SSTL/Reg/TRAI/1412/529

December 29, 2014

Shri Arvind Kumar
Advisor, NSL - I
Telecom Regulatory Authority of India
Mahanagar Doorsanchar Bhawan
Jawahar Lal Nehru Marg (Old Minto Road)
New Delhi – 110 002

Subject: Counter Comments: TRAI Consultation Paper on 'Interconnect Usage Charges' dated 19th November 2014

Dear Sir,

With reference to above please find enclosed our counter comments on consultation paper on 'Interconnect Usage Charges' dated 19th November 2014.

We hope that the Authority will consider our comments enclosed while making the recommendations for 'Interconnect Usage Charges'.

Thanking you,

With Regards,

For Sistema Shyam TeleServices Limited

T Narasimhan
Dy. Chief Executive Officer

Enclosed: As above

Sistema Shyam TeleServices Limited

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Counter Comments:
Consultation Paper on Interconnection Usage Charge

1. Sistema Shyam Teleservices Ltd. (SSTL) welcomes the opportunity to submit counter comments on responses received on TRAI consultation paper on "Interconnection Usage Charges" (IUC).

2. SSTL had suggested adoption of Bill & Keep (BAK) regime which is technology and competition neutral and likely to benefit consumers. However, few comenters especially large mobile operators have opposed BAK regime and suggested that the Mobile Termination Charge (MTC) should be further increased based on Fully Allocated Costing (FAC) methodology. MTC based on FAC would transfer more costs from large operators to their competitors and thus adversely affect smaller operators.

3. The TRAI had notified 30 p/min termination charges in 2003 which was reduced to 20p/min in 2009. The TRAI in 2012 had determined cost associated with mobile termination to be much lower than the prevailing rates under various costing methodologies. The TRAI determination based on 2010-11 costs establishes beyond any degree of the doubt that the current MTCs are above cost and submissions by large operators to increase MTCs are unjustified. MTCs continue to be high even after 2012 determination that these are high compared to the actual cost. Thus there is urgent need to significantly reduce MTC and align these to the actual cost.

Mobile Termination Charge (Rs/Min)

Costing Methodology	Cost in 2010-11 (Rs/Min)
FAC with Capital Cost	0.157
FAC without Capital Cost	0189
LRIC	0.13
LRIC +	0.15
Pure LRIC	0.0

4. The Authority had done wonderful work in 2012 to decide MTCs based on Pure LRIC with a glide path to BAK regime within 2 years. However, MTCs continue to be high and at present MTCs as percentage of retail tariffs are 40% is one of the highest in the world. The MTC as percentage Higher MTC as percentage of retail tariffs provide

advantage to large operators to exploit on-net/off-net offerings. There is urgent need to sharply cut the MTCs otherwise these would continue to distort competition in favor of large operators.

5. Moving to the BAK regime would enable smaller operators to compete better against large mobile operators. BAK would also help conventional mobile operators to effectively counter services offered by OTT operators. The BAK is also required due technological changes and convergence of various technologies.

6. **SSTL is submitting counter comments on the following submissions of large operators which are myths and ought to be rejected:**

   1. **BAK to increase retail tariffs**
   2. **BAK to enhance traffic imbalance**
   3. **Adopt FAC for IUC determination**
   4. **To reject Pure LRIC methodology**
   5. **To include spectrum cost for MTC determination**

1. **Myth 1: BAK to increase retail tariffs**

The claim of large operators that BAK would adversely impact retail tariffs and there would be higher price burden for low users is totally incorrect. The existing experience shows that net mobile termination earnings are insignificant in proportion to an operator's revenue. Therefore, BAK would have no impact on operators. revenue and therefore it cannot be a reason leading to higher retail tariffs.

SSTL believes that BAK regime increases the call volume which is evident from all BAK countries. Greater call volume would mean that there would be lower per minute cost recovery requirement and therefore tariffs are likely to reduce and not increase under BAK regime.

