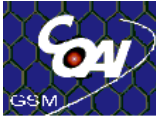


**COAI Response
to
TRAI Consultation Paper No. 99/4
On**

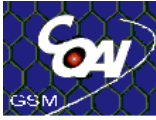
**Review of Cellular Tariffs &
Introduction of CPP Regime**

Dated August 31, 1999



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REVIEW OF CELLULAR TARIFFS & INTRODUCTION OF CPP REGIME TRAI CONSULTATION PAPER NO. 99/4 DATED AUGUST 31, 1999

SECTION I : GENERAL COMMENTS ON APPROACH

The COAI understands & appreciates the initiative of the Authority to address "tariff issues on an ad interim basis as a Consumer Welfare Measure" following the introduction of NTP 99 and the Migration opportunity to existing operators to move to NTP 99 and a licence fee regime based on entry fee and revenue share for annual licence fee. **The Cellular Operators and COAI stand fully committed to support the Authority in ensuring that the benefits of the New Telecom Policy flow immediately and adequately to the consumers of cellular telecom services.**

While assessing the effect of the New Telecom Policy 99, it is important to compare the pre-NTP 99 scenario and the post-NTP 99 scenario, in the light of the advent of the Calling Party Pays (CPP) regime. It can be seen even though there has been a serious delay in the introduction of the CPP regime, service providers have commenced the provision of free incoming calls due to pressure from consumers, thereby subsidising services to customers.

One of the primary reasons for the creation of the New Telecom Policy 99 was that service providers were under tremendous financial strain, financial closures were not taking place, and the entire industry was in danger of sickness. However, migration to NTP 99 is not taking place without any pre-conditions and significant changes to market structure. Competition is being introduced, and all service providers have also had to agree to pay a large entry fee in the form of all their licence fees upto the cut-off date. Both these factors have to be taken into consideration while calculating profitability. The objective of the NTP 99 to provide benefits to both service providers and consumers would therefore be defeated if only consumers are benefited through lower rates, and no financial benefits accrue to service providers.

It is also felt by the COAI that there needs to be a logical methodology for arriving at certain criteria for judging returns on investment. Given the extent of capital which has been sunk into the industry, the calculation of IRRs, which is a ratio generally used from an investment banking point of view, may be an illusory measure, and not appropriate for judging returns on investment of service providers. A consideration of cash flows will show that break-even points are still very distant. It is therefore important to arrive at a more appropriate and pertinent ratio which will consider operational aspects of the businesses.

1. Extension of Metro Data to Circles :



In these initial submissions with regard to the philosophy used for the TRAI's current exercise, **we also strongly urge the kind consideration of the Authority for making its final recommendations on the basis of Circle cellular data rather than that of Metros.** The Authority is aware that Circles

1. have made at least 75% of the All - India total cellular investment of approximately Rs. 12000 crores,
2. have nearly 60% of the All India cellular subscriber base of approximately 1.2 millions,
3. are loaded with 85% of the total cumulative losses of Rs. 7600 crores for the entire CMTS sector, and
4. have only about 30% of the cumulative all-India Cellular revenues for 1996 to 1999.

With the proposed tariffs, a circle service provider carrying a long distance call within the state would only earn Rs. 0.60 per minute, which amounts to less than USD 0.015 per minute. DoT would charge upto Rs. 25.00 for carrying calls across similar distances. Nowhere in the world would the cost of producing and delivering a call be so low.

In view of the above, equity and fairness considerations demand that **either** separate tariff structures are applied to circles as compared to Metros **or** the All - India uniform tariff recommended is based on Circles data.

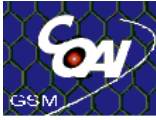
We earnestly request the Authority to kindly consider the above mentioned aspect while finalising its revised cellular tariffs.

2. The Costs in Cellular Operations :

While we fully accept that a "change in licence fee regime implies a change in costs involved", in the prevailing Indian cellular environment, it is vital to appreciate that the situation is extremely complicated by the established fact that **existing tariffs do not even cover the costs of cellular service provision in Circles, - even if the licence fees are totally excluded from the costs.**

The above is abundantly validated by Authority's finding in the Tariff Consultation Paper No. 98/3 which records in Table A III.4 and A.III 4A the following **median values of costs for 1999 / 2000, after complete exclusion of licence fee costs** : -

	<u>Monthly Rental</u>		<u>Usage (Cost/Min)</u>	
	Metro	Circle	Metro	Circle
Median Cost	Rs. 484.07	Rs. 1352.43	Rs. 3.87	Rs.7.27



