

Unitech Wireless Response to TRAI Consultation paper (17/2008) on review of IUC

PREAMBLE

Since Unitech Wireless is yet to launch access service, we are not in position to provide actual cost, traffic and revenue data as required under the consultation paper to support our responses to the issues contained therein. Therefore we have limited our responses based on the available information and the anticipated business case.

The methodology used by TRAI in Oct 2003 to arrive at various components of IUC was on cost oriented basis (FAC method). While that approach was suitable at that point in time, as of now the LRIC model may be alright in the case of established operators who have been in operation for the past 5 to 10 years, and it will not be straight away applicable for new licenses. It requires a market oriented approach which helps the government objective of encouraging competition and at the same time improving affordability.

Today we have 2G networks on the ground pertaining to different technologies and spectrum bands, commissioned at different points in time, providing different services. Such as

- Fixed network services
- Mobile services (CDMA / GSM based)
- GSM mobile in 900Mhz / 1800MHz / combination of both
- Use of IP technology in backhaul networks or traditional SDH/ PDH systems
- Proposed internet telephony services using ISP networks and traditional networks

-- Apart from content application services supported by respective networks.

In addition the following upcoming technologies are likely to enhance the scope of services such as

- 3G, WiMax, HSPA, FMC, NGN etc

As can be seen from above when a variety of services are supported by all types of networks at given point in time, it may be worthwhile only to regulate so as to ensure survival of new networks providing similar services by way of IUC policies using glide path till new operators are able to recoup their higher incremental cost in a transitional period of say 4 years. This will ensure maintainability of appropriate competitive environment in the telecom sector which will benefit the end consumer.

With above objectives in view the issue wise reply to the above consultation paper is submitted below:

Issues for Consultation

Q.1 What components of Interconnect Usage Charge (IUC) should be reviewed?

- Termination charge, transit charge
- Origination charge with specific reference to ILD / NLD calling cards
- Carriage charge between LDCA and SDCA
- Total cost of interconnection
- Inter Operator transiting (TAX transit charge)

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.

We support the use of LRIC modeling, utilizing the data from established operators as demanded by COAI, to establish a proxy for an efficient IUC. This will also be in line with main regulatory trends in most of the European countries following CPP regime. The value so arrived could be applied to established operators.

In so far as new operators are concerned a very simple formula may be devised on a price cap for determining the MTR asymmetry such that IUC for new operators could be 30 paisa which should be 40 to 50 % more than IUC for established operators.

In the common position on symmetry of termination rates published by the European Regulators Group (ERG), it is reportedly stated that the maximum deviation from the symmetric (efficient) price could be a level of 50% above the MTR of established operator ¹. Efforts of developing any new costing standard may not be conducive to the results coming of the costing exercise for enabling any solid guidance to fix operator specific IUC.

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.

Cost oriented is preferred to cost based since the main objective of the government is two fold i.e. enhanced competition in a level playing field and making available services at affordable rates. These can only be met using cost oriented approach rather than strictly cost based.

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?

Quarterly revenue reports submitted by various operators are in any case available to calculate percentage VAS revenues and their growth profiles. However, revenues from VAS should not effect MTC.

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

- (i) Existing service providers vs. new entrant**
- (ii) Urban lines vs. rural lines**
- (iii) Mobile termination charge vs. fixed termination charge**

(i.) Yes, existing service providers v/s new entrants should be the basis.

¹ See ERG document (07) 83 final 080312: ERG's *Common Position on symmetry of fixed call termination rates and symmetry of mobile call termination rates*, adopted by the ERG-Plenary on 28th February 2008.

Currently telecom services sector in India has been rightly described in the Consultation paper as two camp structure. Established operators have distinct cost advantage over new and smaller operators. The cost of terminating a call for an established operator in its own network is much lower than is the case with the new or smaller operator. This allows them to differentially price its off-net and on-net call rates. The potential competition issue comes not from differential retail pricing but when an operator sets its on-net rates below the off-net rates. The difference in on-net / off-net calls under certain tariff plans is as high as 50 to 70%. This arbitrage is utilized by the large operators to promote on-net traffic at the cost of off-net traffic.

