# Provisional Response from MITS (Zone 2) on Draft Mobile Number Portability per Port Transaction Charge and Dipping Charge (Amendment) Regulations, 2017

MNP Interconnection Telecom Solutions India Pvt. Ltd (hereinafter referred to as "MITS") was awarded MNP License in 2009 to build, operate and run MNP Services in Zone 2 covering South and East of India.

We would like to thank TRAI for an opportunity to respond with our inputs to the Draft Telecommunication Mobile Number Portability Per Port Transaction Charge and Dipping Charge (Amendment) Regulations, 2017.

## Executive Summary

a. The calculations presented by TRAI do not reflect the correct picture because of the following points;
   i. The method of looking at one year of financials to decide a tariff gives an incomplete picture of the overall situation. The initial tariff was decided on 5 years of projected cost and revenue hence actuals of 7 years of operations should be considered before deciding the tariff. Tariff calculations should factor in both surges and drops in order to arrive at a fair number. Tariff can never be calculated based on one off peaks or drops.
   ii. TRAI's assumption that Full MNP has created a "surge in volumes" is also not true. Increase in porting volumes has happened to support customers due to the exit of the various mobile operators and these were one off events. MNP has helped the subscribers to retain their number and smoothly port out to an operator of their choice without being affected due to the closure of service of their current operator. We have enabled a subscriber friendly service and supported the subscribers and the entire industry by operating and maintaining the National Repository of Ported Mobile Numbers and hence we should not be penalised for doing a good job.
   iii. Significant portions of our costs are incurred in the US on account of enhancements, development and maintenance of MNP software and third party software. These cost are not captured in our Indian entity's books directly and hence need to be factored in before any tariff decision is taken to reflect the correct cost of operations. The said costs are being captured in Indian entity's books via an intercompany charge that enables the Indian entity to remain shock proof as the US parent captures the risk of Indian entity's failure.
   iv. When the tariff was initially decided, it did not factor in the costs incurred on more than 56 software enhancements that have been done in the last 7 years of operations. These include major changes like Full MNP and Corporate Porting.
   v. MITS has completed the process of an entire hardware refresh in which we have incurred significant cost and are also in the process of upgrading our MNP software to make it more robust and resilient.

vi. The tariff has remained unchanged for last 7 years and no correction on account of inflation has been done which has essentially resulted in tariff drop in real terms.
vii. Since our principal is a US company, the loss on account of exchange rate fluctuation has been borne by us. When the tariff was decided the US$ was at Rs. 45 and now in 2017 it is at Rs. 65. This has also not been considered in the tariff calculations.
viii. We believe that the tariff review process should be postponed by a year as just about 1 year remains for MNP license renewal which is due in March 2019. The tariff could be reviewed at this time next year so that company can take a considered decision at that time.
ix. With the consolidation in the Indian Telecom Industry and due to the resultant limited options for the subscriber to move, we foresee a considerable drop in porting volumes coming in 2018 and hence TRAI should wait to assess the full impact before deciding on the tariff. TRAI could hire a reputed independent international consultant to look at what an ideal tariff could be in a saturated market.
x. TRAI needs to appreciate the fact that MNP business is very unique as the business owners don't control the business and are heavily dependent on different variables like Regulation/ Saturated Market/ Mobile operators / Retailers / Subscriber preference which are beyond our control. This is a huge risk that an MNP Service provider bears while getting into such unpredictable environment. Keeping in view the above uncertainties and with the proposed tariff of Rs. 4, the business becomes untenable and puts a National Service in jeopardy
xi. Keeping the above points in mind, the proposed tariff of Rs. 4 is completely unviable and would threaten the existence of MNP Service Provider. Unlike other mobile operators, who have multiple line of businesses, MNPO has only single stream revenue which if drastically reduced would have a huge negative impact on our ability to conduct business.

Please find below our detailed response within the context of the draft document issued.