An independent study (dated November 98) by M/S Booz-Allen Hamilton covering 22 Cellular operators in 19 (5-'A', 12-'B', 2-'C') Circles & 6 Metros and operational data for June 1997 to June 1998, established following costs of airtime :-

Cost per Minute of Airtime

	Metros	A Circles	B Circles	C Circles
Mean	Rs. 5.48	Rs. 9.76	Rs. 9.62	Rs. 12.40
Median	Rs. 5.85	Rs. 7.80	Rs. 7.60	Rs. 12.40

The above are derived from total operating expenses divided by total minutes of usage. The operating expenses include network operating costs & employee costs ; exclude : depreciation, interest, licence fees and marketing / sales expense & deferred revenues.

In view of the fact that the above results, of the Authority and of M/S Booz-Allen Hamilton, have **zero** licence fee content, one needs to give serious weightage to this while considering the benefit due to customers from the changed licence fee regime.

3. The proposed CPP Regime :

We submit that the approach adopted to derive a new CPP regime has several serious implications for the cellular Operators and their business viability. The need to make prices to customers for calls from PSTN to Mobile affordable is fully appreciated and supported but the extent of reduction currently proposed is just too drastic and cannot sustain a healthy operation.

This is dealt with detail in Section III of this report along with suggestions for a more practical CPP regime.

4. IRR and Project Viability With The Proposed Tariffs :

In its Consultation paper 99/4, the Authority has also placed, for consideration, several observations as regards the IRR of the projects and their viability. We are unable to comment on these objectively since we are not privy to the details of the working e.g. whether results include terminal value (TV) or not, what multiplier of EBITDA used for TV, whether multiple operator scenario used, assumptions as capex / sub with the increased traffic expected, etc etc. However, cellular operators are completely surprised at the findings and wonder why financial closures are not happening for most or all the projects, if the scenario and prospects were indeed so optimistic.



Our actual findings as regards the business cases of several circle projects using latest data available from operators are given in Annexure III for the kind consideration of the Authority. All the assumptions used have been explicitly stated to enable a critical evaluation. The IRR findings are most depressing, - ranging from 6.4 % to 8.9 %, for an ARPU drop of 30% and a demand increase of 15% as assumed by the Authority. More details are given in Section VII.

If the available data of Circle Operators with the Authority is considered inadequate, operators would be most pleased to provide more information and would be happy to cooperate with the Authority for an independent and on - site examination / auditing of the operators data. Pending conclusion of such an exercise, either any ad interim action for Tariff Review should, in all fairness, be based on the available / established data and facts, or, there should be a deferral of any such ad interim action.

5. Revenue From Supplementary Services :

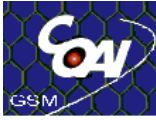
The Cellular Operators and COAI are also surprised at the findings of the Authority in respect of the impact of supplementary services or revenues. An examination of Rows 6 & 7 of Table 1 of the Consultation Paper reveals an astounding and inexplicable change in the revenue just from supplementary services. We respectfully submit that a change of such a magnitude cannot be possible on the basis of our experience and data. The data which has been considered by the TRAI is only for a period of 2 months, which is inadequate to arrive at such findings.

It must also be pointed out here that most supplementary services such as Calling Line Identity Presentation (CLIP) and Voice Mail Service (VMS) are subscribed to by subscribers in order to save money on receiving calls. However, in the proposed CPP regime, when incoming calls become free, subscribers will not feel the need of such services, and therefore, there will be a drastic drop in revenues through supplementary services.

6. Revenue from pre-paids :

We beg to disagree with the Authority's assumptions regarding the prospects for pre - paid business with the proposed tariffs. The Authority has erred in assuming that "revenue from prepaid business will remain unchanged after the introduction of CPP". With free incoming calls and outgoing rates crashing by 33%, the implication is that prepaid usage has to increase phenomenally by 166% so that the Authority's assumption, - that subscribers " who are willing to spend a particular amount on pre paid cards will be doing so even when the service becomes cheaper and the same amount allows them greater usage", remains correct and valid.

It must be remembered that prepaid products mainly cater to the cost - conscious, lower income group subscribers, who are most unlikely to have as much pent - up demand for usage as would result in a 166% rise from current levels.



The general experience that service providers have on pre-paids is that pre-paid revenues are lower as compared to post-paids, and additional investments are required for pre-paids, thereby reducing margins on pre-paids.

