

COAI Response
to
TRAI Consultation Paper No. 2000/1
on
Accounting Separation

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New Delhi

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ANNEXURE – A

GENERAL COMMENTS

Introduction

1. COAI welcomes the invitation of the TRAI to respond to the Consultation document. COAI notes and agrees with the Authority's intention of determination of costs of providing a particular service as the first and most important step towards creating a fair, transparent and just regulatory environment.
2. COAI is greatly reassured by TRAI's recognition of the industry's concerns on the need to ensure greater transparency in operations to prevent the possibility for cross-subsidization by the incumbent of new and competitive service segments from its monopoly profits.
3. COAI believes that lack of service-wise unbundled cost data is a major constraint in determining the cost of service, especially in the case of integrated operators that are providing a gamut of services under the same legal entity. Sufficient information and appropriate methodologies are required for the preparation of cost data in a manner that facilitates detailed service wise information.
4. The Accounting Separation exercise will help detect instances of anti-competitive / discriminatory practices, especially in the case of integrated service providers and will facilitate the provision of information and accounts of each separate business activity in a transparent and fair manner.
5. COAI agrees that availability of such data would help TRAI provide regulatory supervision and effective and relevant guidance for the development of the telecom sector. However, COAI would like to emphasize that such **Accounting Separation should be imposed at the discretion of TRAI and should be restricted to operators having significant market power as such operators would be in a position to use their dominance in existing businesses to establish new businesses / offer new services to the detriment of other operators.** It is therefore important that the Accounting Separation exercise for DTS/MTNL be conducted on an urgent and critical basis.
6. TRAI may subsequently require other operators to comply with the accounting separation requirements i.e. as and when the TRAI believes that a particular operator has obtained a significant degree of market power. Given the limited utility of this exercise for conducting regulatory oversight on new entrants as also the significant costs involved, new entrants should not be unnecessarily burdened with the requirement unless the TRAI sees a clear cut need for the data.



7. Further, we would like to point out that although Accounting Separation will go a long way towards addressing the concerns of operators, it must be emphasized that **complete structural separation of the cellular operations of DTS/MTNL from its fixed line operations is warranted over the medium term** to safeguard the interests of the industry and the overall health and competitiveness of this sector.
8. COAI would also like to point out that **anti-competitive behaviour is far easier to detect from the marketing behaviour of the operators**. Anti-competitive behaviour typically manifests itself through practices such as bundling, predatory pricing, cross-subsidizations, preferential treatment of selected partners, etc. It would therefore be worthwhile for the Authority to make suitable provisions for operators to report substantive instances of anti-competitive behaviour. **TRAI can then use the financial / accounting information available through the accounting separation exercise and/or the evidence provided by the operators, to prove / disprove claims of anti-competitive behaviour**. This will also put an obligation to the operators to bring forward only those matters which can be substantiated.

The Case for Accounting Separation

9. Telecom networks are associated with very high fixed costs, and this has led to a monopoly which has bottleneck facilities. If competition is to be established and is to thrive, access to these facilities and the price at which they are accessed must be regulated.
10. In India, in the present scenario, it may be fair to state that over 85% of the total telecom services market is attributable to DTS, MTNL and VSNL. Further, **the public ownership of the DTS**, etc. by the government, **and its obligation to finance specific public service objectives** such as rural telephony expansion in low tele-density areas, and access of telephony to all; **has led to significant distortions in the relationships of prices to cost of services**. As pointed out by TRAI in its previous Consultation Paper on Tariff Re-balancing, significant cross subsidization exists within and between services.
11. Currently, the cellular sector is confronted with the impending entry of the DTS/MTNL into cellular services, and serious concerns exist regarding the possibilities of cross-subsidisation and discriminatory as well as predatory service provisioning to the detriment of this sector. **The prevalence of predatory pricing will be detrimental to the interests of consumers in the medium to long term, as it would effectively terminate competition in the sector**. The concerns of the industry are further accentuated as the cost structure, business plan, network roll-out, subscriber levels of the private operators are to a large part dependent on the costs paid to the dominant incumbent for provision of their services.



