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etisalat

Ref: TRAI/Regu/429/11
Date: 20.01.2011

Advisor (I&FN)
Telecom Regulatory Authority of India
Mahanagar Doorsanchar Bhawan
Jawahar Lal Nehru Marg, (Old Minto Road)
New Delhi - 110002

Dear Sir

Sub: **Review of Interconnection Usage Charges (IUC) – Pre Consultation Paper**
Ref: **Your letter No.409-9/2010-I&FN dated 24th December 2010**

With reference to your aforecited letter, please find attached herewith our comments on the Pre-Consultation paper on Review of Interconnection Usage Charges (IUC).

While at this stage we have kept our response succinct based on the principles, we would more than happy to provide any further analysis and detail during detailed consultation stage or if so warranted by the Authority at any other point in time.

We hope our response would merit your kind consideration.

With kindest regards,
For **Etisalat DB Telecom Private Limited**

(Dr. Vinod Kumar Budhiraja)
Chief Regulatory Officer & Authorised Signatory

CC: Chairman (TRAI)

Please Reply To: Dr. Vinod Kumar Budhiraja, Chief Regulatory Officer, Etisalat DB Telecom Private Limited, 7B-Vandana Building, 11 Tolstoy Marg, New Delhi – 01, D: 011-23738576; M: +919711001177s

Etisalat DB Telecom's Response to Pre-consultation Paper on IUC Review

At the outset we would like to submit that ***all interconnection charges <u>including IUC (interconnection usage charges)</u> must be prescribed on cost-basis and should not be left to mutual negotiation*** since these are of the nature of an inter-dependent wholesale charge between two competing telecom service providers. In contrast, where competition is adequate to curtail monopolistic tendencies such as in the case of retail tariffs for subscribers in market of 10-12 service providers, the tariffs can be left to market forces.

In our opinion, the current IUC Review exercise should subserve the following principles:

A. ***The principles of cost causality, relevant costs, work-done principle etc must be followed.*** Only those cost elements should be included in the cost-model, that are relevant to the work done. ***Not all costs are traffic sensitive***, hence the components of costs must be chosen with utmost care and any component/cost that is unrelated to traffic sensitivities, must be excluded from calculations. Even joint or common costs that are unrelated to MTC but tend to increase MTC, must be avoided as has been done by European NRAs recently. Regulatory Costs such as cost of implementation of MNP, UCC, TCGMS, ICNIRP, Security Monitoring, Subscriber Verification etc fall under such categories of costs that ***have no relation to a call termination or carriage hence must be excluded***. Other important costing principles that are key to regulatory costing must be scrupulously followed.

B. World-over, in non-Bill&Keep regimes, whenever new players enter an established market, Regulators apply the principle of ***Asymmetric Mobile Termination Charges in a glide path.*** Under this approach, new entrants are given some mark-up on MTC receivable by them, over the MTC payable by them, to sustain the competition till the time they obtain a fair market share (usually it is for 4-5 years). The underlying rationale is to level the playing field which is tilted in favour of incumbents due to legacy factors/historical anomalies in spectrum allocation (in terms of quantum of holding, frequency bands e.g. 900MHz vs. 1800 MHz etc), economies of scale due to larger subscriber base, positive externalities etc.

Our response to specific questions raised by TRAI in the Pre-consultation paper is as follows:

1. **What should be the framework of Interconnection Usage Charges that meets the requirement of today as well as takes care of future developments like deployment of Wi-Max, High Speed Packet Access (HSPA), Fixed Mobile Convergence (FMC) and Next Generation Network (NGN)?**

   <u>EDB Response:</u> It is important that the IUC framework covers current and futuristic technological developments. However considering the present technological scenario where circuit-switched access networks predominate and IP-based access networks are gradually being adopted, we suggest that, at this stage, the IUC regime should not be derived on the basis of ***an all-IP-network.*** The costing of IP-networks may be covered during the next IUC review once factual costs and benefits of an all IP network manifest.

Even within the Etisalat Group, the convergence readiness of the regulatory regimes in the countries where we operate, is quite varied. But in all the markets, circuit switching technology is deployed. There are a few markets (UAE, KSA etc.) where NGNs are being considered but even in these markets, the interconnection rate setting are currently based on circuit-switched technology.

With regards to the new convergent technologies like WiMAX, HSPA, FMC and Next NGN etc, it is pertinent to keep in mind that advent of these technologies and aspects will further complicate the scenario as it will bring the multi-operator multi-service scenario into picture. Hence we again request the authority to ***consider the implementation of <u>Interconnect Exchange as a long-term and permanent solution to this issue</u>***.

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2. What components of IUC for voice, SMS and any other Value Added Services should be reviewed? What should be the level of charge for each component that requires review? Please give detailed justification / reasons to support your view point.

<u>**EDB Response:**</u> We strongly recommend that except Origination Charges, all components of IUC for Voice and SMS must be reviewed and determined on cost-basis only.