# 1 Response to Section 1.5 of Explanatory Memorandum

The draft regulation mentions that with the roll out of Full MNP w.e.f. 3rd July 2015, there is a huge "upsurge" in the number of porting request from 64 lakh in 2010-2011 to 368 lakh in 2014-2015 and which has gone further gone up to 636 lakh in 2016-2017. The figures indicated are the combined port volumes from both Zones; in our response however, MITS will be able to highlight the figures from Zone 2 only for the purpose of analysis and illustration.

With the launch of MNP in 2011, initially the subscribers could port their numbers within the same LSA, however, with the launch of full number portability in 2015, porting was allowed at

PAN India level. As per the draft regulation, the upsurge in port volume is attributed to the launch of Full MNP in 2015. MITS however, has a different opinion because the data from Zone 2 shows that inter LSA ports contributed to only a meagre 4% increase in monthly port volume as against "upsurge" claimed in the stated above. We produce below the factual data for Zone 2 as reference to show the actual increase in Inter LSA port volumes post launch of PAN India MNP:

| Month - Year | Total Monthly Port Requests received | Inter LSA port request | % of Inter LSA port of the Total port request |
|---|---|---|---|
| Jul-15 | 2172138 | 71899 | 3.31 |
| Aug-15 | 2366296 | 81888 | 3.46 |
| Sep-15 | 2552904 | 80091 | 3.14 |
| Oct-15 | 2831021 | 86106 | 3.04 |
| Nov-15 | 3267090 | 98920 | 3.03 |
| Dec-15 | 4541894 | 152503 | 3.36 |
| Jan-16 | 3176840 | 101116 | 3.18 |
| Feb-16 | 2829701 | 114324 | 4.04 |
| Mar-16 | 2257768 | 84967 | 3.76 |
| Apr-16 | 2486931 | 84845 | 3.41 |
| May-16 | 2787911 | 111009 | 3.98 |
| Jun-16 | 2931539 | 133115 | 4.54 |
| Jul-16 | 2620401 | 145826 | 5.57 |
| Aug-16 | 2677322 | 151660 | 5.66 |
| Sep-16 | 2556358 | 124908 | 4.89 |
| Oct-16 | 2325662 | 95766 | 4.12 |
| Nov-16 | 2382915 | 98992 | 4.15 |
| Dec-16 | 2721767 | 117644 | 4.32 |
| Jan-17 | 2546513 | 131225 | 5.15 |
| Feb-17 | 2256143 | 157138 | 6.96 |
| Mar-17 | 2743555 | 139736 | 5.09 |
| Apr-17 | 2342921 | 120191 | 5.13 |
| May-17 | 2419153 | 136157 | 5.63 |
| Jun-17 | 2650415 | 135371 | 5.11 |
| Jul-17 | 2713302 | 141761 | 5.22 |
| Aug-17 | 2341245 | 128680 | 5.50 |
| Sep-17 | 2152234 | 126305 | 5.87 |
| Oct-17 | 4249209 | 145737 | 3.43 |
| Nov-17 | 8435262 | 262801 | 3.12 |

MITS believes that there is no “one single” reason for increase in port volume but the increase can be attributed to a combined effect of many factors as listed below

- Partial/complete closure of services by operators: Since 2012, operators have either shut down their operations partially and / or completely thus leading to abrupt surges in port volumes. MNPSPs play an important role in facilitating the move of subscribers in the limited time as prescribed by TRAI.
- Merger of operators: With an increased competition in telecom market, operators have merged operations to sustain their businesses. These activities have resulted in a short-term increase in port volumes however, this would ultimately lead to a negative impact on the porting trends with lesser competition amongst operators and resultant fewer choices with the subscribers post consolidation of telecom industry in India.
- Promotional activities done by operators: MNPSPs being a neutral party plays no role to play in increasing/decreasing the port volumes. Operator’s initiatives through promotional activities, enhanced services etc. impacts (increases or decreases) the port volumes.

In our opinion, apart from the impact contributed by enhancements (Full MNP), TRAI must consider the above-mentioned points to assess the future porting trends. We would like to highlight, increase in port volumes due to operator closure/merger is a one-time surge and should be excluded while calculating the tariff as it can-not be sustained on regular basis in future. With less number of operators in the industry, port volumes will definitely decline instead of showing a steady state.

