



Telecom Regulatory Authority of India



**Recommendations on  
Support for Rural Wire-line Connections,  
Installed before 01.04.2002**

New Delhi, 14.05.2012

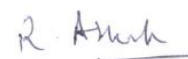
Mahanagar Door Sanchar Bhawan, Jawahar Lal Nehru Marg,  
New Delhi - 110002

## Preface

Department of Telecommunications, vide its letter dated 14.09.2011, had requested TRAI to give its recommendations regarding continuation of support of rural wire-line connections, installed before 01.04.2002 from USOF, beyond three years and the amount/ period thereof, in view of its earlier recommendation dated 27.03.2008 in this regard.

With a view to seek comments of the stakeholders, TRAI issued a consultation paper on 'Support for Rural Wire-Line Connections, Installed before 01.04.2002' on 26.04.2012. Based on the comments of the stakeholders and its own analysis, the Authority has finalized recommendations on the amount of support and period.

It is hoped that Department of Telecommunications would agree with the views of TRAI on support to M/s BSNL for their rural wire-lines connections, installed before 01.04.2002, and implement these recommendations at the earliest.



(R. Ashok)  
Member, TRAI

## **Recommendations on support for rural wire-line connections, installed before 01.04.2002**

### **A- Background**

1. While phasing out Access Deficit Charges (ADC) regime through 'The Telecommunication Interconnection Usage Charges (Ninth Amendment) Regulations, 2008', TRAI sent the following recommendations on 27th March 2008 to the Central Government on support for rural wire-line connections, installed before 01.04.2002 from USOF:

- (a) *"The Authority recommends that BSNL should be provided support for sustenance of fixed rural wire-lines installed before 01.04.2002.*
- (b) *This amount should be Rs 2000 crores per year for a period of 3 years effective from 01.04.2008.*
- (c) *The amount would be payable in four quarterly installments paid in the beginning of each quarter.*
- (d) *BSNL should furnish a certificate for funds having been utilized towards operation and maintenance of rural wire-line connections provided prior to 1.4.2002, before the release of next quarterly installment.*

*... Provided that the Central Government may after seeking recommendation of TRAI, on review; continue the reimbursement at the same rate or at a lower rate beyond three years, for a period as may be decided by the Central government from time to time..."*

### **B- Reference from DoT**

2. Department of Telecommunications (DoT) vide its letter dated 14.09.2011 has written to TRAI that:

*"...Now, BSNL has sought further support from USO Fund towards the Rural Direct Exchange Lines(R-DEL) on expiry of the current subsidy support of Rs. 2000/- crores per annum given for the period of three years.*

