

Rajendra Singh
Advisor (MN)

DO No. 101-20/2001-MN

October 22, 2001.

Dear Shri Gupta,

Subject: Filling up of vacant slots of Cellular Mobile Telephone Service (CMTS) Licence.

This refers to Department of Telecommunication letter No. 842-374/2001-VAS dated 30th August, 2001, wherein it was indicated that in the fresh round of bidding for grant of licences for induction of fourth Cellular Mobile Service Providers in various circles, no bid was received for Andaman & Nicobar, Bihar, Orissa and West Bengal. Presumably, the lack of response is due to the perception of the service providers that these Circles offer poor business case.

2. DOT in their above referred letter have suggested the following possible approaches, to make these Circles more attractive for the bidders.

- i) Combining of Andaman and Nicobar with West Bengal Circle,
- ii) Appointment of franchisees in these Circles for providing the service on the same lines as permitted in case of basic services,
- iii) Lowering of entry fee.

3. The Authority has duly considered the suggested line of approach as well as some other modalities to achieve the objectives of generating greater competition in these circles by induction of one more operator. Based upon these considerations and its deliberations, the Authority makes the following recommendations:-

- i) Although for administrative reasons, the DOT has suggested that Andaman and Nicobar Islands (A&N) be clubbed with West Bengal Telecom Circle, the Authority recommends that clubbing A&N Circle with Tamil Nadu Circle may be considered in view of the proximity of A&N islands with Tamil Nadu as well as higher Average Revenue Per User (ARPU) of Tamil Nadu Circle compared to the West Bengal Circle. It is the Authority's view that it may make a better business case, if A&N is clubbed with Tamil Nadu rather than with West Bengal. An operator is likely to be in a position to manage business in these two circles as a package much better than in the alternative package proposed i.e. by putting West Bengal and A&N

together.

- ii) The Authority agrees with the concept of encouraging franchisee on the lines of basic service providers. This approach, however, is not likely to be helpful in any circle which is basically loss making. A&N circle on its own, may not prove to be profitable for at least the next few years and payment of commission/royalty to franchisee would only be an additional burden on service provider, making the business case worse.
- iii) Lowering of the entry fee also is not likely to help much, as the impact of the reduced entry fee on the project cost as also upon the cost of services is likely to be minimal. Any reduction in the entry fee, can be only a marginal, at best a psychological advantage. However, we would recommend that in these cases no reserve price for entry fee may be stipulated at the time of bidding.
- iv) What could really attract investors in these cases, is in our view, a relaxation in the roll out conditions. Stringent roll out conditions could present before the operator the dilemma of having to put in capital funds in the project much before he can expect to get any return on his investments. In a situation of low demand an operator would normally want to keep his investments in the project low and increase his investments as demand picks up. This may not be possible if stringent roll out conditions are stipulated in the license. The Authority, therefore, recommends a relaxation in the roll out conditions. For these Circles, we would recommend that the requirement of covering 50 per cent district headquarters in the first three years may be modified and reduced to only 25 per cent.

4. The detailed recommendations are given in enclosed Annexure 'A'.

5. DOT while inviting the bids may also arrange that the plan of BSNL for their cellular services in these Circles is made known to the bidders. This will help prospective bidders in preparing their business cases and by reducing uncertainties give them confidence to make the bid.

6. The recommendations along with the text of this letter have been placed today on TRAI's web site (www.trai.gov.in) for public information.

With regards,

Yours sincerely,

(Rajendra Singh)

Shri J R Gupta,
DDG(VAS),

Department of Telecommunication,
Sanchar Bhavan,
New Delhi.

