



a step ahead

The Chairman  
Telecom Authority of India  
Mahanagar Door Sanchar Bhawan  
Jawaharlal Nehru Marg  
New Delhi – 110001

Ref : SSTL/ TRAI/02-2012/6  
Dated : 15<sup>th</sup> February, 2012

**Subject: Pre-Consultation on "Allocation of Spectrum in 2G band in 22 Service Areas by auction"**

Respected Sir,

We refer to the pre-consultation stage invitation to stakeholders to provide written comments on the allocation of spectrum in 2G band in 22 Service Areas by auction dated 3 February 2012

We note that if the auction process is not completed by 01.06.2012 but the licenses of the affected operators are nonetheless cancelled, this would result in a cessation of the business of the said operators, resulting in extreme hardship for the employees, the public, and other participants in the telecom industry as a whole, including inflow of FDIs and sentiments thereto. If auction process will be completed after 01.06.2012, TRAI and Government should ensure that licenses of said operators will continue till full auction process accomplishment.

We set out below certain issues that we believe ought to be considered. Our specific proposals concerning such issues are set forth in the enclosed pages for your consideration. We do hope that you will consider the same while preparing the final consultation paper.

In this connection, we have outlined some issues which are specific to the auction and have also raised some issues, which in our view require clarification in order to make the auction more successful.

- 1) The timing of the auction process.
- 2) How should the auction process be defined?
- 3) What should be the eligibility criteria for participating in the current round of 2G auctions?
- 4) How would the reserve price for the auction be set?
- 5) Should 800 MHz and 1800 MHz frequency auctions be treated as two separate set of auctions (like 3G & BWA auctions) or part of one auction only?
- 6) What would be the circle wise spectrum holding caps?
- 7) What would be the revenue share related to different levels of spectrum holding?
- 8) What would be the treatment of spectrum acquired through auction in an M&A situation?

For the avoidance of doubt, this letter is made without prejudice to any rights whatsoever, whether in India or internationally, of SSTL (and/or its shareholders) in connection with the impending withdrawal of its existing licenses due to the recent judgment of the Supreme Court of India dated 02 February 2012.

**Sistema Shyam TeleServices Limited**  
A Sistema Shyam Company

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Thanking you and assuring you of our best cooperation.

Yours faithfully,

For **Sistema Shyam TeleServices Ltd.**

A handwritten signature in blue ink, appearing to read "T. Narasimhan", with a long horizontal flourish extending to the right.

**T. Narasimhan**

**Dy. Chief Executive Officer.**

RESPONSE TO PRE CONSULTATION ON 'ISSUES INVOLVED ALLOCATION OF SPECTRUM IN 2G  
BAND IN 22 SERVICE AREAS BY AUCTION'

SSTL views on key questions related to the 2G spectrum auction

**Q1. How should the auction process be defined?**

1. It is proposed that the 2G spectrum auction be done in two separate steps:
  - a. Step 1 (Start up spectrum auction)
  - b. Step 2 (Add on spectrum auction)
2. **Step 1 (Start up spectrum auction):**
  - a. At this step spectrum be auctioned in startup lots of 2\*4.4 MHz for 1800 MHz band and for 2\*2.5 MHz in the 800 MHz band.
  - b. It is proposed to make a minimum of 2 startup blocks be made available for 800 MHz band and up to 4 start up blocks be made available for the 1800 MHz band.
  - c. Each participant should be eligible to bid for only 1 start up block for each of the spectrum bands (800 MHz/1800 MHz) at this round.
3. **Step 2 (Add on spectrum auction):**
  - a. At this step all available spectrum, including any residual unsold spectrum from previous rounds gets auctioned in add on blocks of 2\*1.25 MHz at 800 MHz band and 2\*1.8 MHz & 2\*1 MHz at 1800 MHz bands.
  - b. Each participant should be able to bid for multiple add on blocks in this round.
4. Auction format for the start up spectrum auction can be a simple ascending auction. For add on spectrum auction, the auction format can be similar to 3G/BWA auctions with appropriate modifications to allow for a bidder to bid for more than 1 lot of spectrum band.

