



06th June'2003

COAI RESPONSE TO TRAI CONSULTATION PAPER NO. 2003/1 ON IUC ISSUES

Introduction

In the present IUC regime, the Authority has undertaken a detailed cost unbundling exercise and has prescribed certain spot values for the costs of origination carriage and termination of calls for different networks. The Authority has also extended a degree of flexibility to the operators by providing that the IUC charges can be set with a range of $\pm 10\%$ of the spot rates prescribed by the Authority.

At the outset, COAI would like to submit that all the tariffs for players capable of anti-competitive behaviour must be approved by the Authority and be consistent with the IUC regime introduced by TRAI. Specifically, this includes the tariffs of dominant incumbents and other vertically integrated operators. The retail tariff should be equal to or higher than the sum of IUC charges payable for Origination, Carriage and Termination (OCT) of a call. It can vary only to the extent of $\pm 10\%$ of the IUC values specified in the Regulation. All tariffs in all call scenarios, whether peak or off-peak must include these three elements of origination-carriage-termination. Any tariffs less than -10% of this IUC value would be below cost and anti-competitive / predatory in nature. If the Authority allows any such lower tariffs, the IUC regulation would become meaningless and in the long run may jeopardize the very survival of the stand-alone smaller service providers and hurt the interests of consumers.

These principles have been highlighted in the COAI submission vide Letter No. TVR/COAI/056 dated May 6, 2003. This is enclosed as Annexure-1, which may kindly be read as part of this submission.

The subject of Access Deficit is a vital and complex element of the present IUC exercise. COAI believes that there are several areas of concern with the approach shown for derivation of the Access Deficit. We respectfully submit that the Authority may carry out a more comprehensive analysis of this available data with the help of an independent expert in establishing the scope and extent of the Access Deficit. We submit that irreparable harm would be done to India's telecom reforms process if this crucial issue was dealt with in a hasty and fragmented manner. We therefore urge the Authority to carry out a separate and more comprehensive consultation



exercise on the extremely important issue of Access Deficit, which has a great bearing on the health of the entire telecom sector in India.

In the interim, the issue of Access Deficit may be kept pending and the tariffs approved by the Authority must be IUC compliant without taking into account the ADC component. The Authority may also consider fixing a reasonable floor for NLD tariffs till this exercise is completed.

COAI has already submitted its preliminary views on ADC to the Authority vide its Letter No. TVR/COAI/070 dated June 4, 2003. These views, which are also enclosed as Annexure-2, may kindly be read as part of this submission.

The specific issues raised by the Authority are addressed below :

1. Interconnection Usage Charge

i) What are the anomalies or interpretive difficulties in the various schedules of the IUC regulation and TTO of January 24, 2003.

A. Anomalies in Tariff Order 2003 dated 24.1.2003

- a. As per TTO (24th Amendment) a fixed to WLL (M) call is cheaper than a fixed to cellular call, despite identical IUC charges prescribed by the Authority for these two services. This results in discriminatory treatment of cellular mobile subscribers and operators. This also results in FSPs retaining a higher revenue from a fixed to cell call than from a fixed to WLL (M) call thereby resulting in cellular services subsidizing fixed + WLL (M) services
- b. COAI submits that tariff for calls from fixed line to WLL (M) must be equal to the tariffs for calls from fixed line to cellular because both WLL (M) and cellular have identical termination charges and are substitutable mobile services.