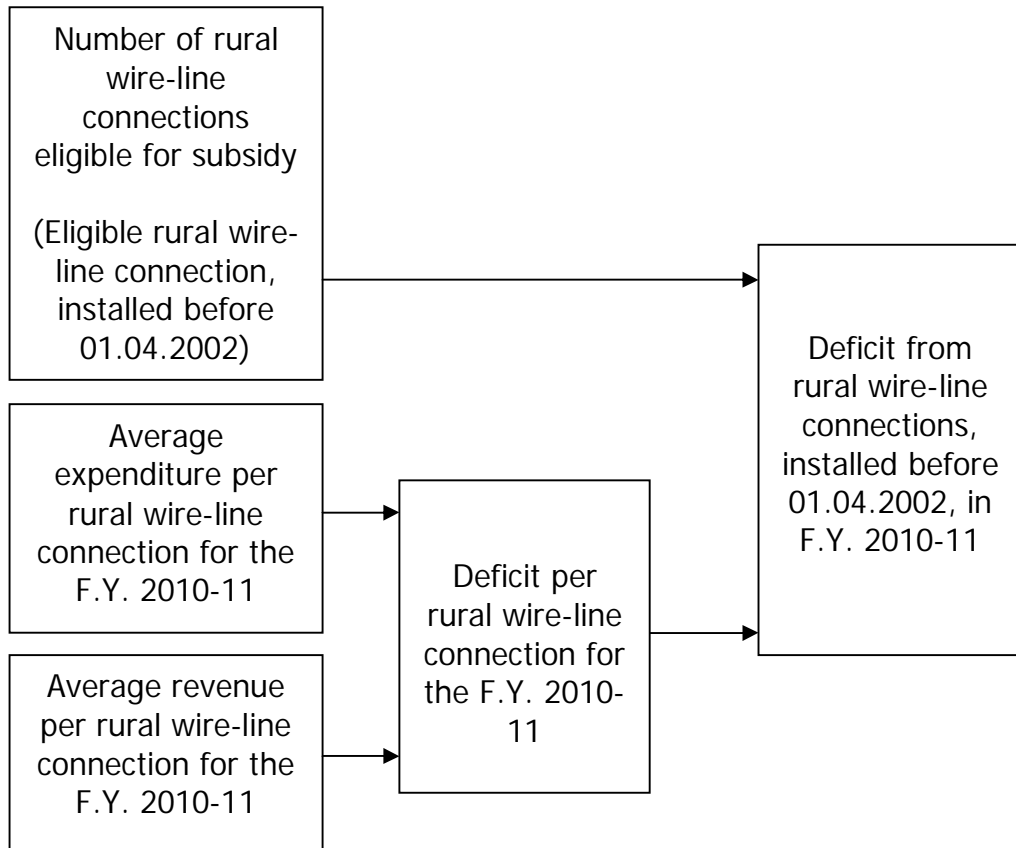
*The matter has been considered by DoT and it has been decided to seek TRAI recommendations for the amount and duration of such report as requested by BSNL.*

*Accordingly, TRAI is hereby requested to give its recommendations regarding continuation of support of rural wire-line connection installed before 01.04.2002 from USOF on phasing out of ADC, beyond three years and the amount/ period thereof, in view of its earlier recommendation dated 27.03.2008 in this regard."*

**C- Submission of M/s BSNL on Continuation of Support to Rural DELs, installed before 01.04.2002**

3. In order to examine the issue of Continuation of Support to Rural DELs, installed before 01.04.2002, M/s BSNL were requested to present their case before the Authority. M/s BSNL presented their case for 'continuation of USO support for rural DELs provided prior to 01.04.2002' before the Authority on 15.11.2011. After detailed discussions with M/s BSNL on various issues, they submitted details of working to calculate deficit on account of rural wire-line connections, installed before 01.04.2002. The following schematic diagram depicts the method used by M/s BSNL for calculating the deficit on rural wire line connections, installed before 01.04.2002, in F.Y. 2010-11:

**Schematic Diagram for Method Used for Calculating Deficit on Rural Wire-Line Connections, Installed before 01.04.02, for the F.Y. 2010-11**



4. Based on the calculations submitted by M/s BSNL, the deficit from eligible rural wire line connections, installed before 01.04.2002 for the F.Y. 2010-11 came out to be Rs. 2,580 Crores.
  
5. During the preliminary evaluation of the submission of M/s BSNL on calculation of deficit on rural wire-line connections, installed before 01.04.2002, TRAI analyzed the information received from M/s BSNL and requested M/s BSNL to provide detailed information in respect of working rural wire-line connections, installed before 01.04.2002 viz. telephone number, date of installation, address of installation, category of phone (VPT/RDEL), billing information etc.

6. Meanwhile, M/s BSNL, vide their letter dated 15.02.2012, requested that pending final recommendations, TRAI may consider issuing interim recommendation for an ad hoc amount to be given to them.

