

*Addendum to Response to Consultation Paper 12/2013*

December 24, 2013

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Dear Sir,

Please find attached an addendum to our response of December 17, 2013 to the consultation paper 12/2013 on “Migration of FM Radio Broadcasters from Phase-II to Phase-III”.

Regards,

Prashant Panday  
ED & CEO

Encl.: a/a

**Addendum  
to the  
Consultation Paper on  
Migration of FM Radio Broadcasters  
from Phase-II to Phase-III**

**ENIL**

**Date: December 24, 2013**

We would like to make the following three additional points:

1) **Migration fee based on “average of Phase-2 bids”:**

In our response dated 17<sup>th</sup> December, we had mentioned “maximum of Phase-2 bids” to be our first preference. However, upon further consideration of the Phase-2 bidding data, we would like to make amends. Our first preference now for migration fees is the “average of Phase-2 bids”. We would like to provide the following justification for this.

The Phase-3 reserve fee has been pegged at the maximum bid received in Phase-2 auctions. The radio industry has been up in arms against this formula. The primary reason for this has been that the methods of auctions in the two phases – a “one-step tendering” method in Phase-2 and a “multi-step ascending e-auction” method in Phase-3 – are totally different from each other. Hence it’s unscientific to use the bids realized by one method in auctions conducted using another method. In order to use Phase-2 bidding for Phase-3 auctions, it is necessary to first “equate” the two bidding methods.

As a hypothetical exercise, if one were to assume that Phase-2 auctions were also held using the ascending e-auctions method, then simplistically, the final bid (the successful bid) would have been the “lowest” bid received where supply and demand matched. At a point higher than this, demand would have been lower than supply. Consider the example of Delhi, based on the annexure attached:

As seen from the annexure, had e-auctions been conducted in Delhi in Phase-2, it is likely that the final bid would have been Rs 7.5 crores, marked in yellow (incidentally, this bid was rejected because the reserve fee in Phase-2 was higher than this amount, at 25% of the maximum bid). Since there were six frequencies

auctioned, they would all have been auctioned off at Rs 7.5 crores. At the price of the next higher bid.....Rs 10.26 crores....only 5 frequencies would have been auctioned.

In a similar way, the final bid in Mumbai would have been lower than Rs 6.5 crores, but it is difficult to estimate what this bid would have been since only four bids were received in Phase-2 (while there were five frequencies on auction). In Kolkata, the final bid would have been Rs 3.2 crores, Chennai Rs 5 crores, Pune Rs 5.4 crores and so on.

Since the formula we are recommending is the average of Phase-2 bidding, it is seen from the annexure that this average is between 1.19 and 8.13 times of the hypothetical e-auction final bid for the top 13 A+ and A category towns. At the aggregate level, the ratio is a high 2.53 times.

Clearly, this high ratio implies that the “average” is more than reasonable, and should be acceptable to TRAI and MIB, even considering that these licenses are being issued now in 2014, and are for 15 years duration.

If the “maximum of Phase-2 bids” is considered, the ratio at an aggregate level would be 3.63 times, which is too high.

To summarize, using the “average of Phase-2 bids” is a reasonable formula to determine migration fees for Phase-2 licenses.

**2) Pooling of current Phase-2 frequencies with new Phase-3 frequencies:**

In addition to what we have already submitted in our original response on 17<sup>th</sup> December, we would like to add that the pooling option mentioned in Point 4 in that submission, has an additional advantage.

It ensures that the process of issuing fresh licenses in place of Phase-2 frequencies becomes smooth. As an example, consider the case of Delhi. The expiry dates of Phase-2 frequencies are as under:

- 3 in March 2015,
- 3 more in September 2016,
- 1 in October 2016 and
- 1 in May 2017

Likewise in Kolkata:

- 4 frequencies expire in March 2015, and
- 1 each in October 2016, February 2017, October 2017, January 2018 and December 2018

If these frequencies are not pooled together with Phase-3 auctions, they will have to be auctioned separately as and when they expire. This will be a logistical nightmare as ascending e-auctions are usually conducted, a “block” of frequencies at a time. However, if they are pooled together, the auction process can be completed in one single, smooth auction process.