12. **While DTS/MTNL may not be dominant players in the cellular market, yet in the light of their vertical and horizontal integration in the industry they should be viewed as dominant operators since they have the potential to establish their cellular businesses by using the market power they possess in other sectors of the business.** As a result of this they will have a number of comparative advantages vis-à-vis the private cellular operators in their entry into cellular services :
- **DTS/MTNL, by entry into cellular telephony become comprehensive service providers,** while all other service providers primarily operate fewer services and that too licensed under different legal entities. As a result the potential to cross subsidize between services is very high.
 - DTS/MTNL will have the **comparative advantages arising out of lower or nil costs of incremental investment in infrastructure for introduction of new services** because of pre-existence of an extensive and substantially depreciated network backbone across the country. **We believe that the savings for DTS/MTNL could be to the tune of 60-65% of the project costs.** Availability of existing infrastructure will also result in better time to market as compared to other/ new service providers.
 - DTS / MTNL will have **hidden cost savings,** as regards network provisioning in terms of ability to obtain within lesser time and at lower costs the requisite network provisioning clearances, as well as lower costs due to an existing organizational framework which would greatly reduce its operating and non-operating costs.
 - **DTS/MTNL will be in a position to avail of free or subsidised interconnection from their fixed line operations whereas private operators are compelled to pay exorbitant access charges that are unilaterally determined by DTS/MTNL pending resolution of interconnect issues.**
 - DTS / MTNL will have **large capitalization and easy access to cheaper and existing funding** including large retained earnings which may help the incumbent introduce aggressive marketing plans and pricing strategies for entry into new services as its business case.
 - Given the above, DTS/MTNL will be in a position to offer predatory prices which the existing private operators will be unable to match.
13. COAI therefore believes that the **determination of costs of the dominant incumbent - DTS/ MTNL, is a prerequisite to setting of cost based tariffs by TRAI. Costs need to be de-segregated between services and activities to be**



- able to identify the level and extent of cross subsidies**, which should then be excluded in determination of tariffs.
14. Further, the costing mechanism should also provide a basis of comparison and decision making which can happen only if the cost structures across a service sector are similar. In the Indian scenario however, the cost structures differ between DTS/MTNL and other existing and new mobile operators. Accordingly suitable costing systems such as Current Cost Accounting Systems, which also take into account the current cost of provision of services are relevant.
 15. It has also been the international experience that such exercises, have always, without exception, commenced with the incumbent operators with respect to accounting separation of costs for interconnection and for entry into new and/ or bundled services through their subsidiaries. It is therefore important that **the accounting separation exercise needs to be undertaken for DTS/MTNL on an urgent and critical basis.**
 16. Further, it must be mentioned that the existing regulatory framework does not provide a suitable mechanism to prevent anti-competitive behavior in absence of any anti-competitive mechanisms specific to this sector. Presently, no specific safeguards exist to counter exclusionary and exploitative behavior by any service provider. While **determination of costs alone may help determine tariff caps, these are ineffective for the purposes of “realizing the gains envisaged from restructuring of the sector by opening up to competition”.**
 17. TRAI must appreciate that the objectives laid down in NTP’99 can only be realized through a liberalized and competitive market. Competition measures should be designed to protect as well as prohibit. **Protection by TRAI/ the Government of India of the competitive process** and concurrently the interest of the consumers through the prohibition of any predatory practices **would ensure the achievement of telecom targets laid down in NTP 99.**
 18. COAI is aware that as laid down in NTP’99, DTS/ other basic service operators would be required to invest in low tele-density rural areas. The resources for meeting these obligations will be raised through a USO levy that would be payable by all service providers.
 19. Consequently, COAI is of the view that this **USO levy should therefore preempt the possibility of recovery of access deficit through tariffs.**
 20. Ongoing regulatory oversight over investment can be maintained by determination of cost based Interconnect and Service tariffs of the incumbent as well as through the USO levy mechanism, as investment cannot but be market driven in an increasingly competitive scenario.