**D- Interim Recommendation to The Central Government**

7. The Authority accorded careful consideration to the request of M/s BSNL and sent the following recommendations to the Central Government on 05.03.2012:

*"...the Authority recommends that a subsidy of Rs. 600 crore purely as an ad hoc measure may be given to BSNL. Besides, keeping in view the fact that at this stage it may not be easy for the Government to obtain any additional funds for this purpose through the normal budgetary process, the Authority recommends that the subsidy grant of Rs. 600 crore may be made from the Universal Service Obligation Fund (USOF). It is further stated that both the amount of Rs. 600 crore and the source i.e. the USOF are purely ad hoc arrangement and that final recommendations in this regard will be made by the Authority after due consultation process."*

A copy of the recommendations dated 05.03.2012 is enclosed as **Annexure**.

**E- Estimation of deficit on account of rural wire-line connections, installed before 01.04.2002**

8. On the basis of the submissions of M/s BSNL regarding deficit on rural wire-line connections, installed before 01.04.2002 and the detailed information in respect of working rural wire-line connections, installed before 01.04.2002, deficit per rural wire-line connection was estimated as Rs. 4876 for F.Y. 2011-12. Accordingly, the deficit from the rural wire-line connections installed before 01.04.2002 for the F.Y. 2011-12 and F.Y. 2012-13 were estimated as Rs. 1,593 Crore and Rs. 1,265 Crore respectively.

9. As per the communication of Department of Telecommunications, Government of India, subsidy for the rural wire-lines connections, installed before 01.04.2002 has been provided to M/s BSNL up-to 17.07.2011. Accordingly, the estimation of annual deficit on account of rural wire-line connections, installed before 01.04.2002 is required to be carried out w.e.f. 18.07.2011.
10. Considering the trend of disconnection in rural wire-line connections, the annual deficit from the rural wire-line connections, installed before 01.04.2002 for the first year w.e.f. 18.07.2011 would be around Rs. 1,500 crore while the annual deficit from the rural wire-line connections, installed before 01.04.2002 for the subsequent year w.e.f. 18.07.2012 would be around Rs. 1,250 crore.
11. The support for rural wire-line connections has been estimated for a period of two years so that M/s BSNL gets time to increase its revenue from rural broadband and other value added services and at the same time to make efforts to reduce the cost of operation in the intervening period in order to make such lines viable.

**F- Consultation with the Stakeholders**

12. With a view to provide opportunity to the stakeholders to comment upon the estimation of deficit carried out by TRAI and related issues, a consultation paper on 'Support for Rural Wire-line Connections, Installed before 01.04.2002' was issued on 26.04.2012 with the following proposal:

*"It is proposed that support to M/s BSNL may be continued for two years for sustenance of rural wire-line connections, installed before 01.04.2002. The amount of support may be as below:*

- (a) Rs. 1500 Crore for the first year
- (b) Rs. 1250 Crore for the second year"

13. The stakeholders were requested to send their comments on the aforementioned proposal by 02.05.2012 which was extended to 04.05.2012. The comments were also invited on whether support should be given from the Universal Service Obligation Fund (USOF) or from the Consolidated Fund of India (CFI).
14. In response to the consultation paper, one of the telecom service provider association submitted that mobile would continue to dominate rural markets and it is most likely that wire-line subscribers would continue to further decrease at a rapid rate. Further, it submitted that the benefits of broadband in rural areas can be delivered more efficiently and at a much faster rate through the wireless technology as compared to wire-line technology. Also cost of delivery through wireless is much lower than wire-line technology.
15. Another Association of telecom service provider submitted that the subsidy to rural wire-line connections should be available to the other operators who are providing rural DELs. Further it submitted that subsidy should be disbursed only for net cost positive SDCAs and only after verifying that telephone connection is working from prior to 01.04.2002.
16. One of the stakeholders has submitted that out of the 90 lakh lines installed before 01.04.2002, only 40 or 50 lakh lines may be working now but the actual expenditure would be incurred for the entire indoor and outdoor plant of rural exchanges, irrespective of the lines working. Therefore, the loss should be calculated on the basis of the actual expenditure for maintaining the entire rural network.
17. In response to the consultation paper, M/s BSNL have agreed with the estimation of deficit indicated in the consultation paper. On the issue of source of support, they have submitted that the Government may kindly be approached for providing the support through USOF.