# 2 Response to Section 1.7 of Explanatory Memorandum

As per the draft regulation, the calculation of new per port transaction charge is based on the audited annual accounts of MNPSPs for the year 2016-2017. TRAI has excluded in its computation of porting charge the Consultancy and Royalty Charges paid/ payable to the owners of proprietary MNP software (In case of MITS, its US parent owns the proprietary MNP software and supports MITS in various upgrades relating to e.g. Corporate Porting, Full Number Porting, patches to address requirements from the regulator etc.). The Consultancy and Royalty Charges paid/ payable are an integral part of the operational cost of the MNPSP and therefore can’t be excluded while computing the per port charge. For a fair calculation of the per port transaction charge, the Consultancy and Royalty Charge is necessary and integral part of the overall cost and therefore should be included in Overall Cost.

| Particulars | Unit | Amount |
|---|---|---|
| Total Cost* | Rs. in Lacs | 1,229.57 |
| No. of porting requests received | in Lacs | 310.47 |
| Per Port Transaction Cost | in Rs. | 3.96 |
| Licence Fee @1% | in Rs. | 0.04 |
| **Per Port Transaction Charge** | **in Rs.** | **4.00** |

Further, MITS is of the opinion that it would be incorrect to consider just one-year's operating costs/other components for the calculation of the Per Port Transaction Charge due to the following reasons:

- The year 2016-2017 recorded a high port volumes, however, it is important to note that in the initial years the port volumes were relatively low and with the consolidation of Telecom Industry in India, the port volumes are expected to further decrease drastically in the coming years. MITS would like to bring it to the kind attention of TRAI that in the initial 3 years, MITS could not meet the expected port volumes that were considered as baseline for setting the current tariff of Rs.19. These are important factors to consider while deciding the new per port charge. MITS suggests that TRAI consider the past trends and also the future outlook of the industry while deciding on the porting volumes to compute the per port charge. In our opinion based on worldwide experience, the porting volumes settle at approx. 2-4% of the active installed base of subscribers' post stabilization of the industry. With the market consolidation happening in Industry, the anticipated future volumes are likely to be much lower than the current rate and for zone 2, may be around 1.2 - 1.5 million port requests per month. This fact should be given due consideration while deciding the future per port transaction charge.
- The methodology that TRAI has adopted in this calculation of the proposed tariff does not factor in a lot of variables affecting the tariff. The formula was used when MNP was being launched in 2009 and there was no other basis for calculating tariff. But now we want to highlight the fact that we have background of 7 years of operations, the fact that events like operator business closures, mergers and acquisitions, impact of operator marketing initiatives all have an important bearing on MNP business which this formula doesn't factor and also fact that we have many factors which all eventually impact MNP business revenues and are not factored in for future tariff calculations. We need to come up with a new methodology to calculate tariff so that it is fair for all concerned.
- In order to address surge in porting requests attributable to mergers or acquisitions or closure of operators, a differential discounted tariff could be worked out where these wholesale ports could be charged at a discounted rate while the normal or retail ports could be charged at the current rate. There are various innovative options that can be worked out which do not impact the MNPSP negatively and yet benefits other party.
- In the last seven years of MNP operations, MITS has deployed 56 enhancements in the MCH environment. These enhancements were a result of regulatory changes, maintenance activities, industry requirements, etc. MITS has completed the process of an entire hardware refresh in which we have incurred significant cost and are also in the process of upgrading our MNP software to make it more robust and resilient. For all these activities, MITS require consultation, development effort from our US teams who have the requisite skills and subject matter expertise on MCH software. Basis above explanation, we emphasize that the Consultancy and Royalty cost excluded by TRAI should form part of the Overall Cost while calculating the per port transaction charge.
- Major changes deployed by MCH were in year 2014. Corporate porting in year 2015: Full Number Portability, which was followed by extensive industry testing and documentation. This is a substantial cost for major enhancement that do not get captured if a specific year's cost is considered.
- As per license condition, MITS has set up the Query database server in the MCH environment for operators who could opt for dipping service to get the LRN for the ported

MSISDN. None of the operators opted for this service and MITS has also incurred cost on this account as well. MITS was also not allowed to use this database for any other revenue generating business opportunities.