Here too, the data which has been considered by the TRAI is only for a period of 2 months, which is inadequate.

7. Access Charge / Revenue Share Mobile / PSTN calls :

The COAI requests the urgent consideration of the Authority for the repeated submissions and representations made by the COAI for nearly 2 years now as regards the application of fair PSTN access charges for calls outgoing from mobile, till date the situation continues to be most unfair and discriminatory as regards access charges levied by PSTN on the Cellular Operators. In the context of the current initiative of the Authority to implement CPP and an aggressive reduction in tariffs, now, more than ever before, it is absolutely imperative to have the application of fair PSTN access charges for the survival of the cellular Operators in the new scenario. It is fully appreciated that a detailed costing exercise on call origination, terminating and transportation is not yet concluded but we respectfully submit that it is unfair and unjustified for cellular operators to continue carrying the huge financial burden of the existing regime.

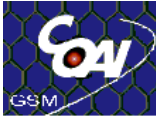
We strongly urge that on the same 'ad interim' basis as used for the other proposals now made by the Authority, and ad interim PSTN access charges regime in line with what currently applicable to basic operators for long distance calls, be immediately implemented for cellular Operators. For local calls we must at least be provided a bulk discount for the volume of traffic provided and such a discount shall at least cover the cost of collection and bad debts on such revenues. This again, more than ever before, is now necessary and justified in view of the steep reduction in outgoing airtime charges.

While making an ad interim order, the Authority is also requested to kindly consider level playing field aspects between MTNL and the private operators. MTNL pays far lower access charges (25% approx.) as well as far lower licence fees of Rs 900 per subscriber per annum, which is about 6% of their revenues. It is unjustified and violative of NTP 99 for private cellular operators to higher access charges and higher licence fees.

We would also like to draw kind attention of the Authority to the number of long standing pending issues concerning interconnection between DoT / MTNL network and the networks to Cellular Operators. They have been exhaustively described and tabled before the Authority for its urgent kind intervention.

It is extremely essential that a fair interconnection agreement is urgently finalised and implemented through the intervention of the Authority.

More details as regards interconnection and access charges are covered in section V later in the report.



8. Quality of Service

Due to the tremendous decrease in incoming call tariffs, it is estimated that 70% of network utilisation would be on incoming calls, on which the realisation to the service provider would be Rs. 0.60 per minute. This will have two effects on the service provider - firstly, it will increase congestion and seriously affect Quality of Service of the network, and secondly, the low average realisation will prevent the service provider from adding network components and enhancing Quality of Service.

It is totally unrealistic to expect the service provider to build 70% of his network capacity which gives a mere Rs. 0.60 per minute realisation.

9. Frequency of Tariff Charges

We would also like to submit that frequent tariff changes cause not only confusion amongst customers but also seriously erode investor confidence in view of the unpredictable commercial environment.

We strongly request that, any fair ad - interim measure put in by the Authority should be allowed to be in place for at least a year, so to achieve stability and be able to predict consumer behaviour, calling patterns, achieve financial closures, etc.

Conclusions and Recommendations :

To conclude this Section, we reiterate our strong support to the Authority to ensure that the benefits of the New Telecom Policy flow immediately and adequately to customers of Cellular Telecom services, while concurrently ensuring the sustenance of healthy competition through viable operations.

The COAI will provide all possible support to the Authority on accounting studies on the key aspect of Return on Capital Employed (RoCE) for projects and for evaluating all the projects in a total framework of economic viability in order to arrive at a derivation of suitable cost based tariffs.

We however request the Authority that a holistic approach to the situation needs to be taken keeping in view the importance of telecom circles data / position, actual costs excluding Licence Fees, need for fair access charges on outgoing calls, undesirability of frequent tariff charges and, last but not least, the paramount need to improve the viability of the industry so as to sustain increased healthy competition and benefits to consumers.



SECTION II : COMMENTS ON THE PROPOSED CPP REGIME

While we understand and appreciate the need to make charges for calling a mobile party adequately affordable, we submit that the extent of reduction now proposed (as compared to that in TRAI Consultation Paper 98/3) is too severe and drastic and would lead to a number of problems which are detailed further down.