## **G- Analysis**

18. Access to telecommunication services is a key to overcoming developmental challenges in education, health, employment generation, financial inclusion etc. To quote from the draft National Telecom Policy (NTP) 2011, "Telecommunication has emerged as a key driver of economic and social development in an increasingly knowledge intensive global scenario, in which India needs to play a leadership role. National Telecom Policy-2011 is designed to ensure that India plays this role effectively and transforms the socio-economic scenario through accelerated equitable and inclusive economic growth by laying special emphasis on providing affordable and quality telecommunication services in rural and remote areas."
19. In order to bridge the urban rural divide and to ensure equitable and inclusive economic growth, provision of telecommunication services in rural and remote area at affordable and reasonable prices is of paramount importance. Encouragement of provision of household telephones in rural and remote areas is important not only to bridge the urban-rural divide but also for smooth proliferation of broadband services on wire-line in rural areas. The draft NTP-2011 has the vision of Broadband on Demand and envisages leveraging telecom infrastructure to enable all citizens and businesses, both in rural and urban landscape, to participate in the Internet and web economy thereby ensuring equitable and inclusive development across the nation.
20. Though the broadband services may be provided through the wire-less technology also, broadband internet may be offered to rural subscribers through wire-line technology in more efficient and cost-effective manner at present using DSL technology which offers good quality of service at affordable prices.
21. The Authority has analysed various supports available to rural wireline connections in the country. Under the Universal Service Support Policy,

access to telegraph services to people in the rural and remote areas at affordable and reasonable prices is promoted with the help of Universal Service Obligation Fund (USOF). Under the stream-II of its activities, the USOF supports the provision of household telephones in rural and remote areas.

22. Under stream-II (a) of USO scheme, all the rural household DELs, installed before 01.04.2002 have been supported while under stream-II (b) of the scheme, R-DELs installed after 01.04.2002 in the 1685 net cost positive SDCAs only were given support through a competitive bidding process to a successful bidder. The present exercise is towards estimating the amount and period of support to all the rural wire-line connections, installed before 01.04.2002 which falls under stream-II (a) of the USOF.
23. The fixed line rural network that existed prior to 01.04.2002 was primarily set up with Government funding at high cost and was always supported by USO or ADC since inception of these regimes. Among all direct exchange lines (DELs) in rural areas, the share of M/s BSNL was 99.44% as on 31.03.2011 and 99.99% as on 31.03.2002. Apparently, almost entire rural wire-line connections, installed before 01.04.2002 belong to M/s BSNL. These lines are expensive to maintain and their operating expenses generally exceeds their revenue.
24. The draft NTP-2011 has an objective to provide affordable and reliable broadband on demand by the year 2015 and to achieve 175 million broadband connections by the year 2017 and 600 million by the year 2020 at minimum 2 Mbps download speed and making available higher speeds of at least 100 Mbps on demand.
25. M/s BSNL, in their submission, have indicated that rural wireline connections are served from 28,752 exchanges spread in remote, hilly and rural areas, out of which nearly 24,780 exchanges are equipped with DSL capability to serve

more than 9 lakh broadband customers. To quote from the draft NTP-2011, *“The PSUs have played a pre-eminent role in provision of telecom services in the country, particularly in rural, remote, backward and hilly areas. Contribution of BSNL and MTNL to broadband penetration in the country is significant. The importance of PSUs in meeting the strategic and security needs of the country can also not be understated. This policy recognises that these PSUs will continue to play such important role.”*

26. Evidently, the sustenance of rural wire line connections, installed before 01.04.2002 is vital for strengthening the penetration of broadband in rural and remote areas towards equitable and inclusive growth in India. As the subsidy on rural wire line connections installed before 01.04.2002 has already expired on 17.07.2011, further assistance needs to be given to M/s BSNL for sustaining these lines. Accordingly, TRAI has estimated deficit incurred by M/s BSNL annually for the active rural wire-line connections, installed before 01.04.2002. However, in order to ensure that the objective of strengthening broadband penetration in the country is achieved, it is imperative that such lines are made broadband ready in due course.