B. Anomalies in IUC Regulations dated 24.01.2003

- a. In Schedule-I the termination charges for WLL (M) have been incorrectly stated as 50p per minute. Termination charges for WLL (M) have been prescribed as 30p / 40p per minute for Metros and Circles as prescribed in Schedules-IV & V. This anomaly must be corrected.
- b. Despite enunciating the principles of cost based IUC, the termination charges prescribed for cellular are a fraction of the actual costs incurred by CMSPs and are also far lower than the lowest cost estimates of Rs. 2.25 per minute documented by the Authority itself as recently as in July 2002 in its Consultation Paper No. 2002/2 dated 08-07-2002 on Tariffs for Cellular Mobile Services.
- c. A differential of a mere 10p per minute between the termination charges payable in metros & circles is extremely inadequate. TRAI itself has prescribed carriage charges of 20p to Rs. 1.10 per minute for different distance slabs. COAI submits that calls to cellular mobile circle networks are to be completed over the entire service area, as the called party may be located anywhere in the circle. The weighted average distance over which the call may be carried in circles like Maharashtra, Madhya Pradesh, Tamil Nadu etc., would be between 200-500 Kms. as against distance of upto 50 Kms in case of metros. Therefore, the termination charges in circles should be at least 55p per minute higher than the termination charges of 30p per minute for Metros (Difference between the carriage charges for the 0-50 kms slab and the 200-500 kms slab in Schedule II).
- d. The Authority has very clearly specified in the Notes to Schedule II that for intra-circle calls between fixed and cellular networks, Schedule III would be applicable i.e. a termination charge of 60p per minute plus a carriage through TAX charge of 20p per minute would be payable by cellular operators. However, BSNL is violating the IUC Regulations by imposing the inter-circle carriage charges prescribed in Schedule II for intra-circle calls. (Ref: BSNL Memo No. 208-15/2003 RegIn dated 24th April 2003 and 28th April 2003 in Annexure I Para B.I regarding POI at Level II TAX). This is explained below:



IUC Charges for Intra-Circle Cellular to Fixed Calls

Per minute

Distance	As per IUC Regulation	As per BSNL
50-200 kms	60p + 20p	Rs. 1.45
200-500 kms	60p + 20p	Rs. 2.50

These BSNL charges are non-IUC compliant and must be withdrawn with immediate effect.

- e. There is no justification for higher termination charges for WLL (M) networks in Circles as WLL (M) is an SDCA based service and all calls to WLL (M) networks are carried over a SDCA both in case of metros & circles (Refer Schedules-IV & V).
- f. With the introduction and implementation of the IUC regime, there is no justification for separately levying port charges or set-up charges. The Authority must issue a suitable amendment to its Telecommunications Interconnect (Port Charges) Regulations of 2001 (6 of 2001) dated December 28, 2001 in this regard.
- g. The Authority has not specified any IUC charges for off-peak hours. Therefore BSNL is charging peak IUC charges even during off-peak hours. As a result of this omission, standalone access providers to match the off-peak tariffs of BSNL to compete, have to be out-of-pocket as they have to pay full IUC charges for carriage & termination. For example if BSNL charges a peak-tariff of Rs. 5.10 for calls over 500 kms [Rs. 2.00 (Origination + ADC) + Rs. 1.10 (Carriage) + Rs. 2.00 (Termination + ADC)] and then brings this tariff down to Rs. 2.55 per minute for off-peak hours, then the private access provider to compete will also have to match the tariff of Rs. 2.55 per minute. However, they will still have to pay full carriage & termination charges to BSNL (Rs. 3.10) thus paying 55p per minute out of their own pocket to compete with BSNL in off-peak hours. Thus BSNL, by virtue of being an integrated operator is in a position to indulge in anti-competitive practices and enrich itself at the cost of the stand-alone access providers. It is urged that the Authority address this anomaly and prescribe that tariffs must be IUC compliant in all scenarios, whether peak or off-peak.



C. Anomalies in Approach / Methodology of Authority in Determining IUC

TRAI has followed a differential and discriminatory approach while determining the IUC for fixed and cellular services. The contrasting approach used for BSNL and CMSPs is illustrated below:

a. Differential Year Application

- i. For, BSNL, the Authority has taken cost & usage data for March 2002, while for CMSPs the data used is for March 2004. It is submitted that as per generally accepted accounting principles, it is necessary to use cost data for the same accounting period to arrive at a comparable cost per minute for different categories/ classes of operators. This differential approach has resulted in cost per minute for 2002 for BSNL being compared to cost per minute for 2004 for cellular operators, to arrive at IUC, which is incorrect from application of accounting / costing principles. This has also given a skewed result in favour of BSNL, as demonstrated below:

$$\text{Cost per minute} = \frac{\text{Costs of Network \& Operation for the year}}{\text{Total Minutes of Usage for that year}}$$