COAI Recommendations

21. To sum up, COAI agrees that the **process of Accounting Separation should be conducted at the discretion of TRAI for service providers having a significant degree of market power.**
22. Given the above, it is imperative that the **accounting separation reporting for incumbent operator namely, DTS/ MTNL, be implemented on an urgent and critical basis.**
23. COAI further recommends that pending the availability of costing data from DTS/ MTNL and completion of the Accounting Separation exercise, TRAI **should immediately ensure adequate safeguards that prevent the introduction of services at tariffs set without taking into account all applicable costs.**
24. COAI would also like to suggest that TRAI should make suitable provisions for operators to report substantive instances of anti-competitive behaviour which can then be proved / disproved by TRAI using **the financial / accounting information available through the accounting separation exercise and / or the evidence provided by the operators.**
25. COAI fully supports the various objectives laid down by TRAI for this exercise and recommends that the following phased approach may be appropriate:
 - a) Immediately issue suitable anti-competitive safeguards against predatory pricing by any operator, under the regulatory powers of the TRAI.
 - b) Implement Accounting Separation for DTS/ MTNL on an urgent and critical basis.
 - c) Simultaneously devolve USO levy principles and use USO levy principles to enable achievement of NTP objectives as this will lessen / eliminate any possible resistance to Accounting Separation.
 - d) Implement Accounting Separation for other operators as and when they acquire significant market power, using inputs from a) to c) above
 - e) Use regular monitoring of reporting by operators for tariff re-balancing and regulatory oversight.



Annexure - B

ANSWERS TO SPECIFIC PROPOSALS

- 1. In keeping with the essentiality of information needs outlined in this Paper, what accounting practices and reporting requirements be prescribed for effective financial monitoring of service providers?**

COAI believes that Historical Cost Accounting based on accrual concepts is required to be used as the base method for Accounting Separation. BFCC based on current costs should be used for costing of existing services from existing service providers. For new services, forward looking, LRIC is recommended. The above recommendations are for the immediate future. COAI agrees with TRAI that all services over a period of time including those of DTS/ MTNL should be based on forward looking LRIC.

- 2. What Accounting Practices be adopted to minimise differences between the practices required to meet the TRAI's objectives and the practices that Licensees have to adopt to meet their internal and statutory requirements?**

As stated above. Already most operators with the exception of DTS follow the accrual method Accounting and Accounting Standards specified by the Institute of Chartered Accountants of India. These financial statements are already being reported using these accounting principles and standards and are audited for such compliance. However applicable alternatives are available under GAAP, which are recognized industry practices. For purposes of reporting cost data, it is recommended that a combination of the TRAI laid down methods as per the proposed Accounting Manual and those as per Statutory accounts be used. Further with reference to para 55 of Chapter 2, different operators have different year ends based on which budgets and financial performance is monitored, and accordingly the TRAI should ask for the last accounting year details depending upon the individual operator year end.

- 3. What should be the structure and format of the Accounting Manual to be prescribed by the TRAI?**

Refer Appendix 1.

- 4. In the context of the Costing Systems dealt with in this paper, should methodologies for accounting guidelines and reporting requirements be developed on the lines mentioned in the following paragraphs?**

As given below.



