

**Tata Teleservices Response to TRAI's Consultation Paper On Interconnection Usage
Charges dated 19th November 2014**

Issues for Consultation

Q1: Which of the following approaches would be the most appropriate for Mobile Termination Charge and Fixed Termination Charge?

- (i) Cost oriented or cost based;**
- (ii) Bill and Keep**

Please provide justification in support of your response.

TTL Comment:

A well designed IUC regime is necessary to drive growth of world class telecom services in the country. It will enable competition and ensure welfare of consumers. We are of view that cost based charging is the most appropriate mechanism for IUC in the current environment and state of the industry's evolution. Cost of termination incurred by operators need to be recovered by them to be able to run their operations and make the necessary investments to grow their networks. This would also be in the best interest of the consumer.

"Bill and Keep" approach should be applicable only to services where the cost of termination is minimal as in SMS services.

Q2: In case cost-oriented or cost-based approach is used for determining Mobile Termination Charge and Fixed Termination Charge, is there a need to give a glide path towards Bill and Keep and what will be the appropriate time frame to migrate to Bill and Keep regime?

TTL Comment:

The IUC should continue to be determined basis the cost based approach and should be periodically reviewed, as is the case now. Since we are not recommending a Bill & Keep regime, there is no glide path required.

Q3: Which method of depreciation for the network elements should be used and what should be the average life of various network elements?

TTL Comment:

As rightly pointed out in the Consultation paper, estimating the rate of depreciation is an important criterion for any costing analysis. We concur with views of the Authority that the

Straight Line Method of charging the depreciation is easy to understand and apply, since it spreads the cost of fixed asset evenly over the useful life of the fixed asset.

Further, since TRAI has made use of the straight line method with a ten year average life in previous regulations, it may be prudent to continue with the same method. SLM is a prescribed method for determining depreciation in the Companies Act and is generally being followed by all TSPs.

Q4: Should TRAI continue with a pre-tax WACC of 15% as used in framing other regulations, tariff orders, and regulatory exercises? If not, please state what pre-tax WACC would be appropriate for the present exercise, along with justification and computations.

TTL Comment:

Considering the high leverage in the telecom sector, we believe that the pre-tax WACC of 15% is reasonable.

Q5: In case a cost-oriented or cost-based approach is used for prescribing Mobile Termination Charge and Fixed Termination Charge, which method would be the most appropriate for estimating these costs?

TTL Comment:

The historical fully loaded cost approach is the most practical one at this time. While other costing models such as future Long Range cost structures may be looked at, the information necessary for such modeling would be hard to come by given the different cost structures that the different operators are running under.

We also concur with the following observations of the TRAI:

Fully Allocated Cost (FAC) simply divides the cost that the firm incurs amongst the services that it provides. This method has the advantage of simplicity. It uses accounting data submitted by the service providers in their balance sheet, profit and loss accounts & accounting separation reports. It is easy to develop and understand. The results are easy to audit.

Q6: In case your response to the Q5 is fully allocated cost (FAC) method, would it be appropriate to calculate IUC using historical cost data submitted by the service providers in Accounting Separation Reports (ASRs), Annual Reports/published documents or other reports submitted to TRAI?

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Q7: In the FAC method, what items/nature of OPEX should be considered as relevant for the termination cost? Please provide justification in support of your opinion.

TTL Comment:

In our view it would be appropriate to calculate IUC using historical cost data submitted by the service providers in Accounting Separation Reports (ASRs), Annual Reports / published documents or other reports submitted to TRAI.

As regards to various items nature of OPEX which should be considered for computing termination cost are following:

1. Depreciation on Capex cost of network elements used for providing services
2. Network operating cost including
 - a. the Infrastructure Provider Fee for towers
 - b. Rent for leased premises including MSCs etc.
 - c. Power & Fuel for running the network equipment
 - d. Repairs & Maintenance including fiber maintenance & Annual Maintenance Costs
 - e. Port & lease line charges
 - f. Operation & Maintenance of the network including managed services & cost of network manpower
3. Cost of Spectrum

Q8: Should CAPEX be included in calculating termination cost? If yes, what items of fixed assets from the ASRs ought to be considered relevant for termination cost? How should costs incurred by service providers for acquiring usage rights for spectrum be treated?

TTL Comment:

The methodology adopted by TRAI should ensure that the terminating operators are able to recover the costs incurred in enabling termination from the originating operator, while at the same time ensuring that supernormal returns do not accrue to any operator. As new technologies emerge, customer expectations for new services drive new investments by operators; capex becomes an important element of the total cost of providing a service to the consumer, since the network needs to be upgraded constantly. Therefore, we recommend that capex be included in the termination charge calculations. Following items of Capex should be included in computing termination charges:

1. Base Stations (BTS)
2. Main Switching Center(MSC)
3. BSC
4. GMSC
5. HLR
6. GGSN
7. SGSN
8. IN
9. SMSC
10. Transmission OFC
11. Transmission Microwave
12. MUX
13. Inter Carrier Billing System
14. Other Auxiliary network elements

Similarly cost incurred by operators on acquiring spectrum also needs to be considered for the purpose of computing termination charges. This cost needs to be amortised over the period of telecom licence.

Q9: Would it be appropriate to take an average life of 10 years for all network elements without any salvage value for the purpose of depreciation in the FAC method? If not, please suggest an alternative method keeping in view the categorization of network elements prescribed in Accounting Separation Regulations, 2012, along with justification.

TTL Comment:

The average life may be taken as 10 years without any salvage, considering the rapid changes in technology.

Q10: Is there any need to adjust costs associated (as reported in ASRs) with products other than voice calls, for the purpose of computing termination cost using the FAC method? If yes, please suggest the appropriate cost driver along with justification.