**H- Recommendations regarding continuation of support of rural wire-line connections installed before 01.04.2002 from USOF**

27. In view of the above, the Authority is of the opinion that M/s BSNL should be given a support for two years for operational sustainability of rural wire-line connections, installed before 01.04.2002.
28. TRAI makes the following recommendations for continuation of support of rural wire-line connections installed before 01.04.2002 from USOF:
- (a) The support to M/s BSNL should be continued for two years for sustenance of rural wire-line connections, installed before 01.04.2002 w.e.f. 18.07.2011.

- (b) The amount of support may be Rs. 1500 Crore for the first year and Rs. 1250 Crore for the second year. In case any amount has already been disbursed to M/s BSNL pursuant to the interim recommendations of TRAI dated 05.03.2012, the same may be adjusted from the support for the first year.
- (c) The amount may be payable in four quarterly installments paid in the beginning of each quarter.
- (d) M/s BSNL should make each rural wire-line connection, installed before 01.04.2002 broadband enabled by 31.12.2012. M/s BSNL should furnish a certificate indicating the number of broadband enabled rural wire-line connections, installed before 01.04.2002 before the release of next quarterly installment. In case, some rural wire-line connections are left to be made broadband enabled on 01.01.2013, the subsidy provided for the subsequent quarters may be reduced on pro-rata basis.
- (e) M/s BSNL should furnish a certificate for funds having been utilized towards operation and maintenance of rural wire-line connections provided before 01.04.2002, before the release of next quarterly installment.



No. 402-26/2011-I&FN

Dated 5<sup>th</sup> March, 2012

The Secretary  
Department of Telecommunications,  
Sanchar Bhawan,  
20 Ashoka Road,  
New Delhi- 110001

Sir,

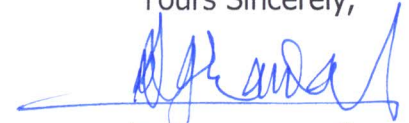
**Sub: Extension of Support from USO Fund towards the Rural Direct Exchange Lines (R-DEL) on expiry of the current subsidy support**

Kindly refer to the DOT's letter No.10-19/2010-SU-I dated 14.09.2011 on the above subject, seeking TRAI's recommendations regarding continuation of support from USOF towards rural wireline connections installed before 01.04.2002 on phasing out of ADC, beyond three years and the amount/ period thereof (**Annexure-I**).

2. In order to assess the need of continuation of support, BSNL was asked to make a presentation before the Authority. BSNL inter alia submitted that
  - (a) for rural wire-lines, installed before 01.04.02, the existing cost of operations are high in comparison with revenue accruals;
  - (b) it does not make business sense for BSNL to maintain these high cost rural lines at very high net loss unless it is financially compensated by the Government;
  - (c) rural wire-lines are key to broadband adoption in rural areas. Therefore, they have requested TRAI to recommend to DOT for provision of continued support to these rural DELs installed before 01.04.2002.
3. During the meeting, M/s. BSNL was requested to provide location-wise number of such working rural lines, revenue and expenditure corresponding to these lines and detailed calculation of deficit on account of these lines. BSNL submitted their response on the required information and data vide various letters dated 26.12.2011, 04.01.2012, 09.01.2012 and 27.01.2012, wherein they have requested for subsidy at the rate of Rs. 2580 crore per year. BSNL has been further asked to submit some more detailed data on 15.02.2012.