Broad Financial Category Costing

- 5. The TRAI proposes that broad financial categories could be developed on the following lines :**
- a) The DTS and the other service providers should split their long distance market segments into National Long Distance and International Long Distance?**
 - b) The residual telecommunications markets should be split between Urban and Rural with break up of residential / commercial consumers. The Urban and Rural Categories should be further split between Access, Local and Other Services.**
 - c) National long distance should be split between Intra – Circle and Inter – Circle Long Distance. National and International Long Distance categories should be further split between long Distance and other Long Distance Services.**
 - d) The Other Service Category may include causal costs associated with other non- – telecommunication services, such as rental of premises to outside parties.**
 - e) The Other Long Distance Category may include leased lines; value – added services and others not defined as basic Long Distance.**
 - f) The Access Category may include all the non- – usage sensitive costs associated with providing Local Service from the customer’s premises to the local switch.**
 - g) The Rural and the Urban ‘Other Category’ may include all value – added services and other services provided to the Local Service customer but not defined as Local or Access service.**
 - h) There will be a common category to include costs, which cannot be causally related to a particular service category and are shown as fixed.**
 - i) Similar splits should be done for MTNL and the new entrants who are providing facility based services.**

While the broad categories specified in the Paper are acceptable, the current TRAI tariffs for basic services are based on Low User and General User categories. It is thus desirable that the possibility of extraction of cost information based on the above categories should be examined. Further ‘Other Services’



such as leased lines, value added services should be separately costed, as the same would have an impact on all other service providers. We repeat, any service that can be offered as an unbundled service should be costed separately.

Further, the categories of residual telecom market as mentioned in para 5(b) and as regards the distribution of subscribers mentioned in Appendix 1-1, II a(f), we would like to state that cellular operators do not capture information on subscribers based on rural or urban and therefore will not be in a position to provide the information separately for this category. Also segregation of cellular services between access, local, and other services is not relevant.

With regard to long distance calls made on the subscribers own network mentioned in Appendix 1-1 II a (j), as cellular operators are trying to build their own network between various towns within their circle to ensure better network quality, it may not be feasible to capture information on calls made through own network with break up of number of minutes and slab-wise distance.

- 6. The TRAI proposes that the new service providers file a business plan including a forward looking study for each of the major business categories identified as broad service categories. The business plan should include a forecast of capital expenditures, revenues and expenses for at least five years.**
- 7. The service provider will file a revised five – year forecast each year including a comparison of the previous year’s results to the previous forecast and to the revised forecast for the future years. An explanation of significant variances between forecasts and results and between forecasts by year should be provided.**

International precedence / practice reveals that except for the public disclosure of cost information by the incumbent, public disclosure of cost information by other service providers is not an accepted practice.

Accordingly COAI recommends that in line with the international practices, public availability of reported data may be made mandatory only for DTS/ MTNL, while for other operators data may be required to be made available to TRAI as and when they acquire SMP. Further, TRAI will need to provide a reliable and secure structure and framework to ensure confidentiality of information submitted by operators. COAI requests that TRAI discusses this mechanism in detail with the operators. Also, TRAI may mandate the minimum required information and formats for future projections/ estimates, etc. to ensure uniformity in the extent of information being provided by all operators.



8. **The TRAI proposes that it provides ongoing regulatory oversight to ensure investment in telecommunications infrastructure outside the high profit urban locations.**

COAI believes that an ongoing regulatory oversight of investment in infrastructure can be maintained through the USO levy mechanism, as investment cannot be anything but market driven in an increasingly competitive scenario.

9. **The TRAI proposes the Broad Service category information be filed on an annual basis in the form of an income statement and balance sheet and show earnings in total and a rate of return by category.**

COAI is of the view that the presentation of a Balance Sheet may not be relevant. However it would be possible to provide a statement of Net Investment and an Income Statement.

10. **Wherever a service provider is providing more than one service e.g., Internet, WILL, Cellular, Paging or related service along with wire – line facility from the same entity, it will be obligatory to segregate these services into separate categories or to assign them to the Other Category to ensure consistency between service providers.**

Every service that has different licensing requirements should be costed by all operators separately, as it will have impact on new operators regarding level playing field.

