination activity in comparison to the classical termination on conventional networks.
- iv) Fixed mobile convergence is gaining ground world over in view of the multitudinal advantages of effectively utilising a huge reservoir of copper cabled networks

running underground to provide 'data' communication at high speeds to individual premises while simultaneously ensuring voice calls to complement and supplement wireless communication. The rapidly gaining share of 'data' in the overall telecommunication throughput, in the backdrop of communication, computer and broad casting convergence, will gain substantially better in quality and quantity through fixed mobile convergence by utilising its existing vast infrastructure effectively and efficiently in the newer technologies. Hence there is need to encourage fixed-mobile convergence through available incentives and therefore termination charges forming part of the tariff would require to be 'billed' and kept

Q.2. As discussed in comments to Q-1, Bill and keep would be the ideal method for settling termination charges. However, for any reason whatsoever, if it is decided to look at the available cost based approaches, the ceiling should not exceed the current termination charges and a glide path must be provided towards 'Bill and keep' within a period of two years.

Q-3. Straight line as well as written down value (WDV) method are both used in depreciation calculations. The WDV method however would appear to be more suitable for depreciation of network elements.

The average life of various network elements can be 10 (Ten) years. Network elements seldom have any significant residual value due to rapid obsolescence and absence of saleable scrap.

Q-4. The pre-tax WACC of 15% has been used in most calculations for several years, both in government and non government sectors and hence is time tested. Besides, the operators have not objected to its use by TRAI in the past and have generally endorsed it. The value of 15% itself is neither too high nor too low and is a fairly popular adaptable rate.

Q5-Q8, Q10, Q12, Q13. For reasons discussed at length on comments to Q1 and Q2, it is not advisable to use any cost based approach in the Indian context, especially in view of the preponderance of nearly 95% customers utilising 'pre-paid' plans, and contributing an ARPU of less than Rs 200/=month. Such customers are generally well informed of all existing tariff plans of the different operators but have chosen to remain 'pre-paid' deliberately for reasons of unaffordability, and frugality. Any increase in termination charges resulting from use of one of the suggested costing methods would have the effect of alienating the majority of users.

CAPEX and OPEX together account for the total expenditure of any operator and it stands to reason that these are recovered from its own customers. Large operators have large number of customers and smaller operators have lesser number of customers. In a telecom environment consisting of several large and small operators it is reasonable to presume that the 'on net' and 'off net' behaviour of emanating calls would closely follow the customer base of the operators, respectively. In other words, it is entirely likely that the off net calls

from smaller operators would be proportional to its customer base size while similar trend would be observable also in the customer base of large operators. Therefore, notwithstanding the direction of traffic-offnet or onnet, it is the customer base of the operator which should bear the total expenditure incurred by that operator.

In arriving at this conclusion, it is necessary to understand that networks are basically 'duplex' in nature in that they are designed to initiate and receive calls. They cannot be designed to work in 'simplex' mode of only initiating or receiving calls. Therefore, once the network is setup for operator, the capital cost is sunk for initiating and receiving calls and there is no point in segregating the cost direction wire-initiation and Receive. In the above background, each operator is required to adjust its expenditure amongst its customers as discussed above.

In the past, as a corollary to similar reasoning, CAPEX was charged off through fixed monthly charges while OPEX was recovered from call charges on the basis that the OPEX is a variable element with respect to usage and hence would ideally bear relation to the number of calls made whereas the CAPEX being in the nature of a sunk cost could be recovered through periodic fixed charges.

No doubt, in the Indian context of nearly 95% clientele being 'pre-paid' customers, the levy of periodical fixed charge as designed for 'post-paid' customers would require to be dovetailed through suitable adjustment in the unit call charge to realize this amount. These practices are neither unknown to the operators nor are they unique. Such practices are very much in vogue and raising of an already settled issue appears to be redundant.

The central theme of the discussed argument being already in place in tariffs, the question of introducing spectrum acquisition cost would not materially affect the existing arrangement or a 'Bill and keep' system, if introduced in the near future. This is so because, the TRAI itself on numerous occasions in the past in reply to parliamentary committee and other forums have repeatedly assured that the spectrum acquisition cost would have minimal impact on tariff. The complex and well argued calculations based on which TRAI made this pronouncement requires a mid course review currently to reflect more than expected growth in 'data' traffic than assumed previously, and if increasing proportion of "IP network" is factored in, would find itself facing a still lower impact on tariff. In the event, there is no need to factor in spectrum acquisition cost in calculation of termination costs.

Q-9. Without prejudice to the comments against other questions, it would be appropriate to consider an average life of 10 years for all network elements without any salvage value for the purpose of depreciation in the FAC method.

Q-11. Subject to the views expressed elsewhere in comments to other question on the need or otherwise for a cost based approach to prescribe termination charges, we generally agree with the methodologies explained for various variants' of LRIC as well as the detailed computation of termination cost discussed in the annexure to the consultation paper.

Q-14. As commented in answer to Q1, there should be no differential between mobile and fixed termination charges.

Q-16-18. There is no necessity for the Authority to intervene in international settlement rates. The volume of international calls as a proportion of total calls is not significant to require the intervention of the authority in fixing international settlement rates. Besides, such callers are in all probability not from the economically weaker sections of society to necessitate overt action by the authority. Accordingly there is neither a need to fix a 'floor' for international call charges for incoming international traffic nor prescribe some revenue share between access service provider and ILDO.

Besides, with VOIP becoming increasingly popular along with such services like whatsapp, line etc, there is no need for the authority to expend its time in an area which most likely will be decided favourably for customers by the market mechanism itself.

Q-19. The extant regulation provides for a ceiling of Rs. 0.65/min as carriage charges. In most cases, the actual carriage charges are far lower than that prescribed due to better connectivity, same ownership of both access service operation and NLDO, large throughput and greater competition. The exceptions relate mainly to hilly and remote parts of the country wherein paucity of operators, connectivity issues on account of terrain, law and order, maintenance and operation problems, inhospitable environment and low volume of traffic substantially increases the cost of carriage. On the other hand, it is also imperative that such areas are integrated to the rest of the country through a high quality telecom network on priority basis.

In this background, it would be preferable to base the methodology on past exercises of TRAI and moderate it only for such exceptional areas to arrive at carriage charges for such locations.

Locations which could not be covered through optic fibre and are therefore connected via 'satellite' can only be considered for such special carriage charges.

The carriage charges of the rest of the country require a relook in view of our suggestion for a 'Bill and keep' regime and keeping in view that most operators are in both access service and national long distance carriage.

Q-20. Mobile telephony has spread to nook and corner of the country in a short span of time predominantly because of its advantages of mobility, ease of use, bestowing of identity to the owner, other uses through Apps and audio video content. These facilities are not capable of being replicated in a fixed line phone. Therefore fixed line phone can only provide additionality in a referral or group environment and facilitate data applications through a stationary PC. Accordingly there is need for the government to review the paradigm of fixed line telephony from its erstwhile primary status to that of a complementing status for enhancing efficiency of 'data' communication. In the event the TAX transit charges have not only outlived its utility but if continued will act as a deterrent for terminating a call on a fixed

line device especially in rural areas and also dampen efforts to synergise the fixed line infrastructure for use in enhancing 'data' communication.