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30th January 2009

Dear Sirs,

In the first place we appreciate TRAI's initiative in launching this exhaustive consultation process with the industry where you provide background information on all the related aspects of the subject to enable stakeholders to provide informed comments for the issues raised as you look to review IUC in India.

CSMG is the leading specialist strategy consulting firm focussing on the Telecoms, Media and Technology markets. We belong to TMNG Global a world leader that specialises in the same sectors on a global scale. is headquartered in Overland Park, Kansas, with offices in Boston, Chicago, London, New York, Shanghai and Washington, D. C.. 1,200 communications service providers, entertainment, media and technology companies, financial services firms and leading regulatory bodies worldwide. Among our clients are AT&T, Verizon, BT, Telefonica, Google, Sony, Fox, Cisco, Goldman Sachs and some regulators such as Ofcom and ACC. Since we are looking to establish ourselves in the Indian Market and as part of our role will be to contribute to the growth and development of the industry, we have considered it opportune to reply to this consultation process and provide an independent and informed perspective that will add value as you seek to maintain the momentum of growth in India.

We will be submitting the following documents as our reply to the consultation process:

1. Our replies to the questions you set out in your consultation as attached in this document
2. A white paper with a detailed reasoning for our recommendation (To follow over the weekend)

The white paper includes outputs from a bottom up FL-LRIC for a hypothetical new operator which CSMG has developed for the Indian Market. To further support our submission, we would like to meet with TRAI, at which time we would be able to discuss our views and share further details of the model.

We hope that our submissions will provide not only the necessary understanding but also a broader perspective to assist the Telecoms Regulator Authority of India as it looks to review the IUC regime.

We will be attending the Open House in Delhi and would welcome the opportunity to meet at that time and discuss our submission further.

Yours sincerely,

Roland da Silva
Vice President

CMSG Responses to TRAI Consultation on IUC Charges

This document sets out a summary of CSMG's responses to the TRAI consultation on IUC charges. In addition to the answers provided below, we will be submitting a detailed white paper outlining CSMG's research and analysis in support of our recommendation to TRAI to reduce Mobile Termination Charges (MTC) to zero, under a bill and keep scenario.

Q1. What components of Interconnect Usage Charge (IUC) should be reviewed?

CSMG has focused its response on mobile termination charges as we believe this is the area where change is both most urgent and most likely to have a significant impact on wireless penetration, consumer welfare, economic development and market competitiveness. Please see our detailed report for justification of this view.

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.

Current regulatory best practice on setting MTCs recommends building a detailed, forward-looking long-run incremental cost (F-LRIC) model that takes into account the costs of a hypothetical new entrant, as well as the historical costs of actual operators. However, such a model is a considerable undertaking that not only necessitates months of intensive modelling and data collection but also requires significant cooperation from major operators. For this reason amongst others, CSMG advocates moving to a bill and keep regime in which there is no regulatory burden of cost modelling and MTC determination.

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.

Under a bill and keep scenario, this question is not relevant.

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?

CSMG suggest moving to a zero MTC bill and keep regime, thereby eliminating the issue of cost data for future value-added services.

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

As an optimal solution, CSMG recommends moving to zero Mobile Termination Charge under a bill and keep scenario which would remove all the complexities associated with other options. Only as a second solution we believe that an asymmetric termination charge FL-LRIC model based on an incumbent and new entrant could be considered.

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.

CSMG believes termination charges for both fixed and mobile calls should be moved to zero.

In other countries a decision to remove the distinction between fixed and mobile units has encouraged the introduction of more converged service offerings. In the Indian context, moving to a zero MTC regime could increase adoption of data-centric services, thereby improving the environment for both 3G and other wireless broadband technologies.

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

Please see our submission paper for a detailed analysis of the effects of moving Mobile Termination Charge to zero. Research shows that when a fully allocated cost model was maintained, a ceiling of between a quarter to a third of original charge was established to maintain the balance.

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.

CSMG has focused its analysis on the impact of domestic mobile termination charges in India as we believe the issue is critical to market and economic development, particularly taking into account the upcoming 3G auctions and deployment of new technologies.

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

Please see response to Q8.

Q10. Which of the following options should be the TAX transit charges for intra SDCA transiting?

Please see response to Q8.

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

Please see response to Q8.

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.

CSMG notes that moving to a zero MTC regime would both remove the question of 3G termination charge pricing and encourage adoption, hence allowing for greater regulatory efficiency. Please see our full submission paper for additional detail.

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 developments?

Reducing MTC to zero would allow TRAI to avoid issues that arise due to billing model disparities as India moves from a voice-centric market towards higher bandwidth technologies with increased data and value-added services usage. Please see CSMG’s submission paper for additional detail on the impact of zero MTC regimes on next-generation technology adoption.