- ii. It is an accepted fact that costs of network and operation are reducing and the number of minutes of usage is increasing with time. In the IUC Regulation, since the Authority has taken 2002 data for BSNL and 2004 data for cellular operators, this will result lower costs and higher minutes of usage for CMSPs vis-à-vis BSNL being taken into consideration for working out the termination charges. This has resulted in lower termination charges of 30p / 40p per minute for cellular networks. COAI submits that the reference year for calculation of cost per minute for CMSPs must be 2002, as has been taken for BSNL.
- iii. In any event, COAI would like to submit that the termination charges of 30p / 40p per minute for CMSPs are significantly out of line with the Authority's own calculation of Rs. 2.25 in July 2002.



b. Differential Inclusion of Cost Elements

- i. The second anomaly in the costing approach of the Authority relates to the cost elements. For any exercise to calculate costs for a transaction between 2 operators, it is vital that the basis of the cost calculation be same for both i.e. the same cost elements are included in both cases. However, different cost elements have been used for BSNL as compared to cellular operators as below: (Refer para 9 of the Explanatory Memorandum)

Cost included for BSNL	Cost included for Cellular Operators
Employee remunerations and benefits	Employee remunerations and benefits
Network operating costs	Network operating costs
Other operating costs	Other operating costs
Administrative costs	Administrative costs
Others	Others
Sales and marketing costs	50% of sales and marketing costs
Bad debts	Not included
Loss / profit of sale of assets	Not included
Audit fees	Not included

- ii. This anomalous approach of the Authority and non-inclusion of some of the above cost elements has resulted in a lower termination charge being prescribed for cellular.
- iii. CMSP data is available on a circle-wise basis. COAI would like to know whether the authority has followed a similar circle-wise, service-wise approach for BSNL to determine FSP termination charges. The Authority may kindly clarify the same.

II. Interpretative Difficulties

- a. The Authority has prescribed an additional payment of Rs. 0.20 / minute for calls from cellular to Fixed / WLL (M) networks in circles as transit cost through TAX in Schedule IV. The above prescription by the Authority presumes that WLL (M) networks would follow the PSTN architecture identical to a fixed line network having LDCC TAX and



Local Exchanges in SDCA and also that the interconnection between WLL (M) and cellular networks would be at the Level of LDCC TAX (Level II).

- b. It is submitted that this additional charge of Re. 0.20/ minute would not be payable by CMSPs in case those WLL (M) operators who are flouting their license conditions and installing MSCs and operating on a PLMN network architecture. The Authority is requested to kindly confirm the same.
- c. Furthermore, as the Authority has already prescribed a transit charge of 20p through TAX, there is little justification for separately prescribing a higher termination charge of 60p per minute for termination of fixed local calls in the Circle as compared to 50p per minute for terminating NLD calls.
- d. Since the IUC regime is now based on principles of payment for work done and there are IUC charges specified for interconnection at LDCA, SDCA levels etc., the Authority should ensure that the CMSPs are given the flexibility in choosing their POIs for terminating calls most optimally. CMSPs should therefore be allowed to have POIs at any desired location subject to technical feasibility and network integrity.
- e. In Schedule III, the call charges between Fixed and Cellular for both Metro networks and Circle networks have been clearly specified by the Authority. In contrast to the above, Schedule V does not clearly specify the call charges between Fixed and WLL (M) for either the Metro networks or Circle networks. The Authority is kindly requested to specify the call charges clearly in Schedule V also. It is also submitted that since cellular mobile and WLL (M) are both cost based and substitutable mobile services, having the same termination charges, the pulse rate prescribed for fixed to cellular mobile should also be applicable for calls from fixed to WLL (M) both in Circles and Metros.
- f. The termination charges for WLL (M) to WLL (M) inter-network calls have not been clearly specified. It is submitted that as IUC regime is based on the principle of work done, then for any call scenario, the IUC must be clearly prescribed and tariffs must be IUC compliant. Any other approach would only result in calls flowing within the same type of network – i.e. WLL (M) to WLL (M), Cell – to-Cell, Fixed-to-fixed. This will result in fragmentation of the market and reduce vibrant and healthy inter-working between