2. **Myth 2: BAK to enhance traffic imbalance**

Large operators have submitted that BAK regime is not justified as traffic pattern between operators is not balanced. They have further submitted that BAK will further result in traffic skewing as smaller operators would continue to pump traffic. The above apprehension is completely wrong and absolutely baseless.

Incumbent networks design on-net/off-net retail price differential at the retail level, in order to deter calls to competing networks. Smaller networks to remain competitive have no choice but to respond by setting even off-net prices at the same level as the larger networks on-net price. As smaller operators are 'forced' to offer low off-net call prices which leads to a large amount of off-net traffic and therefore there is a net outflow of traffic from the smaller network.

The BAK regime would eliminate arbitrage available between on-net/off-net calls and therefore there will not be any compulsion to offer services at larger operators on-net rates. The BAK regime would thus help balance out traffic between operators.

3. **Myth 3: To adopt FAC for IUC determination**

FAC methodology should not be used for MTC determination as it would include costs corresponding to each and every network element. FAC based termination charges are very high and does not reflect cost of a competitive market. The FAC methodology is totally against the philosophy of market led pricing. The FAC regime protects inefficiency by guaranteeing a rate of return on all costs and investments. The FAC regime infact is a cross subsidy of incumbent networks paid for by new entrant operators.

SSTL strongly opposes use of historical cost or data provided under ASR for estimation of termination charges. Historical Costs are not reflective of the changes in business and operating conditions. In a competitive market recovery of inefficient costs are not possible. The regulatory principle of costing and pricing is to mimic the competitive market and use most recent costs based on latest technologies.

Therefore, FAC methodology if used, will result in higher compensation for termination cost.

4. **Myth 4: To reject pure LRIC methodology**

Incumbent operators are opposing pure LRIC in which only the additional cost or directly avoidable incremental cost to provide termination service are considered. Incumbent operators are opposing the methodology as it would result in lower termination charges which would weaken their ability to provide low price on-net call vis-à-vis off-net calls.

The further termination rates move away from the incremental cost, the greater is the competition distortion between old and new operators or between operators with asymmetric market shares and traffic flows. Therefore, it is fully justified to apply a pure LRIC approach whereby the relevant increment is the wholesale call termination service and which includes only avoidable costs.

Most European countries have already implemented MTC based on Pure LRIC. As of the beginning of August 2014 17 Pure LRIC have been implemented by ES, PT, FR, United Kingdom, Italy, Belgium, Poland, Denmark, Czech Republic, Belgium, Sweden, Austria, Greece, Malta, Romania, Slovenia and Slovakia. Based on the international experience and the TRAI's own determination that Pure LRIC is the preferred methodology, SSTL suggests that MTCs should be significantly reduced by adopting the Pure LRIC methodology.

5. Myth 5: To include spectrum cost in costing of MTC

Under Pure LRIC model, spectrum cost is not relevant and therefore not required to be included to estimate the termination charges. The willingness to pay for spectrum required to deliver off-net terminating traffic is same as the additional network costs for the additional capacity to deliver off-net terminating traffic i.e. if network equipment rather than spectrum were used to provide the additional capacity.

The costs per MHz spectrum has increased, but the higher costs per MHz of spectrum is not caused by the requirements of the voice services. Instead, it is the mobile broadband services which have made this resource to become a bottleneck service with astronomical prices. Hence, the cost of spectrum should be allocated to the actual price drivers, which are the mobile broadband services.

European regulators do not include spectrum cost in MTC and their views on this issue are reproduced blow:

OFCOM (UK) 2011

"Spectrum cost excluded. Identified a trade-off between spectrum carriers and network equipment. A rational mobile network operator would not be prepared to pay more for spectrum to meet a given increment of traffic than the network costs associated with the traffic increment. Pure LRIC includes network equipment costs, so adding any traffic-driven spectrum costs would effectively involve double counting."

EU Recommendation 2009

"The costs of spectrum usage incurred in providing retail services to network subscribers are initially driven by the number of subscribers and thus are not traffic-driven and should not be calculated as part of the wholesale call termination service increment."