1. A comparison of the earlier and current proposals for CPP tariff regime is given below for PSTN to Mobile calls :-

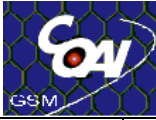
Call holding times	1 minute		2 minutes		3 minutes	
	Cons. Paper 98/3	Cons. Paper 99/4	Cons. Paper 98/3	Cons. Paper 99/4	Cons. Paper 98/3	Cons. Paper 99/4
Total cost	3.90	2.40	7.80	2.40	11.70	3.60
PSTN share	0.60	1.20	1.20	1.20	1.80	1.80
Cellular operator share	3.30	1.20	6.60	1.20	9.90	1.80

The above shows that the current proposal protects or enhances the DoT revenue from such calls whereas the cellular operator suffers a reduction in revenue of 64% on 1 minute calls, 82% on 2 minutes calls and 79% on 3 minutes calls. This, we submit, is extremely unfair and unjustified.

2. The Call - Back Syndrome :

The current proposal of TRAI would strongly incentivise the use of cellular as a call - back facility since the total cost of a call is significantly weighted in favour of PSTN to Mobile :-

Total Cost of Call to Both Parties (Rs)									
Call Duration (min.)	Existing MPP** Regime		Earlier CPP Proposal (TRAI 98/3)			Current Proposal (TRAI 99/4)			Current Proposal (99/4)
	Mob/PSTN Cost (Rs)	PSTN/Mob Cost (Rs)	Mob/PSTN Cost (Rs)	PSTN/Mob Cost (Rs)	Mob/PSTN higher than PSTN/Mob by	Mob/PSTN Cost Rs	PSTN/Mob Cost (Rs)	Mob/PSTN higher than PSTN/Mob by	
1	7.20	7.20	7.30	3.90	87%	5.20	2.40	117%	Savings on PSTN/Mob (Rs) 2.80



2	13.20	13.20	13.30	7.80	71%	9.20	2.40	283%	6.80
3	19.20	19.20	19.30	10.70	80%	13.20	3.60	267%	9.60

** MPP = Mobile Party Pays

It should be noted that in the existing "Mobile Party Pays" (MPP) regime, the total call costs are perfectly balanced between PSTN/Mobile and Mobile/PSTN. The resultant traffic flow is also balanced, as desirable.

In the earlier CPP Proposal (98/3), Mobile to PSTN calls were higher than PSTN to Mobile calls by 71 to 87% and while this would have had some effect on the traffic flow pattern, there was less incentive for cellular resorting to a call-back initiative. As shown in sub-section 4 below, even in the earlier proposal, the balancing of cost between PSTN-to-Mobile and Mobile-to-PSTN was far from satisfactory and quite out-of-line with global practices. The situation is considerably worsened in the current proposal.

In the current proposal, as Mobile to PSTN calls are higher than PSTN to Mobile calls by 117 - 283%, there is a very strong incentive for mobile-initiated call back for long calls from PSTN. There would be a serious reduction in revenues per minute for cellular and also a high network usage/congestion.

3. Impact on Quality of Service :

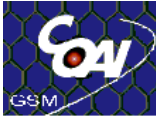
The incentive to long call hold times for PSTN/Mobile calls would lead to network congestion and reduced network availability to serious productive users of mobile connectivity.

4. Impact on Capex Costs :

The increased traffic stimulated in the network by increased subscriber numbers as well as low CPP tariff and low airtime charge will definitely necessitate immediate infusion of capex to augment capacities. We respectfully submit that the Authority's assumption that no further capex will be required for a 15% increase in demand and that, thereafter, the capex will only increase by 5% is unjustified and too optimistic. Our assessment is that the increase in subscriber numbers would itself demand significant network capex investments. This would be further accentuated by the greatly increased telepropensity resulting from such low tariffs.

Serious problems would be caused by the fact that the increased investments would not have any economic justification on the basis of revenues. One cannot have investments for 70% of the network capacity which earn a revenue of Rs. 0.60 per minute.

The above situation should also be considered in the light of the expected heavier investments necessary because of increased competition (multiple operators) and technological improvements like EFR, OFC, backbone, GPRS, frequency hopping etc.



5. The Paging Syndrome :

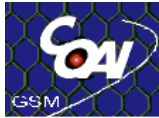
With the use of cellular as a call-back facility and with a monthly rental cost of Rs 475 against paging rental of Rs 300, the cellular would migrate to the paging segment and cannibalize the paging market/business with totally deleterious effects for both cellular and paging.

6. Extent of Premium on PSTN-Mobile Calls :

Cellular being a value-added service that provides, connectivity when mobile, or "anytime, anywhere access", it is an established practice the world over that calls to mobile attract a premium charge as compared to calls between fixed telephones.