various types of networks. It is presumed that the termination charge prescribed by the Authority for WLL (M) would also be applicable to WLL (M) to WLL (M) inter-network calls. The Authority is requested to kindly confirm the same.

g. Similarly, the termination charges for Cellular-to-Cellular inter-network calls have also not been clearly specified. It is presumed that benchmark termination charge prescribed by the Authority for cellular networks would be applicable in this case also. The Authority is requested to kindly confirm the same.

ii) Transit of calls through a third party network/ switch even for local calls may be required at least as a back up arrangement. Should a transit charge be specified?

a. COAI submits that all inter network intra-circle calls should be completed through direct interconnection links as a first choice. However, transiting calls through a third party network/switch should be available as a backup arrangement in case of failure of direct links or overflow of traffic in case of any unexpected sudden increase in traffic, etc.

b. COAI also agrees that a separate transit charge must be specified for local calls. However, a differential billing arrangement based on networks involved in the routing of the call would lead to confusion in the consumers' mind as well as be difficult to implement and administer. It is therefore suggested that this transit charge may be factored into the calculations for working out the termination charges. Such an approach will ensure that the consumer does not end up paying different charges based on the routing adopted by his service provider and the Access Providers do not suffer any additional cost for alternate routing in such situations.

iii) Is there an IUC anomaly in the case of long distance calls involving GSM roamers? If so, how is it to be corrected?

a. We believe that there are areas of ambiguity in the case of long distance calls involving GSM roamers. However, since GSM roaming is a complex issue, we believe that there is a need for a special discussion on this issue and the Authority must examine all the roaming scenarios in order to arrive at a comprehensive technical solution involving all service providers.



- b. In this context, we would like to draw the attention of the Authority to the roaming services being illegally offered by the private WLL(M) operators. While roaming is not permissible under WLL (M), the ground reality is that this service is being offered and availed of. We believe that the Authority must first address this violation before considering the ambiguities in respect of GSM roaming.
- iv) Should Cell to Cell and WLL (M) to WLL (M) termination charges be defined for all Intra and Inter-Circle calls?**
- a. Yes. As mentioned in pre-paras, this is an area of ambiguity in the IUC Regulations, which must be corrected expeditiously. The termination charges for cell to cell and WLL (M) to WLL (M) must be prescribed to ensure transparency in the IUC Regulations. This will also safeguard the interests of standalone Access Providers vis-à-vis integrated players having licenses for multiple circles.
- v) Should the termination charges be made identical for all intra-circle calls across all services?**
- a. The termination charges are based on the principle of cost of work done by the terminating network and therefore, cannot be same for intra-circle calls for all services. However, if the same cannot be based on costs, then uniform termination charges may be applied for the sake of ease of implementation. However, these uniform termination charges must be prescribed justly and fairly, keeping in mind the costs incurred by the service providers and should not result in loss for any class of service providers.
- vi) Should there be any differences in IUC for Origination and termination covering National Long Distance and International Long Distance segments? Is there any justification for different IUC values based on distance?**
- a. While the IUC for origination and termination for NLD calls/intra circle long distance/local terminations should be the same, the IUC for ILD calls should be higher for incoming ILD calls terminating on cellular networks. The termination charges should be equal to or higher than the termination charges (including ADC) payable for fixed networks.



