



F.No. TRAI Corres/DLC/2014/T04
25th April 2014

Mr. Manish Sinha,
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Telecom Regulatory Authority of India,
Mahanagar Door Sanchar Bhawan,
Jawahar Lal Nehru Marg, Old Minto Road, New Delhi – 110 002

Subject: Response to TRAI Consultation Paper on Review of Tariff for Domestic Leased Circuits.

Dear Sir,

This is in reference to your Consultation Paper No. 1/2014 dated 24th March 2014 on '**Review of Tariff for Domestic Leased Circuits**'.

As desired, we hereby enclose our response to the questions raised in your above-mentioned consultation paper. We sincerely hope that our views would be given due cognizance.

Thanking you and assuring you of our best attention always.

Yours sincerely,

Anand Dalal
Senior Vice President – Corporate Regulatory Affairs
Tata Teleservices Limited
And
Authorized Signatory
Tata Teleservices (Maharashtra) limited

Enclosure: As above

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Tata Teleservices response to TRAI consultation Paper on
Review of Tariff for Domestic Leased Circuits

1. Should TRAI continue to use the bottom-up fully allocated cost method for computation of cost-based ceiling tariffs for point-to-point DLCs (P2P-DLCs)?
&
2. In case your response to the Q1 is in the affirmative, what values of the following items should be used for estimation of ceiling tariffs for P2P-DLCs:
 - a. Return on Capital Employed (ROCE)
 - b. Useful lives of transmission equipment and Optical Fiber Cable (OFC) separately
 - c. Average no. of fiber pairs lit in OFC in trunk segment and local lead segment separately
 - d. Utilization factor of OFC system in trunk segment and local lead segment separately?

TTL Response:

DLC services, as pointed out by the Authority in their consultation paper itself, are being provisioned much below the ceiling levels set through the 2005 TTO. This is because of existing matured competition in provision of DLC services by 7 - 10 UASPs and 31 NLD operators to the end users. This itself is a testimony to the level of competition existing in the market for the DLC services. Any practice of reducing the present ceiling as prescribed by the Authority may lead to distortion in the market practices of competitive pricing and flexibility in the tariffs offered by the service providers. **Thus, we recommend that there is no need to intervene in the prevailing practices of DLC tariff offering. Infact, the Authority should adopt time tested policy of forbearance in the DLC tariffs wherein market will determine the prices.**

While we strongly advocate forbearance, should the Authority still wish to regulate the DLC tariff, then we request TRAI to take into consideration the following:

- a. **Bottom up pricing structure**, does not factor the service model of the service provider based on it being an Enterprise (B2B) or a retail operator. Though both cater to the same pie of customers for DLC, the operations and maintenance cost, fill factor, the vendors, gross block, fiber roll out; for each service provider would be different; hence having the same ceiling parameter is not recommended.
- b. **RoCE:** Cost of capital in the country as compared to the last time these tariffs were decided (2005) has gone up significantly. Cost of government securities in March 2014 were around 8.8%. In comparison, they were around 6.1% in 2004-05 and 7.3%



in 2005-06 (Weighted average rates). Further, the Telecom sector in India has stretched its balance sheets in the last 4 years and has been facing major challenges such as increased competition, delayed rollouts, reduced profitability, etc. As a result, the cost of capital for Telecom sector has increased even further today. We therefore believe that TRAI should correspondingly increase ROCE by at least 200 bps from 13.93% used in 2005.

- c. **Useful lives of transmission equipment and Optical Fiber Cable (OFC):** Based on technology obsolescence rates and effective commercial life of assets, we recommend 8 years useful life for Transmission equipment and 15 years for OFC.
 - d. **Average number of fiber pairs lit in OFC in trunk segment and local lead segment separately:** On trunk routes, number of fiber pairs used, vary from 3 Pairs to 6 pairs. In Access, they are multiples of the above because of distribution patterns, limitation on number of nodes in a ring because of service assurance issues and cost of capacity upgrades
 - e. **Utilization factor of OFC system in trunk segment and local lead segment separately:** Utilization factors vary on the basis of several factors besides Trunk and Local Lead. We recommend that TRAI should consider utilization factors basis Remote/Hilly areas and Category of Circle (Metros, Cat A, Cat B, Cat C circles) to arrive at a fair assessment of Tariffs
3. **In case your response to the Q1 is in the negative, what should be the alternative approach for determining tariffs for P2P-DLCs of various bandwidth capacities? Please support your view with a detailed methodology along with supporting data and assumptions, if any**

TTL Response:

We recommend forbearance of tariff for Point to point (P2P) DLC. Alternatively, operators may be asked to file returns of tariffs charged with TRAI for their monitoring. TRAI may intervene if it finds competition abating in the market.

4. **In your opinion, what are the bandwidth capacities of P2P-DLCs for which ceiling tariffs need to be prescribed?**

TTL Response:

While we believe that ceiling tariff structure should be done away with for all bandwidths, should the Authority prefer to prescribe ceiling tariffs, it should do so in all logical bandwidth upto 10G (STM 64).



