No.MTNL/RA/CO/TRAI CP on Review of IUC/2009.
Dated:09.02.2009.

To

The Principal Advisor (FN)
T.R.A.I.
New Delhi.

Subject: Revised comments on TRAI Consultation paper on Review of IUC

The comments of MTNL with respect to TRAI consultation paper on review of IUC are as below:-

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

Reply: In the present scenario, the following components of IUC need review:

1. **Origination charges: The Authority so far has not notified any charges for the origination. However, the Authority has submitted its recommendations on Provision of Calling Cards by Long Distance Operators to the licensor. Whenever the calling cards by long distance operators are allowed, the origination charges for such type of calls may be decided by the Authority. Till then, the origination charges may continue to be in forbearance.**
2. **Carriage charges: The sharp reduction in cost of bandwidth and reduction in on-net STD call charges by the integrated operators clearly indicates that the cost of carriage has come down considerably (The tariff of on-net calls offered are lower than the carriage charge ceiling). Therefore, the carriage charges may be reviewed accordingly.**

   Most of the integrated players are carrying long distance traffic on IP networks and it is a well known fact that such networks are 4 to 5 times more efficient than TDM networks. Accordingly, it is proposed that the carriage charges through IP networks may be prescribed separately by the regulator.
3. **Termination charges: In the present scenario, the volume of traffic is high, the numbers of subscribers have increased and cost of technology is reduced, therefore, the termination charges may also be reduced.**

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. Please provide full justification.

Reply: Termination charge shall be computed with the existing methodology of fully allocated cost basis so as to take care of legacy network as the operation cost to maintain old technology network is very high.

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.

Reply: It is not desirable that the termination charges be strictly cost based. There are many factors affecting the cost of telecom services as brought out in the paper itself. For example, frequent technology up-gradations and introduction of new services etc. cannot be adequately taken care in strictly cost-based termination charges. In any case, the principle of cost oriented charges should take care of cost based charges as well.

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?

Reply: As the value added services are still growing, the revenue generated from such services may be used for the future growth of value added services and should not be taken into account for the determination of termination charges. The present 'Bill-and-keep' is considered okay in view of smaller volumes from these services.

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

Reply: Asymmetric termination charges are not justified. The presumption that symmetric termination charges level playing field to the new entrants is not correct. A simple calculation is as follows:

Case-I : Let us presume a two operators scenario for simplicity - with a total subscriber base of 100K. An established operator with a subscriber base of 90 K and a new operator with a subscriber base of 10K is assumed. Further, each subscriber originates 100 calls equally distributed over the total network of 100K subscribers.

The calls from operator A terminating into network of operator B =

$$90{,}000 \times \frac{10{,}000}{1{,}00{,}000} = 9{,}000$$

The calls from operator B and terminating in network of operator A =

$$10{,}000 \times \frac{90{,}000}{1{,}00{,}000} = 9{,}000$$

This shows that the net of termination charges for both operators is ZERO.

Case-II. Let us evaluate the scenario where the balance of termination charges is in favour of the established operator as given in the consultation paper. This supposition presumes that net calls from operator B to operator A are more implying that ARPU of smaller operator B is higher than operator A. This will be a case of cream skimming by the smaller operator - and will generally be the case for new operators. Since the new operator is indulging in cream skimming there is no need to subsidise him.

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? Give full justification.

Reply: The data in the paper shows the CAPEX and OPEX for fixed lines is almost 4 times as compared to mobile networks because of the legacy costs inherited by the PSUs who own almost 80 percent of the fixed line network higher termination charges for fixed lines are desirable.

However, the termination charges for both the fixed & mobile services may be kept same to avoid the skewed subscriber growth and traffic.

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

Reply: As per the calculation submitted by BSNL in response to pre-consultation, cost based termination for fixed wire-line networks following fully allocated costing principles is about Rs. 0.77 per minute and for mobile network its comes out at Rs. 0.20 per minute. Both the PSUs have similar legacy costs of network as well as employee-costs, and are entailing very high operation costs for wire-line network. This is also amply proved by the fact that the new licensees do not consider Fixed-lines lucrative enough for investments.

The Wireless networks are mainly technology driven – and the cost of technology is continuously reducing - with lesser operating costs, the cost of termination in wireless network is much less.

However, different termination charges for fixed and wireless network are not desirable in the present scenario. Therefore, the termination charges for both the services may be kept same as also emphasized in response to Q6.

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.

Reply: International termination charges should be higher than domestic, and reciprocity should be maintained with International Operators.

However, to discourage grey market, the International carriage & termination charge for incoming calls should be limited up to Rs. 1.00 per minute.

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

Please give sufficient reasons with data in support of your answer.

Reply: MTNL has not yet started its full fledged NLD operation; therefore MTNL is not in a position to provide cost based carriage charges for long distance calls.

However, since the volume of traffic in this segment has increased many times and the cost of deployment is decreasing (due to decrease in cost of bandwidth and technology etc.), the ceiling of carriage charge for long distance calls needs to be revised downward.

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

Please give sufficient reasons with data in support of your answer.

Reply: TAX transit charges may be maintained at the same level as these are not mandatory charges to be paid by the operators.

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

Please give sufficient reasons with data in support of your answer.

Reply: No Comments as MTNL is not handling such kind of traffic.

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?

Reply: Should be considered at a later stage when the market matures for these services.

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?

Reply: In view of fast expanding bouquet of telecom services – with a shift to IP platform - capacity based charging will be preferable. In the present scenario the termination/ carrier charges are hurtling down, while the cost of Billing is increasing - thus significantly increasing the cost involved in billing and collection as percentage of the total revenue. Hence on a long-term perspective it is desirable that the termination scenario is kept as simple as possible to reduce the billing and collection costs.

(MUKTA GOEL)

DGM (RA)