11. **The TRAI proposes that the DTS must prepare a plan to introduce accrual based accounting procedures within a specified time frame. This will require DTS to inventory and value its assets and maintain ongoing asset records. This plan needs to be expedited with the intention that the revised accounting procedures are in place as quickly as possible.**

12. **The TRAI proposes that the DTS should also develop a System of Accounts that assigns revenues and expenditures in a manner consistent with the need to assign the costs and revenues to the various categories needed to implement Broad Financial Category Costing.**

COAI agrees wholeheartedly with these proposals. These must be however be ensured on an urgent and critical basis.

13. **The TRAI has proposed directives on depreciation and accounting procedures, which are attached to this Consultation Paper as Appendix 2-1. The TRAI invites comments on these proposed directives.**



a) COAI would like to point out that while the depreciation rates used by the operators for statutory reporting will continue as per applicable GAAP and legislation, for the purposes of establishment of tariffs, a single rate for each category of assets is required. Further, the rates mentioned in Appendix 2-1 of the Consultation Paper are not representative of the Indian scenario. It is recommended that a service life benchmark survey/ study be conducted to help TRAI determine the appropriate 'single' rates.

b) Secondly, the capitalization principles mentioned in Appendix 2-1 of the Consultation Paper are not in agreement with Indian GAAP, Accounting Standards and Guidance Notes of the Institute of Chartered Accountants of India. It is therefore recommended that for the purpose of reporting cost data as well, TRAI should ensure adherence to the said GAAP to avoid unnecessary duplication of accounting records and differences in practices used for capitalization.

14. The TRAI proposes that the following seven steps be used to assigning costs to the Broad Service categories :

- **Describe the categories in terms of facilities;**
- **Assign the operating revenues;**
- **Assign the telephone plant investment;**
- **Assign the operating expenses associated with plant investment;**
- **Assign operating expenses associated with employees activities;**
- **Determine the net investment for each category to assign financial and income tax expense;**
- **Report the results in the time required;**

COAI broadly agrees with the methodology stated, with the added recommendation that a combination of facility based and activity based costing may be prescribed.

15. The TRAI proposes that accounting statements be provided annually for:

- **The prior accounting year;**
- **A projection of the next year's results;**
- **An update of the current year's expected results.**

Please refer to answer to question 6&7.

16. The TRAI proposes that the service providers be required to prepare a Category Costing Manual which will provide a detailed description and procedure on how the costing information will be filed with the TRAI and subject to approval by the Authority. The Manual will be updated periodically to reflect changes in assignment procedures resulting from company structure, technological innovations, organisational changes,



improvements in costing techniques or any other change the service provider may consider appropriate. Changes to the Manual will require approval of the Authority.

COAI fully agrees with this proposal with the qualification that this should be done only for SMP operators. Further, the TRAI needs to first define the cost classification principles based on which individual operators can prepare costing manuals. In fact to ensure uniformity, it is suggested that TRAI can issue a set of accounting standards and disclosure norms by way of guidelines and the licensees conform to the guidelines issued by TRAI by way of disclosures in the Annual Reports. This practice has been followed in India as well as abroad by regulatory agencies like SEBI/ICAI in India or FASB/ SEC in the US. TRAI can also define various terms to be used for reporting purposes and prescribe the standardised formats in which the information is to be furnished by all licensees.

17. What would be a reasonable time frame for preparation of the Manual?

Preparation of a manual presupposes the availability of a minimum level of information and requires the undertaking of detailed technological studies. While there cannot be any one time limit for an operator but there should be a time limit specified by TRAI, which should be in the range of 4-6 months.

18. The TRAI proposes the reporting service providers ensure that the BFCC Accounting Statements balance to the audited financial statements. The Auditor will be required to attest that the filing was prepared in accordance with the specifications as laid out in a company's Category Cost Manual as well as in compliance with the Accounting Manual.

COAI agrees with this proposal. However, we hope that an audit by the existing statutory external auditor for the company will be adequate for this purpose.

Service Specific Costing

19. Should the cost - based pricing and decision – making in general, be based on the total long run incremental cost of providing the service?