Three countries which moved most recently to CPP regime are Mexico (1 May, 1999), Chile (23 February, 1999) and Argentina (1 April, 1997). In many respects, these countries' characteristics are also comparable to India's. The extent of premium for PSTN/Mobile call as compared PSTN/PSTN local call ranges from minimum of 200% to a maximum of 775% in these countries.

Data as regards PSTN/Mobile calls in the above mentioned Latin American Countries as well as in several other countries of the world are given below :-

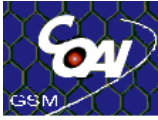


Premium of on PSTN-Mobile Calls

	Argentina	Chile	Norway	UK	Switzerland	South Africa	Columbia	Greece	France	Malaysia	Mexico	India (2 min call) Rs	
	USD	USD	NKr	£	SFr	USD	Pesos	Drs	FFr	Rm	USD	98/3	99/4
PSTN-PSTN Calls	0.04	0.04	0.25	0.035	0.04	0.02	3	3.84	0.205	0.087	0.09	1.3	1.2
PSTN-Mobile Calls	0.35	0.21	2.4	0.25	0.53	0.27	550	116	2.31	0.15	0.27	7.8	2.4
Premium	0.31	0.17	2.15	0.215	0.49	0.25	547	112.16	2.105	0.063	0.18	6.5	1.2
%	775	425	860	614	1225	1250	18233	2921	1027	72	200	500	100

Average premium in the most recent Latin American converts to CPP : 476%

Average premium in the countries quoted above, excluding the extreme cases of Columbia and Malaysia : 1033%



The above clearly justify a premium for PSTN/Mobile call of the order of 500% as proposed by the Authority in Consultation Paper 98/3.

The cellular operator needs a minimum of Rs. 3.06 per minute as Mobile Termination Charge to sustain Quality of Service and network investments. The Authority's earlier proposal in 98/3 is the minimum sustainable by the cellular industry.

7. **Balanced cost of PSTN/Mobile and Mobile/PSTN calls :**

While the earlier proposal was itself significantly below international norms, the current TRAI proposal is clearly grossly out-of-tune with established international practice shown in below and is bound to cause an unsustainable skewed flow of traffic.

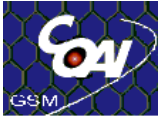
Call Cost

Country	Currency	PSTN/Mobile (per min.)	Mobile/PSTN (per min.)	P/M as % of M/P
Norway	N Kroner	2.40	1.98	
UK	Pound	0.25	0.25	Equal
Switzerland	Swiss Fr	0.53	0.53	Equal
South Africa	USD	0.27	0.29	93%
Columbia	Pesos	550	350	157%
Greece	Drs	116	116	Equal
India	Rs/2 min.	7.80	12.00	65%
Current Proposal 99/4	Rs/2 min.	2.40	9.20	26%

8. **The Level of Revenue Share :**

The current proposal of a 50/50 revenue share, and, that too, on an abnormally low total charge (Rs 1.2/min.) is completely out-of-line with the earlier TRAI proposal of 85/15 share on a charge of Rs 3.90/min. and is also completely out of time with international practices.

Data as regards revenue share practices for PSTN/Mobile calls from several countries round the world are given below for the kind consideration of the Authority :-



Revenue Share to Cellular operator

	Norway	UK*	Switzerland	South Africa	Columbia	Greece
PSTN-Mobile Calls	85%	70%	75%	82%	94%	91%

* These rates are for PCN, and GSM inbound retail and revenue share rates are 20% higher.

9. Mobile-to-Mobile Calls :

We draw attention of the Authority to the practice in countries such as Argentina and Mexico, where although CPP has been implemented, mobile - mobile calls are still billed on Mobile Party Pays (MPP) basis.

10. Incoming Long Distance Calls :

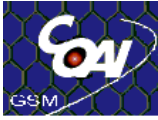
Again, to improve the realisation per minute on incoming calls, such calls received from outside the local area - whether from national or international points of origin, should also be subject to Mobile Party Pays principle. This practice is, again, followed in Argentina and Mexico, and provide a means of augmenting incoming call revenues for the mobile operator, without diminishing the PSTN operator's revenues from such calls.

To implement the above, separate PCM streams could be maintained for such calls and the cost of these streams equally shared by the mobile and fixed-service operators.