Internationally the termination charges for terminating on cellular mobile networks are higher than those for fixed line networks and the principle of reciprocity is generally applicable while finalizing settlement rates for incoming and outgoing ILD calls.

vii) Is there a need to review the national numbering and long distance charging plans?

a. The review of the national numbering plan has just been completed by the DoT in April 2003. As per the DoT, “The new National Numbering Plan will be able to meet the challenges of multi-operator, multi-service environment and will be flexible enough to allow for scalability for next 30 years without any change in its basic structure.”(Para 1.4).

b. In Para 1.9, “Some of the salient features of the National Numbering Plan are as follows:

- “It is a SDCA based linked numbering scheme.
- N(S)N is 10-digit for both the basic as well as cellular mobile services.
- The Subscriber Number (SN) for basic services will be of 6, 7 or 8 digits depending upon the length of SDCA code.
- Basic to cellular mobile service calls shall use prefix ‘0’ only if Point of Interconnect (POI) is not available in the same Long Distance Charging Area (LDCA) from where the call is originated.
- Basic services shall be accessed by cellular mobile using ‘0’.
- There is no change in the cellular mobile numbering structure.
- Levels 0, 1, 7, 8 and 9 shall not be used as first digit for telephone exchange codes in basic services.
- There is no change in the numbering structure for paging services.
- Carrier Access Code (CAC) for NLD and ILD has been defined as ‘10’.
- Separate Carrier Identification Codes (CIC) have been earmarked for toll and non-toll quality NLD and ILD services.
- All the service providers shall use ‘100’, ‘101’ and ‘102’ for Police, Fire and Ambulance services respectively.
- ‘107X’ has been defined for emergency information services like earthquake, floods, air and train accident etc.
- Intelligent Network service access codes on ‘16XX’ are shifted to ‘18XX’.



- Trunk services codes are shifted from '18X' to '150X'.
- Certain level '1' codes are earmarked for all service providers to offer various subscriber related services, as per their choice, within their network.
- Voice Mail Service (VMS) access code is shifted from '93' to '170'.
- Enough spare levels/ codes are reserved for future needs."

c. In the light of the above, we believe that there is absolutely no requirement for the Authority to review either the national numbering plan or the long distance charging plans. We believe that this issue has been raised in the Consultation as a result of the apprehensions expressed by the FSPs on the bypass of traffic within the service area. We believe that this is a totally baseless concern. The license agreements of the CMSPs clearly specify that the entire circle is the service area for the CMSP. This position has also been endorsed by the Government on affidavit. In light of the above, we believe that it is not required to consider this matter any further.

vii) **Should the carriage charge for long distance calls be revised?**

a. Cost based carriage charges have been prescribed by TRAI just 4 months back. We do not see any reasons for revision of these charges so soon after IUC Regulation unless some anomalies / inaccuracies in the computation of these charges have been brought to the attention of the Authority by concerned stakeholders / affected operators.

2. **Access Deficit**

Several comments have been received with regard to the quantum of Access Deficit, the method used for calculating the Access Deficit, the method of compensation proposed for Access Deficit, anomalies with regard to the specific Access Deficit under different situations, etc. Keeping in mind the issues raised in Section 3, following questions have been formulated for consultation:

i) **The requirement of Access Deficit has been worked out on the basis of Cost as contained in the published Annual Reports of BSNL and MTNL, being the companies having the largest share of fixed line customers at the moment. In the light of rapidly evolving technology alternatives should the Access Deficit be**



continued to be calculated based on the concept of replacement and re-creation of the network or on the basis of re-creation of the functionality of the network? This would require a look at various alternative costing methods such as the Current Cost Model, the Historic Cost Model, the Long Run Incremental Cost (LRIC) Model or Forward looking LRIC (FL LRIC). What are your suggestions in this regard?