(a) <u>**Mobile Termination Charges (MTC)**</u> – MTC must be determined strictly on cost-basis using sound costing principles to segregate relevant and irrelevant costs (e.g. costs that are not traffic sensitive must be excluded). Moreover in line with international best practices, deployed in almost all developed nations of EU (including UK) as well as developing counties in Africa, ***TRAI must introduce Asymmetric MTC for new entrants for competition sustainability and level playing field.***

(b) <u>**SMS Termination Charges (SMS TC)**</u> – The window of '***forbearance***' on SMS TC (*prescribed by TRAI in 2003 in view of the then-prevalent Bill & Keep arrangements*) has been palpably exploited by a select few dominant operators, by imposing a grossly inflated SMS TC @ Rs.0.10/SMS on some smaller/newer players like us. The actual cost of terminating an SMS is negligible and even as low as 1/144 times of terminating a voice call. Therefore, TRAI may either prescribe a strict cost-based termination charge for SMS or else mandate Bill & Keep. ***Hon'ble TDSAT in its Judgment dated 29th September 2010 has observed that this must be done in the interest of consumers.***

(c) <u>**Carriage Charges**</u> – Although TRAI acknowledged in the previous IUC consultation that there is competition in this segment amongst private players, and that they are offering carriage rates much below the ceiling of 65 paise; however the ceiling nevertheless needs to be revised downwards to align it to cost to reduce arbitrage and to ensure that nobody is making abnormal profits. The very fact that the prevailing inter-operator carriage rates are almost 50% - 60% below the ceiling, indicates that it is not aligned with actual cost since no service provider would offer a service 60% below cost!

Hence there is a need to review Carriage Charges downward and we draw the kind attention of the Authority towards our submission during last IUC review of 2008-09 on this component wherein we stated that actual cost of Carriage is no more than 11 paise.

(d) **Transit Charges** – We support the COAI view on the same

(e) **Transit Carriage Charges** – We support the COAI view on the same

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3. Which of the following approach/methodology should be used for estimating IUC:

- **a. Existing Fully Allocated Cost Methodology used by TRAI or any variation in it.**
- **b. FLRIC or any other variant**
- **c. Bill and Keep**
- **d. Left to forbearance all components of Interconnection Usage Charges**
- **e. Any other methodology**

AND

4. Explain the approach / costing methodology adopted, provide the model, if any, developed for estimating the level of each component of IUC for voice, SMS & any other Value Added Services with all calculation sheets. Give justification for adopting the proposed approach / methodology. Also provide details of revenue, minutes of usage (off-net / on-net), CAPEX & OPEX corresponding to each network elements, cables, etc., separately for your network.

EDB Response: The FAC based approach adopted by TRAI worked well during the initial years when the industry was nascent with low penetration rates and production moving downwards towards the bottom of the average cost curve. The market has now matured with a large subscriber base and higher penetration rates and we strongly recommend that a H-LRIC (Hybrid Long-run Incremental Cost) based approach should be adopted. To reconcile results obtained through a bottom-up approach with a top-down approach, Hybrid - FLLRIC (Forward Looking Long-run Incremental Cost) may also be exercised.

The drawback of an FAC based approach is that it includes many inefficient, unrelated costs to termination and passes on these inefficiencies to efficient players as well. Moreover, FAC purely depends on historical costing and generally discounts the developments happened during the setting of new IUC regime or that may occur during coming period. Hence an LRIC based approach or its variant e.g. H-LRIC/FLLRIC should be adopted.

We strongly recommend that TRAI engages its own independent consultant of international repute to develop a model to derive IUC. From a public policy perspective, TRAI may give primacy to consumer interests of affordability followed by stakeholders' interests of efficiency and sustainability and finally balance equities for both new & old players.

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5. **Provide cost and revenue corresponding to each service like voice service, SMS, GPRS, EDGE, Roaming Services and any other Value Added Services. Also provide cost and revenue for interconnecting services like terminating call, originating call, terminating SMS & originating SMS. All cost and revenue data may be cross referenced with the Accounting Separation Report submitted to TRAI.**

   EDB Response: At this juncture, we stand by our response submitted during the IUC review of 2008-09. However a more detailed response would be submitted during the main consultation stage.

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6. **Justification as to why the model proposed by you should be used for determination of Interconnect Usage Charges for voice calls, SMSs and any other value added services.**

   EDB Response: In accordance with our detailed response during IUC consultation of 2008-09 we had provided our inputs basis H-LRIC (Hybrid Long Run Incremental Costs) method. The reason that an LRIC based model or its variant should be used are as under:

   a) LRIC approach involves determining the incremental costs of providing an additional unit of a service over current levels and over a defined future period of time.
   b) It considers costs that are both forward-looking and incremental, which would generate credible charges that reflect real economic costs for providing interconnection.