11. Access from PSTN to Mobile :

In view of the existing volume of traffic from PSTN to Mobile and the expected increase on this due to the reduced tariffs, it is imperative for the viability of cellular business, that the Authority prohibit any arbitrary or unilateral barring of access to Mobile from PSTN subscribers. Any barring facility should strictly be on the specific request of the PSTN subscriber and should not be 'bundled' with other aspects of such as STD barring, etc. On Day 1 of CPP introduction, one should start with a completely open access from PSTN to Mobile and not disadvantage the CPP scheme through creation of a negative mind-set to the new customer-friendly scheme.

Several implementation issues which have been earlier raised by the COAI have not been addressed by the Authority in Consultation Paper 99/4, and these may remain as outstanding issues, if not addressed.



SECTION III :

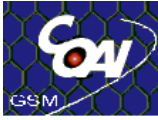
COMMENTS ON PROPOSED RENTALS

1. Circles :

As shown in Section I, on the basis of the Authority findings in Consultation Paper 98/3 as well as M/s Booz-Allen & Hamilton's findings in an independent study, a proposed ceiling monthly **rental of Rs 475.00 is absolutely unjustified for Circle service providers**. We submit that Circle service providers need to be permitted to continue operating to the existing ceiling rental of Rs 600 p.m.

2. Metros :

Rentals and airtime tariffs should be fixed after a total study on RoCE, and COAI will provide all co-operation and assistance in evaluating these in a transparent manner.



SECTION IV :

COMMENTS ON PROPOSED AIRTIME CHARGE

1. Circles :

As shown in Section I, there is absolutely no justification for any reduction the peak airtime charge for Circles. However, in support of the Authority's objectives in the exercise, we submit that the pulse rate be fixed at 60 seconds. It is important to note that, even then, the Circle operators would suffer a significant loss of revenue in view of the CPP regime.

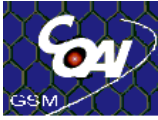
2. Metros :

Due to the increase in incoming calls and the drop in incoming call tariffs, an airtime tariff of Rs. 4.00 per minute may not be sustainable, and it would be necessary to arrive at a sustainable tariff after some study, as has been explained earlier.

COAI will provide all co-operation and assistance in arriving at this rate in a transparent manner.

3. 60 - Second Pulse

This is absolutely essential in all the above proposals, not only from the point of view of ARPM, but also to minimise the call-back misuse of cellular.



SECTION V :

PSTN ACCESS CHARGES ON MOBILE OUTGOING CALLS

1. Access Charges :

As mentioned in Section I, now, more than even before, it is of paramount importance that cellular operators have fair PSTN Access Charge levied on them. Without this, there is no way of compensating them for the inevitable loss of revenues from the CPP regime.

Cellular operators have operated in the current iniquitous regime for PSTN Access charges for over 3 years now and the losses made on this account are irretrievable.

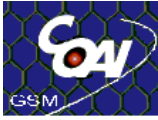
The PSTN access charges applied to Cellular are totally discriminatory and unfair as compared to the PPSTN access charges levied on private basic operators. The costs of call transportation/carriage in the PSTN, after acceptance of call from cellular or private basic, are absolutely identical. Hence there is no basis for differential charges on the two classes of operators.

International practices and precedents support the levy of uniform and no-discriminatory access charges on different interconnecting operators.

Numerous representations have been made to the Authority and much data have been submitted over a period of nearly two years now. We earnestly request the Authority to immediately implement a fair access charge regime concurrent with the introduction of CPP and reduced cellular tariffs.

Our proposal for an ad interim measure is given below for the kind consideration of the Authority :-

		PSTN Access Charges
1.	Domestic Long Distance Calls	Rs 0.50 per metered call or revenue share as specified for private basic operators.
2.	International Long Distance Calls	Rs 0.70 per metered call or revenue share as specified for private basic operator
Note : We believe that a fixed access charge is more suitable than revenue share.		
3.	Local Calls	Instead of an access charge, a bulk discount of at least 20% to be provided.



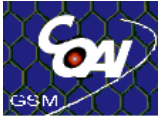
2. Interconnect Agreement :

A number of issues concerning Interconnection between DoT's network and the network of cellular service providers have been listed in the draft Interconnect Agreement which has been sent to TRAI by COAI. It is very essential that this Interconnect Agreement is finalised and implemented, so that there is clarity to all the parties for the provision of Interconnect facilities.

In view of the TRAI proposals of Calling Party Pays Regime (CPP), it will become necessary for the cellular operators to have interconnection with the DoT network from only those exchanges which have new technology switches. In the case of telecom circles, it may involve shifting the POI within the same exchange area or even shifting the POI to a neighboring town where such type of switches are available. DoT/MTNL should make available the names of exchanges all over the country where new technology switches are already in operation, so that the impact of the cost of shifting of the POI could be ascertained and taken into account by the cellular operators.