One question that arises is whether *all* Phase-2 frequencies should be pooled with new Phase-3 frequencies or only a *limited* number, expiring in close proximity to each other, should be pooled. Given the complexity of the auctions process – choosing an auctioneer, developing the NIA, releasing ads in newspapers, appointing Independent Expert Monitors (IEMs) and actually conducting the auctions – we believe it is best that *all* frequencies are pooled together right now, in one single round.

### **3) Why pooling should be done now and not delayed?**

Any auction process is fraught with the risk that all available frequencies are not auctioned off in a single auction round. For example, in the 2G auctions held for

the first time in November 2012, only a few “slots” could be auctioned in most circles. Further, in the four circles of Delhi, Mumbai, Karnataka and Rajasthan, none of the slots could be auctioned. As a result, another round of auctions had to be conducted in March 2013, with modified financial terms. Again, most of the slots could not be auctioned off in this round as well. The government was then forced to tweak the financial terms (like reserve fees) yet again, and schedule a fresh round of auctions. After an elaborate and time consuming process, the date for fresh auctions has now been fixed in January 2014. But even in this round, we cannot be sure that all slots will definitely be auctioned.

The process of auctioning all available slots, which started in November 2012, could end up taking more than 14 months to complete. Fortunately, the auctions were started off soon enough, much before the original licenses of the telcos started expiring.

Considering that a similar experience may await Phase-3 auctions, it is advisable to start the pooling and auction process quickly in FM radio also. If all frequencies are pooled and auctioned right-away, then there is more certainty that all frequencies will indeed be auctioned off before the Phase-2 licenses expire, even factoring in some failed rounds of auctions in-between.

**Conclusion:**

- 1) The “average of Phase-2 bids” is the best formula to use for determining the migration fees for current Phase-2 licenses.
- 2) If auctions are a must, pooling of current Phase-2 frequencies with new Phase-3 frequencies will make the entire exercise logistically simpler.
- 3) Pooling of Phase-2 frequencies with new Phase-3 frequencies should be done NOW and not delayed.

Details of Actual Bids received during Phase-2 Auctions  
(Rs crores)

Sl. No.	City	No. of Freqs Auctioned	Bid 1	Bid 2	Bid 3	Bid 4	Bid 5	Bid 6	Bid 7	Bid 8	Bid 9	Max/ Final bid ratio	Avg./ Final bid ratio
1	Delhi	6	31.42	28.12	28.00	13.33	10.26	7.50	3.10			4.19	2.96
2	Mumbai	5	35.20	28.12	10.08	6.50	??(#)					5.42	3.76
3	Kolkatta	5	6.11	6.00	5.00	3.24	3.21	3.00	1.50	1.25	1.12	1.90	1.47
4	Chennai	6	12.27	9.09	8.02	8.00	6.30	5.00	5.00	1.62	1.00	2.45	1.62
5	Pune	3	14.01	6.00	5.42	5.09	4.00	1.44				2.58	1.56
6	Ahmedabad	5	12.01	11.50	6.50	5.12	1.08	0.81				11.12	8.13
7	Bangalore	7	21.60	20.00	15.42	12.96	9.20	6.00	3.06	2.10	2.02	7.06	4.64
8	Hyderabad	7	18.00	15.00	7.60	6.11	3.27	2.16	2.10	1.54	0.70	8.57	5.56
9	Jaipur	5	6.10	5.90	5.80	5.01	3.00	1.27	1.10	0.76	0.54	2.03	1.72
10	Lucknow	2	14.01	10.10	1.80	1.60	0.50					1.39	1.19
11	Nagpur	6	5.10	3.00	2.00	1.50	0.61	0.54				9.44	5.37
12	Kanpur	3	8.01	6.00	2.56	1.71	1.60	1.50	0.40			3.13	2.16
13	Surat	4	3.60	2.50	2.00	1.51	1.33					2.38	1.59
<b>All</b>	<b>Top 13</b>		<b>187.42</b>	<b>51.58</b>								<b>3.63</b>	<b>2.53</b>

Legend: Yellow - successful bid in case ascending e-auctions had been held