

To,

The Advisor (NSL)
TRAI, New Delhi

Sub. : Comments on TRAI consultation paper on “Valuation and Reserve Price of Spectrum: Licences expiring in 2015-16”.

The TRAI issued consultation paper on 07.08.2014 on the aforesaid subject and asked the various stakeholders to comment on the issues mentioned in the consultation paper. Before furnishing our comments, we would like to submit that the assets / infrastructure created by incumbent operators whose licenses are due for renewal are national / public wealth. It is in the national interest to protect these wealth and also ensure that the created wealth are properly and gainfully utilized. Taking this as a principle, the ideal situation would have been where the incumbent operators are not made to participate as new operator and they should have been given right to seek re-allotment of spectrum up to the level which they were already holding at the current available spectrum price. However, considering that a precedent (Feb'2014 auction) has already been created in this regard, there may be challenges in implementation of this suggestion.

Further, we consider that the whole purpose of conducting auction is to allow market forces to determine value of spectrum based on the prevailing market conditions including the business case at that point of time. This objective can be achieved only by ensuring proper fixing of reserve price. We already have experience of implication of fixation of high reserve price. At the same time process should take care of the situation where supply out bid the demand.

Further, point wise comments are as given:

Q.1. please comment on the issue of making available additional spectrum in contiguous form (as discussed in para 2.5 and 2.13) in the 900 MHz and 1800 MHz band.

Comment: Considering the overall advantages offered by contiguous spectrum, both to the operator as well as licensor, MTNL agrees to the recommendation of TRAI on frequency Harmonization for making available minimum 5 MHz contiguous block in each band, with prior consent of the affected parties only. However the operators, whose licenses are not expiring in the stipulated period, their spectrum blocks/arrangement may not be disturbed.

Q.2. Please comment whether only contiguous blocks of minimum 5 MHz spectrum should be put for auction.

Comment: In As far as possible efforts should be made to keep contiguous block of at least 5 MHz for auction. Wherever required, Government may resort to reform the bands to achieve this objective (as most of the licenses are expiring in Dec'2015 or Feb/April'2016, sufficient time is available for this exercise).

Q.3. what should be the block size to auction the spectrum in (a) 900 MHz band and (b) 1800 MHz band?

Comment: Wherever possible, it may be kept as 5 MHz in 900 as well as 1800 MHz band, otherwise in order to ensure that assets are not lying idle the quantum of spectrum available may be kept for auction. .

Q.4. what should be the minimum quantum of spectrum in the 900 MHz and 1800 MHz band that (a) a new entrant and (b) an existing licensee should be required to bid for?

Comment: Minimum quantum should be as followed in Feb'2014 auction.

Q.5. should the licensee whose licenses are due for expiry in 2015 and 2016 be treated as an existing licensee or as a new entrant?

Comment: The licensees whose licenses are expiring may be treated as existing licensee and they should be allowed to bid for the spectrum required to serve their existing customer base.

Q6. Should the valuation exercise for 1800 MHz spectrum be undertaken afresh for all the 22 LSAs?

Comment: In our opinion any fresh evaluation of spectrum will be a repetitive job and may not yield any useful result. Hence authority may consider the Feb'2014 auction derived price as a reference for fixing the base price.

Q7. Should the prices revealed in the February 2014 auction for 1800 MHz spectrum auction be taken as the value of 1800 MHz spectrum for the forthcoming auction in the respective LSA? Would the response be different depending on whether the forthcoming auction is conducted within one year of completion of last round of auction of February 2014 or later?

AND

Q8. If the prices revealed in the February 2014 auction for 1800 MHz spectrum are taken as the value of 1800 MHz for the forthcoming auction, would it be appropriate to index it for the time gap (even if this is less than one year) between the auction held in February 2014 and forthcoming auction? If yes, what rate should be adopted for the indexation?

AND

Q9. What should be the criteria for defining a 'market clearing price'? Can the auction determined price be considered as market clearing price, when (i) the

demand for spectrum is greater than the supply and when (ii) the demand is greater than or equal to the supply? Can the auction determined price be considered as the market discovered price?

AND

Q10. Should the valuation of spectrum and determination of reserve price be done only for those LSAs where market clearing price was not achieved for 1800 MHz spectrum in February 2014 auction?

AND

Q11. Should the auction determined price for LSAs where market clearing price was achieved in February 2014, be taken as equal to the value of spectrum?

AND

Q12. Should the market determined price be taken as the value of spectrum in all LSAs?