5. In your opinion, is there a need for prescribing separate ceiling tariffs for local lead and trunk segment?

TTL Response:

Capital investment and maintenance is higher in Local leads compared to Trunk routes. The average capital cost in local lead segment varies a lot and can go from Rs 10 Lacs to as high as Rs 1.2 Crore per Km in certain parts of the country. Similarly in the trunk segment, the cost can vary between Rs 4-8 Lacs per Km. Further, capacity deployment in aggregator and access routes of local lead is thinner than that of trunk routes. **Therefore, separate tariffs for both Local lead and Trunk routes would better reflect the operator cost structures.**

6. In your opinion, is there a need for prescribing separate ceiling tariffs for remote and hilly areas?

TTL Response:

In the event the ceiling tariff structure is reviewed by the Authority then, there should be a separate ceiling tariff for remote and hilly locations. The following are our recommendations regarding the same:

- (i) There should be higher than the normal ceiling tariffs for remote and hilly locations. This is due to the fact that the deployments of DLC in remote and hilly areas require complex planning and have a higher cost of delivery. Combined with the fact that these regions have a low user base, economies of scales do not work in favor of the service provider.
- (ii) There should be a clear classification or a basis of classification for defining remote/ hilly locations.
- (iii) Consideration can be given to making the USO fund available to the service providers for incentivizing investment in such areas.

7. In your opinion, what are the distances of:
(i) trunk segment and
(ii) local lead segment (separately)
of P2P-DLCs for which ceiling tariffs need to be prescribed?

TTL Response:

Should the Authority choose to prescribe a ceiling tariff, it is recommended that the following be considered for Trunk and Local Lead segment:



- a. The minimum distance of trunk segment would be 40 Km. It may go upto 2000 Km. We recommend that the Authority specify additional tariff ceilings for distances above 500 km at intervals of every 250 Km.
 - b. We recommend that the Authority should consider local lead upto a distance of 50 Km. However; it may be priced on the actual distance.
8. In your opinion, is the distance interval of 5 km still relevant for prescribing distance-based ceiling tariffs for P2P-DLCs?
&
9. In case your response to the Q8 is in the negative, what distance interval should be used for prescribing distance-based ceiling tariffs for P2P-DLCs?

TTL Response:

The distance interval of 5 km is still relevant for prescribing distance-based ceiling tariffs for P2P-DLCs and the same should be retained by the Authority.

10. What equipped capacities of trunk segment and local lead of P2P-DLC should be used for computation of ceiling tariffs of various bandwidth capacities?

TTL Response:

TRAI should consider all logical bandwidths up to 10G:

- a. For bandwidth <DS3 – STM1
 - b. DS3 to <STM1 - STM4
 - c. STM1 to <STM 4 - STM16
 - d. STM 16 and above - STM 64
11. Should VPNs such as MPLS-VPNs also be brought under tariff regulations for DLC?
&
12. In case your response to Q11 is in the affirmative, what method should be used for computation of cost based ceiling tariffs for VPNs?

TTL Response:

No. MPLS VPN is a customized solution based on the customers' connectivity and bandwidth requirements. For a particular bandwidth in question, a lower tariff may be required to be charged if it is for a hub location and higher if it is a spoke. The bandwidth price will also vary according to the Class of Service (CoS) mix offered on the MPLS port. Since it is not necessarily a distance based model, modeling a cost based tariff would be very difficult. Another important factor to be considered here



is that it is a more cost effective solution for customers as compared to DLC. We therefore recommend forbearance on MPLS VPN.

13. In your opinion, is there still a need for prescribing separate ceiling tariffs for DLCs which are provided on Managed Leased Line Network (MLLN) Technology?

TTL Response:

MLLN Technology has very limited takers and is specific to only a few players. We recommend that MLLN be accorded the same treatment as other technologies.

14. Is there any other relevant issue related to tariff for DLCs which the Authority should keep in mind while carrying out the present review exercise?

TTL Response:

We recommend TRAI withdrawing ceiling tariffs, and the prices be governed by competitive market forces since the DLC market in India is already matured. However, in the event the regulator decides otherwise, the following issues can be evaluated:

- a. Supporting the telecom growth through a practical access to USO fund to connect remote regions. A suggested approach is rebate mechanism to cover upto 80% Capex & Opex support for deployment in remote areas on the basis of distance from the current network.
- b. In case of a tariff-ceiling regime, TRAI should consider higher ceiling for low density routes to give sufficient incentive to TSPs for further investment and return on existing investments.
- c. DLC price quotation to government tenders should not be considered to calculate average discount on DLC price in the market as government tenders are mostly multi year fixed rate contracts and come with high bandwidth requirements. Sampling should be done using DLC quotations to Enterprise and SME
- d. Right of Way (RoW) charges which are a substantial part of capital cost of for laying OFC have been on the rise and the same should be factored in the proposal
- e. Maintenance charges and electronics operational expenses are subject to inflation, therefore TRAI should revise the tariffs periodically to account for inflation