TTL Comment:

Yes cost towards data usage needs to be adjusted for the purpose of computing termination cost under FAC method. Network utilization may be used as cost driver for this purpose.

Q11: Do you agree with the methodologies explained for various variants of LRIC, including the detailed description of computation of the termination cost using LRIC model in the Annexure? If not, please give your answer with justification.

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Q12: In case it is decided to go for an LRIC model for determining termination cost, which is the most suitable variant of LRIC for the telecom service sector in the country in the present circumstances and why?

(i) LRIC

(ii) LRIC+

(iii) Pure LRIC

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Q13: In case your response to the Q12 is LRIC+, what are the common costs that should be considered for computation of termination costs?

TTL Comment:

TTSL is of the view that Fully allocated cost (FAC) methodology is the most appropriate method for computing termination cost.

In the LRIC model, the network demand for a hypothetical efficient operator is identified at the beginning of a year. In order to meet this demand, an efficient network is dimensioned using the network design parameters of the typical service provider. The costs of the various network elements are then computed on the basis of the present costs. These costs are then allocated

towards termination service (i.e. off-net incoming minutes) using a routing table in order to determine termination cost per minute.

The relevance of the LRIC methodology therefore depends upon the efficiency concept. Thus it does not compute actual accurate cost for the operators. Also computation under LRIC model is extremely complex and very difficult to ascertain incremental cost for each network element. Further since computation under LRIC model is based on present cost basis, there is no incentive for entrants or new operators to build own network and would prefer using the incumbent's network. In a way it introduces inappropriate incentives for entrants or new operators.

Q14: In case there is a significant difference in the mobile termination cost and fixed termination cost, will it be appropriate to prescribe different mobile termination charge and fixed termination charge?

TTL Comment:

Considering that the proportion of calls terminating in fixed network is very marginal, it is recommended to keep the termination costs to be the same, which would also enable simplicity to customer tariffs.

However, if the costs are very different, the authority may take a view on the same.

Q15: The Authority has already prescribed access charges to facilitate the introduction of calling cards. Is there any other issue which needs to be addressed so that the consumer gets the most competitive tariff for ISD calls?

TTL Comment:

There is no additional issue with regard to Calling Cards which requires Authority intervention at this stage.

Q16: Do you feel that the Authority's intervention is necessary in the matter of International Settlement Rates? If so, what should be the basis to determine International Settlement Rates?

TTL Comment

No regulatory intervention is required to for the settlement in India for international long distance calls. These rates are commercially negotiated and market forces enable the best tariffs to be available for the end consumers.

Q17: Is there a need to fix a floor for international carriage charge for incoming international traffic or prescribe some revenue share between access service provider and the ILDO to safeguard the interest of ILDOs?

TTL Comment:

The international carriage charge market is competitive and rates are under forbearance. ILDOs are free to increase or decrease carriage charges depending on the market forces. There is no need of regulatory intervention to provide any support to ILDOs.

There is no case to fix any floor price for international carriage charge as floor pricing is prescribed only in instance of predatory pricing, which is not the current situation

Q18: What is the most appropriate level for International Termination Charge? Should it be uniform or should it depend on the originating country/region? Please provide full justification for your answer.

No response

Q19: What should be the methodology for determining the domestic carriage charge? Is there a need to specify separate carriage charges for some specific geographic regions? If yes, on what basis should such geographic regions be identified? How should the carriage charges be determined separately for such geographic regions?

TTL Comment:

There is a need to review ceiling for domestic carriage charge, Since notification of the last carriage charge with a ceiling of 0.65 paise per minute, significant changes pertaining to technological advancement, reduction of network element cost, changes in architecture etc have taken place. The prevailing market rates are significantly lower than the ceiling tariff. In view of that, we suggest ceiling of carriage charge should be reviewed and fixed at much lower level.

The Authority may continue to use bottom up costing methodology based on current costs to estimate per minute carriage charges. However these must also be benchmarked against prevailing market rates for carriage charges. Any rates which are much above prevailing market rate would defeat the purpose of regulatory intervention to prescribe the carriage charges.

There is no need of specifying separate carriage charge for some specific geographical reasons. It may please be noted that the key impediment of the growth of services in the rural and remote areas is the cost to serve and any regulatory intervention for having deficient / high carriage charge in these areas would further increase the service cost and will affect the uptake of services by subscribers.

Q20: Is there a need to regulate the TAX transit charges or should this be left to mutual negotiations? In the event, the transit charge is to be regulated, please provide complete data and methodology to calculate TAX transit charges.

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Q22: If the costs of all relevant network elements are taken into account in the calculation of the fixed line termination charge, is there any further justification to have a separate transit carriage charge? Please give reasons for your answer.

TTL Comment:

Since all the costs are considered in computation of the fixed line termination charge, there is no justification to have a separate transit carriage charge. Since the transit charges are passed on to the consumers by the operators, this also makes calls to such locations costlier for the customers.

Today, private operators continue to be constrained by BSNL to handover their traffic to BSNL at Level II TAX and compulsorily pay the transit carriage charge which are much above actual cost. Operators must have the freedom to terminate anywhere in between the point of origination and the point of termination and in doing so, the operators should be able to share the carriage cost in proportion to the mutual work done. For example, if a mobile operator is present in the SDCA and willing to interconnect at SDCA level, they should be allowed to interconnect at the SDA level.

Q21: How can the cost of providing transit carriage be segregated from the cost data in the ASR? Please provide a method and costing details to separately calculate this charge.

TTL Comment:

The cost of providing transit carriage cannot be segregated in the ASR since the distance based data is not captured in the ASR. Hence, ASR data should not be used to estimate cost of transit carriage charge.