COAI believes that SSC should not be the only method for the determination of cost based pricing and decision-making in general as it would discriminate between existing networks. As mentioned earlier, BFCC on a current cost basis should be used for cost based pricing for existing services by existing service providers particularly in case of vertically integrated service providers capable of providing bundled services to address the issues of cross subsidization and anti-competitive pricing. As recommended by TRAI, LRIC should be used for decision making for introduction of new services/ projects only and not for existing services as it appears to be prescribed in Appendix 3-1. Accordingly, a



combination of current cost based BFCC and SSC is required for TRAI's decision making.

20. **The TRAI proposes that a standardised format, with standardised methodologies and procedures, be used to assure some degree of comparability between studies of a service at different times or places and to simplify the task of assessing the results.**
21. **The TRAI proposes that all resource costs may be broadly classified as follows :**
 - **Direct;**
 - **Indirect;**
 - **Variable Common;**
 - **Fixed Common**
22. **The TRAI proposes that the service providers identify and describe the direct and indirect resources required for implementation of a new service. The description of the indirect resource should include an explanation of their relationship to the direct resources.**
23. **Similarly, the service providers will identify and describe the variable common cost proportion being assigned to the proposed service.**

COAI agrees with these proposals.

24. **The TRAI proposes that the initial goal should be to define the functions that must be costed. Suggested functions are :**
 - **Operating Expenses;**
 - **Customer service office;**
 - **Billing office (Business and Residence);**
 - **Repairs and Maintenance;**
 - **Construction and installation of New plant;**
 - **Employees Remuneration and benefits;**
25. **The TRAI proposes that the service providers develop and apply the unit costs indicated in Appendix 3-2 in Service Specific studies for the purposes of estimating operating expenses.**
26. **The TRAI proposes that these operating expenses be handled as loading on capital or linked to the appropriate demand or non capital cost driver as indicated in Chapter 3.**

The functions to be costed should be activity based, based on the life cycle of the specific service being provided. Accordingly it would be difficult to comment at present and can be discussed in the subsequent responses. Appendix 3-2



primarily pertains to fixed line services and will need to be suitably modified for cellular services. Our comments on Appendix 3-1 are given in Annexure – C.

27. **The TRAI proposes that a program of work time studies be instituted to develop more dis – aggregated estimates of direct and indirect operating expenses associated with the Functional Operating Expense categories listed in Appendix 3-2. This would provide a basis for more defensible unit cost information for carrying out SSC studies and for developing and maintaining a Unit Cost database. This database would be unique to each service provider and would be regarded as proprietary information, for use only by corporate personnel and for the TRAI in assessing SSC studies.**
28. **The TRAI proposes that the service providers develop and implement plans to have available Functional Expenses dis – aggregated into the applicable underlying activities. The dis – aggregation should reflect the particular circumstances of each service provider’s organisation.**
29. **The TRAI proposes that each service provider provide an analysis of the options that it would consider to deal with the requirement for special studies in its own environment, indicating the time and cost effective. In addition, each service provider should indicate its preferred option and possible schedule to deal with the task.**

COAI agrees with these proposals.

30. **The TRAI proposes that each service provider prepare a Service Specific Costing Manual, which will provide a detailed description of how the costing information will be developed using the prescribed methodologies and how the study results will be presented. This manual will be filed for approval by the TRAI. Periodic updates will reflect changes in methodologies and costing techniques, as better resource cost information becomes available. These changes will also require TRAI approval.**

Please refer to answer to question 16.

31. **What would be a reasonable time frame for the preparation of the Manual?**

Approximately 4-6 months.

32. **The TRAI proposes to review and audit any application programmes used to generate each service provider’s study results to ensure the integrity of the results?**

COAI believes that although TRAI can retain the power of investigation, however the cost methodologies are already proposed to be under audit scrutiny on a



recurring basis and accordingly the integrity of the methodology and the compliance with laid down requirements would be automatically ensured.