3. Interim Basis for Access Charge :

It is understood and appreciated that the Authority is contemplating a comprehensive study of the detailed costs of call origination, transportation and termination. It is also fully appreciated that such an exercise would be time consuming and complex. However we submit that while the Authority's final orders on Access charges would necessarily be only after the conclusion of such an exercise, we urgently need an ad interim order to ensure the viability of cellular operations with CPP.



SECTION VI :

OTHER COMMENTS AND REPLIES TO QUESTIONS POSED IN CONSULTATION PAPER 99/4

1. Replies to Questions :

The Consultation Paper No. 99/4 poses in Section IV.51 several questions to be addressed. We provide below our comments on the points raised:-

Q1. Is the reduction in rental for Cellular Mobile to Rs. 475 warranted?

A1. This is adequately answered in Section I and II of this document which clearly establish that while the proposed rental is totally unjustified in the case of Circles.

For Metros also, the extent of reduction cannot be justified on a cost-basis keeping in mind CPP, licence fees, return on network investments etc.

Q2. Should the airtime call charge for outgoing calls be reduced to Rs. 4 per minute with pulse rate of Rs. 30 second instead of 20 seconds ?

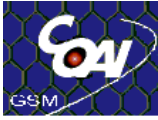
A2. This question is answered in detail in Section IV. It is submitted that the charge should be based on a pulse rate of 60 seconds in place of 20 seconds as 60 seconds pulse rate is required in order to improve viability.

Q3. Is there a significantly different effect of these tariffs on Circles in comparison to Metros ?

A3. The answer is a clear 'Yes', for the reason that the cost structure and economics of Circles operations are very different from that of Metros due to lower subscriber density, higher capex cost due to transmission backbone, very high Licence Entry Fee, very high WPC charges, severer coverage requirements, disadvantageous demographics etc.

Q4. Should there be a different treatment for Cellular Mobile Service Providers in Circles and if so, what should be the form of this different treatment ?

A4. In view of the above mentioned peculiarities of Circle Operations, there is definitely a need to ensure a different treatment for Circle Cellular Service providers. The differing treatment could be in terms of application of higher ceiling tariffs as well as measures such as the Authority's recommendations for compensatory reduction in Licence fee revenue share levels, Authority's intervention to ensure lower WPC charges, the Authority's permission to have intercircle connectivity between Mobile operators to provide better revenue opportunities etc etc.



Q5. Should the increase in call charges for Basic Service to Cellular Mobile be with a double pulse on answer and subscriber with a pulse rate of 120 seconds?

A5. No, We respectfully submit that this proposal would have extremely serious effects on cellular business and needs to be revised to the same values as earlier proposed.

Q6. Should the Basic Service subscriber be allowed the option of barring calls to Cellular network ?

A6. Yes, the Basic subscriber should have the option of barring calls to Cellular networks. However this freedom should be independent of his freedom of choice of STD facility and there should be no unilateral / arbitrary action by Basic Operators to bar access to Mobile in a manner that is discriminatory or prejudicial to the Cellular operators and the subscriber.

Q7. Is Rs. 0.60 per metered call unit an appropriate amount to be given to terminating Cellular Mobile network for incoming calls from Basic Service subscriber ?

A7. Definitely not. This has been amply dealt with in Section II of this paper.

2. Other Comments :

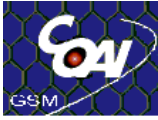
i) Migration to NTP 99 :

The matter of Migration to NTP 99 regime is, for existing operators, subject to the conditions specified in the Interim Order of the Delhi High Court in the PIL petition by Delhi Science Forum. The level of revenue share for licence fee is also a purely interim one.

ii) Implementation of TRAI Regulation by DoT/MTNL :

In order to introduce CPP, DoT will have to issue clear instructions to all the telephone exchanges in the country to make suitable technical arrangements and modifications. It has been seen normally that it takes at least 2/3 months' time for DoT to issue such clear instructions. A case in point is the TRAI, the Telecommunication Interconnection (charges and revenue share) Regulation 1999 of 28.05.1999, but, even till date, after a lapse of more than three months, no instructions and orders have been issued by the Telecom Commission to the filed officers to implement this regulation.