When a new operator has to set tariff, he has to match the on-net tariff of existing operators. Moreover, late market entrants have disadvantages due to lower economies of scale in early phases due to high fixed cost of network rollout and low volumes of traffic. On top of it the new operator has to shell out a lot of money on termination charge to big / existing operators, in relation to the percentage on the entire customer base.

Since, for initial few years, there will be traffic imbalance in favour of established operators, therefore for existing operators MTC is a source of revenue, whereas for new and upcoming operators it is a network operating cost element and has to incur losses to remain competitive.

In order to promote fair competitive market, MTC should be regulated and charges should be asymmetric with a glide path such that new operators cease to avail this handicap in a period of upto typically 4 years when all existing asymmetries must end.

Predictability and ex-ante defined criterion for both the allowances and ending of asymmetries is necessary in order to avoid inefficient entry and incentives for regulatory arbitrage. Transitory asymmetric rates will result in increased retail competition.

(ii). As regards rural penetration it is seen from the records that in view of the past policies of encouraging competition, operators are automatically tapping rural markets. June '08 to Sept '08 reports on quarterly net additions, the trend is reversed i.e. doubling the net additions in rural areas where as halving the net additions in urban areas.

With regulator further proposing / recommending certain policy changes and other fiscal measures such as MVNO policy, incentive in license fee payment on coverage of 95% of development blocks, USO fund support to optical connectivity to block headquarters and /or support to CPE including handsets to rural customers etc. shall automatically ensure further rollout in rural areas.

(iii). With expanding mobile rural coverage some members of a rural family may have Mobile number connection; in that event any increase in FTC as compared to MTC will result in traffic shift from fixed to mobile networks, eventually leading to idling of fixed networks; which is not in national interest. Therefore there should not be any arbitrage between FTC & MTC at the current stage of telecom penetration.

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?

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

Yes, the existing practice what was adopted for calculation leading to IUC orders of Oct 2003 should continue to be relied upon.

If termination charge in respect of calls terminating on fixed networks is allowed to be fixed at a higher rate than for the calls terminated on mobile networks, then operators will start prescribing camouflaged tariffs giving some sort of advantage to one type of call over the other. Therefore calling parties where ever feasible will prefer to call on mobile numbers thus ultimately reduce revenue collection from fixed line termination calls.

Even today because of local carriage charges at SDCA level, mobile originated call rates to fixed numbers is higher than to mobile numbers at the same location; which as it is calls for a look at alternative avenues for compensating the facility provider.

Hence, it is advisable not to create any further arbitrage between MTC & FTC.

Similarly, one can argue that in view of single mobile call rates for the entire licensing area it will be difficult to differentiate rural & urban subscriber and also amenable to arbitrage.

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.

No. There was already a sort of asymmetric regime when ADC was applicable. Since it was leading to illegal traffic flow due to arbitrage, it was abolished following a glide path. Moreover, there is already a shift towards internet telephony which will get aggravated once asymmetric rates are introduced.

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

- (i) Maintain at the same level**
- (ii) Increased/ decreased on the basis of current data**
- (iii) Higher ceiling for remote/ rural areas and one ceiling for rest**

The present ceiling of 65 paisa per minute which was fixed in 2006, had twin objectives of a.) to allow competing rates b.) to encourage spread of infrastructure on thin routes.

While first objective have been largely met when on dense traffic routes, the deals are reportedly being signed at 40% below the card rates. Thus allowing full freedom to competition. On the thin routes like hilly terrains or eastern district connectivities, no operator appears to be putting up the infrastructure despite paying 65 paisa per minute to government operator. Therefore there is no justification to further bring down the ceiling rate on carriage charge for long distance calls. This aspect will call a review later when networks predominantly deploy IP technology and distance based charges loose relevance.