- In our recent discussions with TRAI on modification of the UPC validation process, there is a whole new process suggested by TRAI. Its implementation and testing will require substantial changes and cost by MNPSP's.

It is our humble submission to TRAI to hold the review of the per port transaction charge process until next year. TRAI may work with MNPSPs and the industry to implement the changes in the MNP process (duration of porting, UPC validation etc.) over the next one year. MNPSP's license renewal is due in 2019 by which time the Indian Telecom Industry would have settled down and porting process including UPC validation etc. implemented and therefore it would be an appropriate time to consider revision of tariff along with renewal of license. However, if TRAI decides to proceed with the current change in per port transaction charge tariff, MNPSP's should be given a fair opportunity to present their respective case in the light of aforesaid explanations. Current suggested Rs.4 per port transaction charge is a loss making proposition for MNPSP that would severely impact MNPSP's operations.

MNP Interconnection Telecom Solutions

## Additional Final Response from MITS (Zone 2) on Draft Mobile Number Portability per Port Transaction Charge and Dipping Charge (Amendment) Regulations, 2017

MNP Interconnection Telecom Solutions India Pvt. Ltd (hereinafter referred to as "MITS") was awarded MNP License in 2009 to build, operate and run MNP Services in Zone 2 covering South and East of India.

In continuation of our provisional response dated Dec 29, 2017, we hereby submit our additional points with regard to MNP tariff fixation which may be read along with the provisional response provided on Dec 29, 2017:

1. As explained in our provisional response, we further reiterate that the methodology adopted by TRAI to fix the tariff is not correct as it does not consider true costs incurred by the MITS and also the porting volumes assumed by TRAI does not take into account the past average and future trends once the on-going consolidation in Indian telecom industry completes. TRAI calculations are based on one year of costs and a skewed porting number which is an incomplete and incorrect representation of the factual situation.

   Our well-considered recommendation to TRAI is as follows:

   A. Defer the tariff revision and fixation until 2019 - 2020 when the MNPSP's License is due for renewal. With the consolidation in the Indian Telecom Industry and due to the resultant limited options for the subscriber to move, we foresee a considerable drop in porting volumes in future and hence TRAI should wait to assess the full impact before deciding on the tariff.

   **OR**

   B. If TRAI wants to address the tariff now then we would suggest that TRAI adopt a more holistic approach towards tariff determination and for that it may appoint either an accounting firm of repute or an international consultant having expertise in telecom industry and MNP to ascertain and recommend the tariff based on merit and facts on the ground. MITS is open to sharing all the information on their cost structure and operating model with the TRAI appointed consultants. MITS is willing to explore various innovative options that can be worked out which do not impact the MNPSP negatively and yet benefits the Govt. and other stakeholders in a fair and equitable manner for all concerned.

2. MNPSPs have established themselves as extended arm of the regulator and are facilitating the regulator in the important task of regulating MNP services to the telecom subscribers and introduce the best practices where the end subscribers are benefitted. Reduction of porting charge to Rs.4 will threaten the existence of the MNP business

It is our repeated humble submission to TRAI to withhold the review of the per port transaction charge process until the renewal of license in 2019 - 2020.

However, if TRAI decides to proceed with the current change in per port transaction charge tariff, MITS should be given a fair opportunity to present its case in the light of aforesaid explanations. Current suggested Rs.4 per port transaction charge is a loss making proposition for MITS that would severely impact MITS' operations and jeopardise our existence as a provider of MNP service. We would be happy to work with TRAI and support TRAI to find a just and equitable pricing model that is reflective of the efficient, effective and technologically advanced MNP service that MITS provides to all its stakeholders and to Zone 2 of a large and diverse country like India. We look forward to TRAI's favourable consideration of our humble submissions for its consideration.