It seems there is no system in the TRAI to monitor the implementation of their orders as far as DoT/MTNL are concerned. The cellular operators have to run from pillar to post and this creates unnecessary hurdles in the operation of the networks.



iii) Access from PCOs and VPTs :

In Para 11 of the Consummation paper no. 99/4, the Authority observed that customers who wish to be connected to the cellular network should not be forced to obtain that connection in a manner that creates an additional burden on them, for example, "by connecting them only through the STD network". It is not clear as to how this is to be implemented by the DoT. The TRAI has been in discussion with DoT on this subject since January 1999 and the Authority should make available to us the method the DoT wants to adopt to implement this objective of the Authority. This has an important bearing because the method proposed by DoT is going to restrict the access to the mobile network from the fixed line network which will have an impact on the revenue of the cellular operators. It should be possible for the village public telephones across the country to have access to the subscribers of cellular services. The access from the urban no-STD PCOs and coin box type PCOs operated by the DoT/MTNL should be possible. In case access to such users is denied, we will be denying access from people who are not able to afford a fixed line telephone of their own. It may not be out of place to mention that the telephone density in our country is not more than 2 per 100. A large population of the lower income group depends on PCOs and make calls and we should not restrict the facility of access to cellular telephone under the CPP regime.

iv) Billing and Payment Procedures :

The consultative Paper provides no clarity as regards several important aspects of CPP billing a) It is critical to ensure that 'set-off' is permitted of the Mobile/PSTN access charges against the CPP charges payable by fixed service providers.

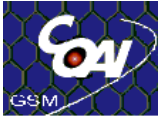
b) If a security deposit is payable (as currently practiced) by cellular operators to DoT/MTNL for access charges, then the latter should also be liable to pay a Security Deposit for the CPP charges payable.

c) Mirrored conditions should also be applicable as regards payment time after till issue, amount of interest for late payments etc.

d) Clear rules and procedures for disconnection for payment default to be specified.

It is extremely important for the Authority to clarify the above in order to ensure level playing field for the private operators.

v) The COAI has also raised implementation issues with the Authority in the past, which have not been addressed.



SECTION VII :

EFFECT OF INTRODUCTION OF NEW TARIFFS AND CPP ON VIABILITY OF CELLULAR CIRCLES.

An assessment of viability has been carried out for some circle operators on the basis of more recent revenue details provided by the operators. Revenue details for the months of May –July 1999 have been used to forecast the Internal Rates of Return.

1. Market Structure :

Multiple operator scenario has been considered with the entry of third operator in year 2000 and fourth operator in year 2002. An equal market share has been assumed for all operators. As a result the market share of existing operator falls to 33% with the entry of third operator and to 25% with the entry of fourth operator.

2. Capital Expenditure (Capex) :

Capex in the 10th year has been assumed at the rate of Rs 22,000 per subscriber. The operators forecast a rise in capex because of a growth in subscriber base and higher traffic load resulting from implementation of CPP. Moreover capex per subscriber will also rise as entry of two more operators would result in fragmentation of market implying lower market share for existing operators.

The above mentioned aspect has not been factored in by the operators in the data given to TRAI for the study on licence fees determination for years 11 to 15.

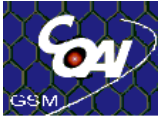
3. Operating Expenses :

Total operating expenses (excluding handset cost and pass through charges) have been assumed on an average of 40% of recurring revenues (excluding handset sales and pass through) .

4. Scenarios :

Scenarios similar to those projected by the TRAI in its consultative paper have been worked out on the basis of above-mentioned assumptions. These are :

- ARPU dropping by 10% and demand increasing by 5%
- ARPU dropping by 20% and demand increasing by 10%
- ARPU dropping by 30% and demand increasing by 15%.



5. The Results :

As can be seen from the calculations below, the pre-tax IRRs calculated in the above mentioned scenarios are much lower than the pre-tax IRRs of at least 22% required to attract investment in the sector.

	IRR if ARPU drops by 10% and increase in demand is by 5%	IRR if ARPU drops by 20% and increase in demand is by 10%	IRR if ARPU drops by 30% and increase in demand is by 15%
Category A Circle			
Service Provider 1	12.3%	10.8%	8.9%
Service Provider 2	13%	11.5%	9.7%
Category B Circle			
Service Provider 1	13.2%	11.1%	8.6%
Service Provider 2	10.2%	8.5%	6.4%

In the case of "A" Category service providers the IRRs vary from a low of 8.9% to a high of 13%.

In the case of "B" category service providers the IRRs vary from a low of 6.4% to a high of 13.2%.