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

- (i) Maintained at the same level**
- (ii) Left to forbearance**
- (iii) Increase/ decrease on the basis of current data**

The intra SDCA transit charges (TAX charges), lower than 20 paisa per minute was prescribed in IUC regulation 2003. Since then, had there been any infrastructure addition to develop alternate media / route by some operators, the transit charge would have witnessed downward trend. This is perhaps due to relative investment and traffic flow levels which are not able to offset the transit cost at 20 paisa per minute. However, it is also recognized that it is directly impacting rural tariff viability. It is therefore opined that it is fit case for consideration of USO support on a Glide Path basis till deeper penetration of mobile in rural areas or spread of proposed fiber optic cables upto block headquarters which ever is earlier.

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

- (a) No need to specify separately**
- (b) Under forbearance**
- (c) Increase/ decrease on the basis of current data**

In view of inadequacy of POIs at SDCA level and necessity of carrying the mobile to fixed calls at SDCA levels leads to LDCA to SDCA connectivity as bottleneck facility. In the proposed TRAI paper on measures to improve telecom penetration in rural area, regulator proposed a separate facility based operator funded by USO fund for providing fibre connectivity to block headquarter levels is likely to ease the situation and operators will get connectivity free of cost for 5 years. Such a facility will facilitate LDCA to SDCA connectivity. However, the present tariff should be reviewed or reassessed applying proportionate changes in CAPEX / OPEX to reflect current costs.

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.

- (i) 3G termination charge same as 2G termination charge**
- (ii) Forbearance of 3G termination charge**
- (iii) Higher or lower 3G termination charge?**
- (iv) Should be considered at a later stage?**

The general principle is that 2G and 3G MTRs should be identical. A caller (the originating network) cannot know whether a particular 3G terminal is within or outside of 3G coverage. If the terminal is outside 3G coverage, the call will typically be terminated on a 2G network. This is unpredictable for the end-user and it will typically be hard for originating networks to reflect differentiated 2G / 3G termination rates in the end-user price. Furthermore, a differentiated 2G/3G MTR is likely to encourage various types of arbitrage where the receiving network takes advantage of routing all inbound traffic such that it is subject to the highest MTR. Finally, as argued above, we think it is optimal to let newcomers, being based on 2G or 3G have a higher MTR for a limited period of time.

Thus we think MTRs should be differentiated, but not conditioned upon 2G/3G.

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?

There is no bar for employing any new technology by existing or new operator. Therefore technology used per se should not be differentiator but regulator has to keep a watch that in case the tariffs hit the bottom where MTC starts hurting the tariffs, then in consultation with industry, not only MTC requires a review but also the whole licensing concept may need a review as suggested in TRAI consultation paper. Currently these technologies are yet to be planned for induction in mobile networks.

NOTE: In addition to above TRAI may like to consider following three important parameters of interconnection.

1. Origination charge:

The present IUC regime specifies origination charge under forbearance. TRAI recommendation with respect to calling cards, suggest amending NLDO / ILDO licenses authorizing them to issue calling cards to be used on any network in India. To safeguard the interests of access provider, origination charge to be specified to compensate the access provide for the cost of customer acquisition, marketing, billing, collection and bad debts (could be order of 10 to 20 % more than MTC)

2. The cost of interconnection:

As of today a new operator is de-facto experiencing asymmetric rates. The real interconnection cost (paid to other operators) per minute including other price elements such as port charges, carriage charges, transit charges, TAX charges etc. is far higher than the interconnection revenues per minute (received from other operators); whereas situation will be opposite for the established operators.

Therefore TRAI should attempt to review the total cost of interconnection and keep it regulated so that this may not prove hindrance to further lowering of tariffs, particularly for new entrants who have yet to establish other means of cross subsidizing.

3. Inter Operator transiting (TAX transit charge)

As noted by the authority in the consultation paper ***a new entrant may not be in a position to establish direct interconnection in one go with all service providers*** and therefore there may be a need to allow transit connectivity in the interim, that is perhaps basically for 2 reasons:

- a.) Even major suppliers of Telecom Services have not published their RIO indicating transparent, reasonable and non-discriminatory interconnection terms.
- b.) If differences in Interconnection terms are escalated to TRAI / TDSAT, it will take its own time frame to resolve due to absence of prior established terms.

In such an event, it is suggested that IUC regulation should permit Transit connectivity in the interim with prescribed ceiling of cost based charges.