COAI has already submitted its preliminary views on ADC to the Authority vide its Letter No. TVR/COAI/070 dated June 4, 2003. These views, which are also enclosed as Annexure-2, may kindly be read as part of this submission. In addition to the above, we would like to submit the following :

- a. While computing the access deficit, it is important for the Authority to distinguish between the urban and rural access deficit.
- b. Rural telephony costs are met through the USO fund to which all operators contribute separately. The subsidies given to such rural connections through the USO Fund must not be taken into account while calculating the Access Deficit.
- c. BSNL, in order to provide village & rural telephony & meet universal service objectives :
 - o Has been given a license fee and spectrum charge waiver till Year 2006
 - o Has been given Rs. 720 crores as loan in perpetuity to meet VPT obligations
 - o Has been granted Rs. 800 crores under supplementary demand for grants for 2001-02

These subsidies must be adjusted for while calculating the Access Deficit.

- d. MTNL providing services only in Delhi & Mumbai does not have any rural / VPT obligations should not be eligible for any rural ADC.
- e. Access Deficit should be calculated on the basis of the tariffs permitted and not the tariffs charged. To the extent that BSNL is providing services at tariffs that are lower than the tariffs mandated by TRAI, this difference should not be taken into account while calculating the Access Deficit. This difference is either due to a commercial decision



taken by BSNL in which case its costs should be borne by BSNL. Alternatively, it is a political decision in which case, the cost should be borne by the Government Exchequer.

- f. COAI believes that the Access Deficit should be calculated on the basis of re-creation of the functionality of the network. The access deficit should be worked based on the Forward Looking LRIC and the most economical technology option (copper cable, OFC or WLL).
- g. As regards the costing approach to be followed by the Authority, it is submitted that Access Deficit is an issue relating primarily to the incumbent - BSNL. Any costing approach adopted by the Authority must take into account the fact that the bulk of BSNL's infrastructure is substantially depreciated. Costing must take into account the aging of the various assets of BSNL.
- h. COAI also believes that there should be an incentive left for BSNL to rationalize its costs – it is well established that its head count to DEL ratios are amongst the highest in the world. Accordingly BSNL costs should be rationalized according to a transparent proxy model and only the shortfall between the actual realization and reasonable return should be taken into account while calculating the Access Deficit.
- i. Fixed operators can use WLL to provide speedy rollout through fixed wireless access in rural, hilly and congested areas. The cost of WLL networks has been determined by the Authority as far lower than the cost of wireline networks. In fact the cost based rental of Rs. 200 per month for WLL is equivalent to the average rental Rs. 200 per month assumed by the Authority for its ADC calculations. It is submitted that operators deploying WLL networks are already charging cost based rentals and should therefore not be entitled to any ADC.
- ii) **Which target networks should be provided funds to recover Access Deficit? Should these be identified on average basis covering all customer lines or a distinction should be made between the Access Deficit for Urban and Rural connections?**



- a. There should not be any Access Deficit in the case of urban and commercial subscribers.
 - b. ADC for rural connections should be adjusted for taking into account the disbursements from the USO fund, the dispensations available to BSNL to meet its rural obligations and the deployment of cost based WLL in rural areas. Further service providers not having / not meeting their rural obligations should not be extended the rural ADC.
 - c. Access Deficit is payable only if the FSP offer regulated tariffs as prescribed by the Authority. FSPs who are offering alternate tariff packages should not be eligible for ADC.
- iii) **Should the source of the contribution to the Access Deficit be from calls, which have fixed network either at one end or both ends or the contribution should come from all services? The key issue should be to ensure that no competitive advantage becomes available to any specific services as a result of regulatory intervention.**
- a. Access Deficit is payable to the fixed operator when he is involved in one or both ends of the call. We fail to understand how the ADC can be payable to the FSP for a call in which he is not even involved.
 - b. In case of rural networks, ADC can be covered through the USO Fund. This would eliminate any regulatory disadvantage for BSNL due to higher cost of NLD calls involving fixed networks and allay the fears of migration of traffic to cellular / WLL(M).
- iv) **Whether some or all providers of fixed line services be recipients of Access Deficit Funds ?**
- a. It is reiterated that only those service providers having / meeting their rural obligations should be eligible for a rural ADC.
 - b. It is also reiterated that operators offering cost-based fixed WLL services should not be entitled to ADC.



