IBSL's Comments on the issues raised in the Consultation Paper no 10/2012 on "Review of the Telecommunication Interconnection (Port Charges)"

1.0 The Authority, vide its consultation paper no 10/2012 dated 09.05.2012 on "Review of the Telecommunication Interconnection (Port Charges)" have invited comments of all the stakeholders on the following issues:

"The stakeholders are requested to send their comments on the cost data and costing methodology used for estimating the port charges in this consultation paper. The stakeholders may also send their comments on the period for which these charges should remain operative"

2.0 At the outset, it is a welcome move by TRAI to review the Interconnection Port Charges since the earlier review had taken place in the year 2007. During the last five years, the network has grown phenomenally and the traffic carried on the network has increased many folds. As such, the review of the Interconnection Port Charges is long overdue.

3.0 It is respectfully submitted that the interconnection is a both way link and caters for the traffic of both the operators and hence there is no rationale for loading the cost only on the new entrants. Both the interconnecting operators (incumbents and new entrants) should share the cost of Interconnection and hence the Port Charges as per prevailing international best practices. It is also submitted that there is need to review and simplify the policies governing points of inter-connection and for this the NGN Interconnect Exchange (NGN IE) should be facilitated. The Authority is, therefore, requested to kindly make necessary changes in the ongoing regulatory regime to this effect.

4.0 Nevertheless, if the Authority intends to continue with the present regime for some more time, following few points may kindly be considered while fixing the port charges:

4.1 It is submitted that the growth of traffic is only in the mobile segment and majority of the Interconnection links are and will be amongst the mobile operators i.e. GMSC to GMSC. Also, the equipment deployed by the incumbent PSTN operators for TDM-TAXs is fully depreciated and no further expansion is taking place in these switches. It would, therefore, be prudent to take the Capex of E1 for only GMSC for the purpose of determining the Port Charges. The E1 cost for TDM-TAX is redundant due to the fact that there is no expansion of the same in the future and only IP-TAX would be deployed as a part of Class 4 NGN network. Hence, the cost of E1 of a GMSC should be the fair and just choice for calculating the port charges which should be applicable for any switch. Further, even if the TAX capacities need to be expanded by an operator, the expansion would be in the form of IP-TAX whose port Capex is in line with that for the GMSC port.

4.2 It is further to mention that TRAI has taken the highest Capex of E1 Port for GMSC out of the costs submitted by various operators. In our opinion, only the most efficient cost should be considered for the purpose of determination of the Port Charges. Inefficient cost of a service provider should not be considered for loading the seeker in a situation where presently the regime is tilted in favour of the Provider. Therefore the most efficient Capex for E1 of Rs 17996 should only be considered for the calculations of the Port Charges.

4.3 For the purpose of calculations, the following principles have been considered by the Authority:

a) Useful life of the equipment = 10 years
b) Method of depreciation – Straight line method
c) Rate of Return (Pre-tax Weighted average cost of capital) =15%
d) Overhead on CAPEX recovery = 10%

The above assumptions are in line with the other costing exercises done by TRAI and seem to be reasonable. Further, it is presumed that the Capex per port given by the operators takes in to consideration the Directly Attributable Incremental Costs (DAIC) which need to be taken for port charge determination.

4.4 Based on the above assumptions, the calculations have been reworked out in the Excel Sheet and are reproduced below:

ITEM	Y 0	Y 1	Y 2	Y 3	Y 4	Y 5	Y 6	Y 7	Y 8	Y 9
CAPEX cost of an E1 port (Rs.) = Gross Block	17996	16196	14397	12597	10798	8998	7198	5399	3599	1800
Depreciation @ 10% per annum based on straight line method of depreciation (Rs.) =10% of Gross Block	1800	1800	1800	1800	1800	1800	1800	1800	1800	1800
Reasonable Return (Pre-tax weighted average cost of capital) @15% on Net Block (Rs.)	2699	2429	2160	1890	1620	1350	1080	810	540	270
CAPEX Recovery (Rs.)= Depreciation + Reasonable Return	4499	4229	3959	3689	3419	3149	2879	2609	2339	2070
Overhead @10% on CAPEX Recovery (Rs.) =10% of CAPEX Recovery	450	423	396	369	342	315	288	261	234	207
Cost per E1 (Rs.) = CAPEX Recovery + Overhead	4949	4652	4355	4058	3761	3464	3167	2870	2573	2276
Average annual cost (averaged over ten years) (Rs.)	**3613**									

4.5 Based on the above calculations, the Port Charges, as specified in The Telecommunication Interconnection (Port Charges) Regulation, 2001, may be revised as **Rs 3600 per port per annum** and may be prescribed as ceiling, without any slabs as was the case in 2001 and 2007.

5.0 The first revision of Port charges took place in 2007 i.e. after 6 years i.e. in 2007. The present review is taking place after 5 year in 2012. **It is submitted that a period of 3 years is optimum for review of these charges** as during this period the cost variance based on the traffic and network expansion would be clearly visible and meaningful review would be possible.