**Q2. What should be the eligibility criteria for participating in the current round of 2G auctions?**

1. Eligibility criteria for participation in Auction Step 1 (Start up spectrum auctions):
  - a. Any entity who is potentially eligible for holding UASL license
  - b. Existing UASL holders who do not hold start up spectrum in the license area concerned
  - c. Operators whose licenses have been cancelled in the recent Supreme Court order
  - d. Existing UASL licensees with allocated spectrum would not be eligible for participation in this round
2. Eligibility criteria for participation in Auction Step 2 (Add on Spectrum auction):
  - a. Existing UASL licensees
  - b. Winners from Auction step 1 (Start up spectrum auction) after having met the rollout obligation for the license area concerned. Operators who have participated in Step 1 (Start up spectrum auction) due to cancellation of their licenses under the Supreme court order, but have already met rollout obligation as part of their now cancelled license obligations, should be allowed to participate in the add on spectrum auctions.
3. Government to make provision for allocation of spectrum up to contracted amount of 6.2 MHz and 5 MHz for 1800/800 MHz band before placing the remaining spectrum for auction
4. Excess spectrum i.e. above 6.2 MHz for GSM bands held by incumbent operators be released and put for auction
5. In case of an operator whose licenses have been cancelled in the recent Supreme Court verdict wins spectrum in the Auction Step 1 (Startup spectrum auction), such operator should be awarded back the same spot frequencies which such operator had earlier been allocated
6. In such cases, as mentioned in point 6 above, operators should be allowed to adjust the money paid earlier licenses and spectrum, against the payments to be made as price for the spectrum now
7. In case such operators (those operators whose license have been cancelled in recent Supreme court verdict) are unable to win back the spectrum in the 2G spectrum auction to be held now, then all amounts previously paid by the operators for licenses and spectrum be returned back.

**Q3. How should the reserve price for the auction be set?**

1. It is proposed that the Start-up spectrum auction reserve price be kept at a significant discount compared to the Add-on spectrum auction. This is justified because a) voice capacity created through spectrum holding increases non linearly with additional spectrum b) start up operations involve significant more outlay in capital expenditures compared to add on spectrum situations. Further this has been corroborated by TRAI in its recent recommendation of "Spectrum and Licensing Framework".
2. The reserve price for the Auction Step 1 (start up spectrum auction) should be fixed at the level of auction price of the 4<sup>th</sup> cellular license at Rs 1659 crores which was deemed to be the fair value of the 4.4 MHz/2.5 MHz spectrum.
3. The reserve price for Auction Step 2 (add on spectrum auction) should be fixed slightly higher compared to Auction Step 1 (Start up spectrum auction).
4. Any spectrum obtained through this auction process to be valid for 20 years.

**Q4. Should 800 MHz and 1800 MHz frequency auctions be treated as two separate set of auctions (like 3G & BWA auctions) or part of one auction only?**

1. Auctions for 800 MHz and 1800 MHz frequency should be treated as two separate auctions just like 2100 MHz and 2300 MHz auctions were treated previously. This is because these two spectrum bands have very different ecosystems associated with them and the revenue/MHz for GSM and CDMA spectrums are significantly different. Hence any price calibration of one band based on market price discovery of the other band would be inappropriate. Thus a separate market price discovery mechanism i.e. two different auctions need to be carried out for 800 MHz and 1800 MHz bands.

**Q5. What should be the timing of the auction?**

1. The timing of any anticipated auction process will need to take into account the anticipated impending withdrawal of existing licenses in view of the possibility of possible breakdown of business continuity for affected operators and the negative aspects of such breakdown, For the avoidance of doubt these comments are not intended to and do not constitute in any way SSTL's views on the merits or consequences of the recent judgment of the Supreme Court of India dated 2 February 2012 on the withdrawal of existing licenses.
2. In this regard it is proposed that a part of the proceeds of the auction be kept aside to suitably compensate those operators who had rolled out their network under the guidelines existing at the time of grant of their licenses, but may have been unable to win back the spectrum in the auction. Suitable compensation would include an interest on deployed capital, interest rate being calculated as 2% above the State Bank of India PLR rate at the beginning of the financial year (i.e. 01.04.XXXX) in which the capital got deployed.
3. Such auctions should be held periodically every two years so that all spectrum that gets available in the interim period gets duly utilized.

**Q6. What would be the circle wise spectrum holding caps?**

**Q7. What would be the revenue share related to different levels of spectrum holding?**

**Q8. What would be the treatment of spectrum acquired through auction in an M&A situation?**

It is requested that full clarity be provided to question numbers 5, 6, and 7 through publication of M&A guidelines and New Telecom Policy 2012 before the spectrum auction happens so that informed decisions can be taken by bidders..

In addition to the above, while TRI is finalizing its consultation process, it is imperative that the Government clarifies some of this following issues before the auction.

1. Spectrum sharing guidelines be clarified
2. MVNO policy be published
3. Auction for 700 MHz happen concurrently with the 2G spectrum auction