- v) **Should the Access Deficit fund collection be minute based or revenue share based? In case per minute basis is adopted for computation of Access Deficit charge, should this amount be uniform for all these services by working out weighted average across individual services based allocation?**
- a. We do not believe that there is any justification for a separate “Access Deficit Fund”. As mentioned earlier, USO and ADC are closely linked and the creation of another “fund” will only proliferate bureaucratic systems and reduce the speed of response to the imperatives of telecom reforms. Also internationally there are no precedents for the same. Further, we believe that a per minute based ADC is a correct and fair way of applying the Access Deficit Charge. This will also be simple and easy to administer.
- vi) **Should the mechanism of transfer of funds be direct operator to operator transfer or through a third party independent administrator?**
- a. This should be done directly by way of periodic inter-operator settlements. We believe that there is no requirement for an additional level of administration for this purpose. The settlement period / frequency may be specified by the Authority.
- vii) **Should uniform or non-uniform ADC charge arrangement continue or only one be standardized? In that case, which one?**
- a. COAI agrees that the simultaneous availability of a uniform / no-uniform ADC regime and the adoption of different practices by different operators could result in chaos and confusion in the telecom sector. We are therefore of the view that a single approach must be adopted and we believe that this approach should be to adopt a differential ADC regime. This would be logical as well as more acceptable to the consumers who are used to paying distance-based charges.



3. Tariffs

i) **Should the regulator monitor predatory pricing or should the tariffs be left to market forces after ensuring no regulatory advantage to any one type of service over others?**

a. In our view, the Regulator will have to play a proactive role in monitoring and regulating the industry to ensure that predatory or anti-competitive practices are not adopted by any operator. As the current system is service specific, pure-play operators must be assured of fair competition so that they do not fall victim to predatory / anti-competitive practices of the dominant incumbent or other vertically integrated operators. In fact the Authority must specifically address issues / concerns related to the incumbent as well as new players who are vertically integrated. We understand that this is a complex area but unless the regulatory framework has specific safeguards for ensuring fair competition in an environment which features all the above types of players, it is submitted that the orderly and healthy growth of telecom in India may not take place to the extent desired

ii) **What should be the principles to ensure that Tariff proposals are consistent with applicable Interconnection Charges.**

a. As mentioned in our submission dated May 6, 2003 (enclosed as Annexure-1), a retail tariff must be equivalent or higher than the sum of the IUC charges for origination, carriage and termination specified by TRAI. Any tariff, which is less by more than 10% of the sum of IUC values, must be treated as predatory / anti-competitive in nature and dealt with as such. If the TRAI allows any such lower tariff, then the entire IUC exercise will be rendered meaningless.

b. The submission format for retail tariff should be such that it shows composite retail tariff for the understanding of the consumers and also shows a segment-wise breakup of the retail tariff into origination, carriage and termination to aid the Regulator in ensuring IUC regime compliance.



- c. BSNL has different pulses for different types of calls. COAI submits that for inter-operator settlements, these pulse based charges should not be used for the following reasons :
- i. CDRs generated in the interconnect billing system are with one-second granularity.
 - ii. Calls through junction groups are measured on a second basis and accumulated for a period of one month. This accumulated call duration will be billed on the accumulated minute basis as per the IUC regulations. This is applicable to both originating as well as terminating access providers, who will use the CDR based interconnect billing system.
 - iii. If BSNL measures the calls on a pulse basis and these pulses are different for different types of users, different distances, different points of interconnect, then the bill they produce will be much higher than the bill generated by the interconnect billing system thus creating reconciliation problems.
- d. To ensure consistency between IUC and billing systems, it is important that BSNL accept the second-based CDR generated from the interconnect billing system and tally the same with the CDRs available in their systems. This will eliminate reconciliation problems.
- e. There is no logic in BSNLs demand to CMSPs to arrange the CDRs based on type of originating network (fixed, cellular or WLL (M) for collecting termination charges from BSNL.
- f. Following principles should be observed to ensure that tariff proposals are consistent with applicable IUC:
- Tariff should be unbundled.
 - Minimum tariff should be equal to sum of origination, carriage and termination charges.
 - A tariff should be non-discriminatory.