33. **The TRAI proposes that the service providers identify and describe special studies as and when they occur.**
34. **The TRAI proposes that the service providers develop approaches to facilitate investigations. The approaches proposed by each service provider must be reviewed and approved by the TRAI.**

COAI agrees with these proposals.

35. **In instances where the incumbent offers services in direct competition with other service providers and where some elements of those services are offered to the new entrants at tariffed rates, then to the extent that the incumbent also uses the same service elements in its own services, the costs for the incumbent's service must reflect these service elements in the study at tariff rates.**

COAI entirely agrees with TRAI. In fact it is essential that pending completion of the Accounting Separation exercise, TRAI immediately mandate the determination of costs of such services especially for the dominant incumbent to prevent the introduction of predatory pricing.

36. **The TRAI proposes that under the Service Specific Costing studies of major services and products should be open to a public process. While competitive sensitivity may require the production of an abridged version of the study, it is still useful to allow public scrutiny in order to build credibility for the process.**

Please refer to answer to question 6&7.

37. **The Directives and Definitions listed in Appendix 3-1 may be adopted as the same would provide a standard approach and format for Service Specific Costing in the context of support for tariff approvals for new service introduction.**

COAI is generally in agreement with this proposal. We however, request the opportunity to subsequently provide a detailed response in this regard as costs such as licence/ entry fee, etc. must be considered for this purpose.

38. **What should be the frequency and manner of reporting for various statements / reports that the TRAI may finally prescribe for this purpose.**

Annual.



39. **Would the constitution of a Steering Committee' made up of service providers with the TRAI's representative as an Observer be useful to provide advice and input to TRAI on various implementation issues?**

COAI agrees with the suggestion that a Steering Committee comprising service providers and a TRAI representative would be useful in resolving various implementation issues.



Appendix 1

Broad Indicative Requirements for the Accounting Manual

1. Regulatory Accounting principles – which sets out the general rules by which the statements would be prepared.
2. Attribution Methods – which explains how revenues, costs, including transfer charges, assets and liabilities to the “Services” and “Businesses” are to be allocated. The other activities and components within those, following the regulatory accounting principles, on a fully allocated basis.
3. Transfer Charges – which explains how the charges from the Network (Access/ Local) business to the other services and those for interconnection to other operators for use of the network are related.
4. Accounting Policies – which details the accounting conventions to be adopted in preparation of the Financial Statement / Cost data.
5. Long Run Incremental Cost Methodology – which sets out the principles followed to derive the long run incremental costs of the service.



ANNEXURE – C

COMMENTS ON ANNEXURE 3-1

Keeping in mind COAI's recommendation that Accounting Separation should be imposed only on operators with significant market power and given the current market scenario, this exercise will neither be necessary nor cost effective in the case of the existing private sector licensees.

The following are specific comments on the Appendix 3-1 for new services.

As suggested the SSC study should be done in the present case for New Services only. The GSM standards and new IN switches which are being used by CMSP operators are capable of providing a gamut of services under the existing technology. TRAI should define 'new services'.

- **Directive 5.2**

The method of allocation of cost of shared facilities is not clear and needs explanation as to methodology and principles to be used.

- **Directive 6.2 & 6.5**

TRAI should specify what parameters are going to be used by it for approving cost of capital of the service provider, as stated in definition 6.2 and directive 6.5 of the Appendix 3-1. Cost of capital is going to be different between operators due to different corporate and funding structures.

- **Directive 6.7**

TRAI should stipulate the parameters that will be used for TRAI to approve the introduction or otherwise of the proposed service, i.e. what are the criteria other than NPV of a given service than would be used by TRAI to approve introduction of services. As not all new services are likely to generate positive NPV within the 5 year study period, we understand that TRAI will facilitate, through appropriate tariff recommendations, the necessary steps that need to be undertaken to ensure a positive NPV.