Encl: as above

ANNEXURE `A`

**RECOMMENDATIONS ON FILLING UP OF VACANT SLOTS OF CELLULAR MOBILE
TELEPHONE SERVICE (CMTS) LICENCE**

I. Context:

1. The Department of Telecommunication vide their letter no. 842-374/2001-VAS dated 30th August 2001, has requested the Telecom Regulatory Authority of India (TRAI) for recommendations on filling up of Vacant Slots of Cellular Mobile Telephone Service (CMTS) Licence. DoT in this letter, explained that after obtaining recommendations of TRAI, action was initiated by DoT for induction of 4th Cellular Operators and filling up of certain vacant slots (West Bengal and Andaman and Nicobar (A&N) Telecom Circles).
2. There is no private cellular operator at present in Andaman and Nicobar Telecom Circle and there is only one existing private operator in Bihar, Orissa, Punjab, U.P (West) and West Bengal Telecom Circles (apart from BSNL).
3. Bids were invited on 9th March, 2001 for grant of the cellular licences. No bids were received for Andaman & Nicobar, Bihar, Orissa and West Bengal Telecom Circles. The cause behind the same was interpreted as poor business case. Licensor, i.e., DoT has suggested some relaxation in original recommendations of the Authority in regard to these Circles, to make them more attractive to the prospective bidders. In these non-lucrative Circles, Andaman & Nicobar, Bihar and Orissa are Category `C` Circles, whereas West Bengal is a Category `B` Circle.
4. The Authority is broadly in agreement with the suggestion of the Licensor (DoT), that the level of competition needs to be increased in these Circles. Therefore, at least, one more private operator besides BSNL should be inducted in A&N Circle where there is no private operator. Additional private operators should be inducted in Bihar, Orissa and West Bengal Circles where there is only a single private operator.

5. DOT in their letter under reference have suggested as follows: -
 - i) A&N Circle where there is no operator could be clubbed with West Bengal Circle as a package. The existing operator in West Bengal Circle could be allowed to cover A&N Circle also, as well as new operator to be inducted for West Bengal Circle can similarly cover A&N Circle.
 - ii) The existing as well as future operators in these Circles (West Bengal, Orissa, Bihar and A&N Circles) may be permitted to appoint franchisees for providing the service on the same lines as permitted in case of Basic Services so as to encourage faster roll out and coverage of service areas.
 - iii) The competition clause in respect of these Circles may be relaxed for private as well as Government companies. Fresh bids may be invited by fixing the lowest level of entry fee that was quoted in the first round of current bidding process, as the Reserve Price. The bidders may be asked to quote the entry fee above the Reserve Price after relaxing the competition clause.

II. Discussion on Issues referred to TRAI and the Authority's Recommendations:

6. Andaman and Nicobar (A&N) due to lower customer base may not have a strong business case on stand-alone basis. Therefore, the suggestion to combine it with another Circle to make it financially viable is acceptable in principle. Although due to reasons of administrative convenience, DOT has suggested that Andaman and Nicobar (A&N) Circle be clubbed with West Bengal Circle, the Authority is of the view that A&N be clubbed with Tamil Nadu, in view of the geographical proximity of A&N with Tamil Nadu, as well as higher Average Revenue Per User (ARPU) of the Tamil Nadu Circle compared to West Bengal Circle. It is expected that the two licencees together would retain the profitability of the present operations and in the long run prove advantageous to the operator. This arrangement would imply a more attractive value for the Andaman and Nicobar Islands licence.
7. DOT in their reference has suggested that existing as well as future operators in these Circles could be permitted to appoint franchisees for providing the service on the same lines as permitted in the case of basic service operators. The Authority is in agreement with the concept of encouraging franchisee on the lines of basic service providers, i.e., in the last mile. However, the suggested approach may not be very helpful if the Circle is basically a loss making one. In fact, payment of commission/royalty to franchisee could be an additional burden on service provider.
8. It has also been suggested by the DOT that fresh bids may be invited by fixing the lowest level of entry fee that was quoted in the first round of current bidding process, as the Reserve Price. The bidders may be asked to quote the entry fee above the Reserve Price. The Authority has considered the above suggestion and after deliberation on the above issue, is of the view that it may not be necessary to have a reserve price of entry fee. It recommends that the bids could be invited without any reserve price from the prospective service providers.

III. **Other Issues:**

9. In addition to the suggestions made by the DOT, the Authority has also considered some other conditions in the license relaxation which is likely to make the licenses which have hitherto not elicited any response from the service providers, more attractive. One of the factors which could be considered for relaxation is the mandatory rollout obligation. The existing licence agreement stipulates that 50% of District Headquarters should be covered within 3 years of effective date of licence. In order to comply with the above condition, the service provider has to cover a district headquarter even if there is no business case for covering the same. The Authority, therefore, recommends a relaxation in the rollout conditions. Instead of stipulating coverage of 50 per cent district headquarters in three years, the condition may be relaxed and the operators' obligation to achieve compulsory coverage of district headquarters in the Circle may be reduced to 25% in the first three years