Comment for Q 7 to12: We consider that the whole purpose of conducting auction is to allow market forces to determine value of spectrum based on the prevailing market conditions including the business case at that point of time. Invariably the market conditions in any two auction process may not be the same. Accordingly, it is felt that by keeping the last auction price as reserve price for the forthcoming auction, we may be losing the objective behind conducting auction process. Hence, in our opinion in order to avoid such a situation & meet the objectives, 50-70% of the last auction derived price may be considered as the reserve price for the forthcoming auction. **However, to take care of the situation where there is not enough bidding parties i.e. where supply is more than the demand (S>D) e.g. if the number of blocks to be auctioned say are 5 and number of bidders participating in auction are 5 or lesser whose requirement is of 1 block each, the last auction driven price may be made applicable.**

Q13. Should the value of spectrum in the LSAs where market clearing price was not achieved be estimated by correlating the sale prices achieved in similar LSAs where market clearing price was achieved with known relevant variables (para 3.19)? If yes, please suggest which single variable is best suited for this purpose?

Comment: In our opinion all the variables enlisted under para 3.19 are important for this purpose. Further, using any one variable for this purpose will not be logically & scientifically correct procedure.

Q14. Can multiple regression analysis be gainfully employed for this purpose given the limited number of sample data points?

Comment: It is felt that as the number of sample data points (i.e. market revealed information about price of 1800 MHz spectrum) are limited, the multiple regression analysis may not yield the desired result.

Q15. Should the value of spectrum in 1800 MHz band be assessed on the basis of producer surplus on account of additional spectrum?

Comment: No. This will be discriminatory with the existing operator who had already sunk lot of money in establishing the network and reaching that stage. The spectrum charge should be levied uniformly irrespective of the condition / position of the seeking operator..

Q16. Is there any need for a change/revision of any of the assumptions adopted by the Authority in producer surplus model in the Recommendations of September 2013? Justify with reasons.

Comment: No comment.

Q17. Should the production function model based on the assumption that spectrum and BTS are substitutable resources be used as a valuation approach (as was done in the earlier valuation exercise)? Please support your response with justification/calculations/relevant data and results.

Comment: No comments.

Q.18. Should the revenue surplus approach be used to arrive at the value of 1800 MHz spectrum? Do you agree with the assumptions made?

Comment: We don't support with this approach for the following reasons:

- (i) The cost of network deployment is not in exact proportion to the quantum of spectrum for which the network is being deployed.
- (ii) Whatever cost saving is made by an operator due to rollout of network with lesser spectrum gets off-set due to the lesser market acquisition opportunities available to that operator vis-à-vis operator with higher spectrum.

Q.19. Should the values contained in the Report of 8th February 2011 for spectrum up to 6.2 MHz be incorporated after indexation in the calculation of the average value of the 1800 MHz spectrum in the current exercise?

Comment: The report was prepared by Group of experts having detailed & in depth knowledge about the telecom industry. Accordingly, in our opinion this method may give more realistic results.

Q.20. should the prices revealed in the February 2014 auction for 1800 MHz spectrum auction be used as one of the values of 1800 MHz spectrum?

AND

Q.21. Apart from the approaches discussed as above, is there any other approach for valuation of spectrum that you would suggest? Please support your answer with detailed data and methodology.

AND

Q.22. Would it be appropriate to value 1800 MHz spectrum as the simple mean of the values thrown up in all the approaches? If no, please suggest with justification that which single approach should be adopted to value 1800 MHz spectrum?

Comment to Q20, 21 & 22: Please refer our reply to Q 7 to Q12 above.

Q.23. Should the value of 900 MHz spectrum be derived on the basis of the value of 1800 MHz spectrum using technical efficiency factors (1.5 times and 2 times) as discussed above?

AND

Q.24. Should the economic efficiency approach as discussed above be used to calculate the premium for the 900 MHz spectrum, based on the additional CAPEX and OPEX that would be incurred on a shift from this band to the 1800 MHz band?

Comment to Q 23 & 24: As already described in the consultation paper, the 900 MHz band is technically and economically more efficient than the 1800 MHz band, and hence requires lesser investment for same coverage levels. Therefore the value of 900 MHz band can be derived from the 1800 MHz band value by technical efficiency factor. The suggested value of TEF may be 1.5.

Q.25. Is there any other method that could be used for arriving at the valuation of the 900 MHz spectrum? Please support with detailed methodology.

Comment: No comment

Q.26. As in the case of the September 2013 Recommendations and adopting the same basic principle of equi-probability of occurrence of each valuation, should the average valuation of the 900 MHz spectrum be taken as the simple mean of the valuations obtained from the technical and economic efficiency approaches (and any other method)?

Comment: No comment

Q.27. Should the reserve price of 1800 MHz spectrum in the forthcoming auction be fixed equal to the realized price of 1800 MHz spectrum in the February 2014 auction? If not, what should be the ratio between the reserve price for the auction and the valuation of the spectrum?

AND

Q.28. If the realized prices in the February 2014 auction for 1800 MHz spectrum is taken as the reserve price of 1800 MHz for forthcoming auction, would it be appropriate to index it for the time gap (even if less than one year) between the auction held in February 2014 and forthcoming auction? If yes, what rate should be adopted for the indexation?

Comment: Please refer to our comments against Q 8 to 12 above.

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