RCOM Counter Response to TRAI Consultation Paper on IUC

We have gone through the responses of various stakeholders to the Authority's Consultation Paper, and have the following counter comments on some of the submissions made by the stakeholders.

1. Fully Allocated Cost Model based on historical cost of ASR for determination of MTC.

a. We do not agree with the views of some of the stakeholders that FAC based on historical cost of ASR should be used for determination of MTC.

b. ASR based on historical cost(s) is considered flawed as, **(i)** The incidental costs like the cost of land, building, vehicles, furniture, patents and technical knowhow, office equipment, etc get loaded on termination costs through this method, albeit to the fact that these costs were already fully accounted for in the Business Financing, Accounting way back in the history of these TSPs N/W infra build out in earlier phases and considering them now at this stage of maturity of N/W and flattened growth of N/W and traffic is absolutely a wrong practice **(ii)** Also FAC at this stage of N/W to be considered reflects wrong cost of equipment especially not reflecting the sharply declined costs, and marginal CAPEX investments **(iii)** FAC includes various costs (CAPEX/OPEX) arrived because of the business decision of one set of operators like which/how much spectrum to buy, type of equipment purchased for roll out etc.

c. Additionally, globally accepted norms of telecom operator for mature markets in the 2ndphase of their growth and extension period never use FAC Models for determining MTC.

d. Inclusion of the historical cost is neither relevant nor justified as that phase is now over. Hence FAC model is completely irrelevant at this stage and should not be the basis of MTC determination, as it is against the consumer interest.

e. It is an established norm today in 2014 for the global telecom industry to adopt LRIC Models for MTC. It is worthwhile mentioning that as per the ITU report on tariffs published in 2013, 53% of the Regulators worldwide have preferred LRIC methodology over other methodologies including FAC.

f. Existing regime is non - transparent and unfair to customers as operators raise tariffs in the name of higher costs and also get compensated through these charges recovered from other operators.

g. In view of the above, it is submitted that historical cost based **FAC model should not be used for determination of termination charges.**

2. The Spectrum Cost has an impact of more than 6.22 paisa per MOU on MTC

a. We vehemently oppose view of one of the stakeholders that spectrum cost has an impact of **6.22 Paisa per MoU on MTC.**

b. It may please be noted that TRAI in its response to DoT dated 12th May 2012 regarding its recommendations on auction of spectrum dated 23 April, 2012 had calculated a maximum impact of **4 paisa per minute** on **retail tariffs** on account of spectrum.

c. This impact of 4P was calculated when TRAI had recommended a RP of Rs 3622 Cr per MHz for 1800 MHz and 7244 Cr per MHz for 900 MHz. However the recent RP of 1800 MHz and 900 MHz are much lower than the said RP, therefore the impact of spectrum cost on retail tariffs will automatically go down further. The change in TRAI recommended RP of 1800/900 MHz is illustrated in the table below:

In Rs Crs

1800 MHz RP (23 Apr'12)	900 MHz RP (23Apr'12)	1800 MHz RP (Oct'14)	900 MHz RP (Oct'14)
3622	7244	2453	4502.68

d. Considering the fact that MTC is only 50% of ARPM, the impact of spectrum cost on retail tariffs can only be loaded by max. 50%. Additionally, TSPs have an option of deferred payment today which also saves on upfront CAPEX investment, TSP are also recovering CAPEX from existing tariffs and rental plans. **Thus, the impact of spectrum on wholesale Mobile termination charges would be hardly 1P or less lending for a strong case for implementing BAK.**

3. Bill & Keep (BAK) in RPP Regime Only

a. We do not agree with any view suggesting that BAK can be adopted in RPP regime only.

b. BAK as a concept is independent of RPP or CPP as it is linked to the mature stage of the telecom N/W.

c. Networks are at a stage where data services consumptions and the traffic thereof is at the exponential rise as compared to the voice traffic.

d. Most of the N/Ws have migrated and also in faster transition mode to all IP N/W architecture especially in the switching Layer. Thus, BAK is independent of RPP and CPP.

e. Emerging markets like India which is price sensitive for telecom services consumption would always be benefitted with CPP regime. As against RPP regime Countries which is meant for developed economies where affordability of telecom services is not an issue.

f. Further, according to an article published in Business Standard dated Nov 26, 2014 which is based on a report published by the International Telecommunications Union in Nov 2014, Indian mobile rates are less affordable than they are often made out to be. As per the said report India ranks 83, among 166 countries, in spending on mobile rates. **This means citizens of 82 countries, including Hong Kong, Singapore, the US, the UK, Germany and France, pay less as mobile rates.** Moreover, the report talks about the fact that Indians spend 2.23 per cent of their gross national income per capita for mobile service.

g. Thus, we recommend that BAK is the most suited basis to be taken in India at this stage of Indian telecom market. BAK will not only lead to affordable tariffs by eliminating floor prices but it also translates into reduction of costs of operations as well.

h. Also TRAI in its Affidavit filed in SC in 2011 indicating a glide path to BAK regime within 2 years and that 2 years time has already elapsed in 2014 today. **Thus BAK should be the only basis for determining the MTC.**

4. Higher ILD termination of Rs 3-3.5 per Minute

a. TRAI has been following an approach of having termination charges based on work done principle.

b. We therefore recommend that a uniform termination charges for ILD and domestic termination based on work done principles for both be fixed. We also recommend that the access provider should be paid at the same rate for both types of calls.

c. Any arbitrage opportunity if widened higher than current of 20 paisa would be detrimental. The arbitrage opportunity would encourage Traffic routing through "Grey Channels", resulting in :-

- **Compromise on National Security since origin CLI would be masked.**
- **Generation of Black money**
- Loss to National Exchequer (Revenue Share, Service Tax etc)
- Loss to operator.

d. Notwithstanding the above, if the Authority decides to keep asymmetric termination charges as at present for domestic and incoming international calls, then the additional amount charged over and above the domestic termination, should be divided in 60:40 ratio between ILD and access provider.

5. WACC of 19-20%

a. We do not agree with view that WACC of 20% should be used for determination of MTC.

b. In this regard, it may be noted that average WACC considered by the PSUs varies b/w 13-15 %. In fact MTNL has submitted WACC of 15% to be used for MTC calculations.

c. Moreover, TRAI has consistently used WACC reference as 15% in the past calculations of DLC, CLS etc.

d. Thus in all respect, we believe that for the mature operators WACC should not be more than 13%.