iii) **Whether the tariff for Cellular and WLL (M) which presently are under forbearance, need a revision.**

- a. In a fully developed competitive market, tariff forbearance is the best regulatory practice. However due to over-heated competition, in order to ensure long-term survival of the sector TRAI may fix floor tariffs for various telecom services.
- b. It is reiterated that both WLL (M) and cellular are substitutable mobile services. Although ostensibly, the Authority has equated the two services, there are still several aspects where cellular has been placed at a disadvantage vis-à-vis WLL (M). This inter alia includes :
 - i. Although both WLL (M) and cellular have been placed under forbearance, the Authority requires each cellular operator to file a Reference Tariff Package with the TRAI. The Authority has not even put this minimum stipulation on the WLL (M) operators.
 - ii. Further, roaming tariffs are regulated for cellular operators. WLL(M) operators are illegally offering roaming services with complete freedom.
- c. COAI submits that the same tariff policy must be followed for both cellular and WLL (M).

4. CPP Issues

i) **Any comments to make implementation of CPP more effective.**

- a. At the outset, we would like to submit that **what has been introduced by the Authority is an IUC regime featuring free incoming calls and not a true CPP Regime.**
- b. Internationally a CPP regime has two distinguishing features :
 - i. Firstly, there is a significant premium placed on mobility and the fixed to mobile call is usually priced at much higher than a fixed to fixed call as the



consumer pays a premium for contacting a person and not a 'location'. Internationally, the premium on PSTN to Mobile Calls is at least 4 times the price of a local PSTN to PSTN call, going up to as much as 12 times in the case of South Africa. (See Table)

Premium on PSTN-to-Mobile Calls

Country	Premium on PSTN to Mobile Calls
UK	421
Norway	860
South Africa	1250
Chile	425
Mexico	389
Argentina	775
India*	33 / 100

Source: COAI Presentation to ITU in early 2000

* IUC Regime, 2003

- iii. Secondly, the share of the mobile operator is usually far higher as it is more expensive to terminate a call on a mobile network, as compared to a fixed network. The tariff for a fixed to mobile call is usually shared in a 30:70 ratio between the fixed and mobile operator.
- c. In India however, the fixed to cellular call is prescribed at 33-100% premium (1.20 per 90 seconds for Metros and Rs. 1.20 per minute for Circles) over the price of a fixed to fixed call (Rs. 1.20 for 2-minutes). Further, the CMSPs get one-thirds (30p / 40p per minute) of the charges while the FSP retains two-thirds (50p / 80p per minute).
- d. Contrary to the apprehensions being voiced by the FSPs introduction of an IUC regime and the introduction of free incoming calls on all networks will also benefit the fixed network operators. This is due to what is known as the “**induced network effect.**” Induced network effect happens because Cellular Mobile forms part of the overall telecom network of the country. Free incoming calls to cellular mobile will induce more calls to mobile and in turn result in more return calls to fixed networks.



Thus the overall group of interconnected networks will benefit from increased network usage. This is something like the network externalities effect.

- e. It may additionally be noted that in the earlier regime fixed operators were getting 40p per minute for calls terminating on cellular mobile. In the new interconnect regime, this has now gone up to 50p / 80p per minute in Metros and Circles respectively.
- f. Further, the margin on calls from fixed networks to mobile networks is higher as compared to the revenues on local calls. This means that the fixed operators earn far more on calls, which they do not terminate themselves but hand over to mobile networks. In other words, the costs are lower, but the revenues are higher.
- g. It may further be noted that since both WLL (M) and cellular are substitutable mobile services, then to have free incoming calls for the former while denying it to the latter would result in gross discrimination against both the cellular subscribers and operators.