4. However, in the meantime, BSNL vide letter No.1-1/2011/TP/BSNL dated 15.02.2012 has requested TRAI to get the matter processed expeditiously. BSNL has also requested that pending final recommendations, TRAI may consider issuing interim recommendation for an ad hoc amount to be given to them **(Annexure-II)**.
5. The Authority has accorded careful consideration to the request of BSNL. Keeping in view the urgency of matter, considering that it would take some more time to issue a consultation paper and that time would also be taken in consultation process, the Authority recommends that a subsidy of Rs 600 crore purely as an ad hoc measure may be given to BSNL. Besides, keeping in view the fact that at this stage it may not be easy for the Government to obtain any additional funds for this purpose through the normal budgetary process, the Authority recommends that the subsidy grant of Rs 600 crore may be made from the Universal Service Obligation Fund (USOF). It is further stated that both the amount of Rs 600 crore and the source i.e. the USOF are purely ad hoc arrangement and that final recommendations in the regard will be made by the Authority after due consultation process.
6. In keeping with practice, a copy of this letter along with enclosures is being placed on TRAI's website [www.traigov.in](http://www.traigov.in).
7. This letter issues with the approval of the Authority.

Yours Sincerely,



(Rajeev Agrawal)  
Secretary

Government of India  
Ministry of Communications & IT  
Department of Telecommunications  
Sanchar Bhawan, 20-Ashoka Road, New Delhi-110001  
(Carrier Services Cell)

No.10-19/2010-SU-I

Dated 14.09.2011

To.

The Secretary  
Telecom Regulatory Authority of India  
Mahanagar Doorsanchar Bhawan,  
Jawaharlal Nehru Marg (Old Minto Road)  
New Delhi-110002.

**Subject: Extension of support from USO Fund towards the Rural Direct Exchange Lines (R-DEL) on expiry of the current subsidy support.**

Sir,

Kindly refer to the TRAI recommendations dated 27.03.2008 on "Support for rural wire line connection installed before 01.04.2002 from USOF on phasing out of ADC" vide which a subsidy of Rs. 2000 Crore per year was recommended for BSNL for a period of three years.

2. BSNL has accordingly been given the subsidy of Rs. 2000 Crore per year from USOF for a period of three years with effect from 18<sup>th</sup> July 2008 to 17<sup>th</sup> July

Advisor (12/11)  
Dy. No. 11.1  
Date 14/9/11

In the said recommendations, while suggesting amendments to the Indian Telegraph Rules, TRAI has also stated that "Provided that the Central Government may after seeking recommendation of TRAI, on review, continue the reimbursement at the same rate or at a lower rate beyond three years, for a period as may be decided by the Central Government from time to time".

4. For providing the subsidy to BSNL from USOF, in view of the TRAI recommendations, the Indian Telegraph Rules, 1951 were amended on 18<sup>th</sup> July 2008 and the following was inserted:

"For household Direct Exchange Lines installed prior to 1<sup>st</sup> day of April 2002, an amount of maximum Two thousand Crore rupees per annum for a period of three years shall be reimbursed to the eligible operators, from the date the Indian

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Telegraph (Amendment) Rules, 2008 come into force, for operational sustainability of rural wirelines in lieu of Access Deficit Charges being phased out".

5. Now BSNL has sought further support from USO Fund towards the Rural Direct Exchange Lines (R-DEL) on expiry of the current subsidy support of Rs. 2000/- Crores per annum given for the period of three years.

6. The matter has been considered by DoT and it has been decided to seek TRAI recommendations for the amount and duration of such support as requested by BSNL.

7. Accordingly, TRAI is hereby requested to give its recommendations regarding continuation of support for rural wire line connection installed before 01.04.2002 from USOF on phasing out of ADC, beyond three years and the amount/period thereof, in view of its earlier recommendation dated 27.3.2008 in this regard.

G.P. Srivastava  
(G.P. Srivastava) 14/9/11  
DDG(Carrier Services)





# Bharat Sanchar Nigam Limited

NO: 1-1/2011/TP/BSNL

dated February 15, 2012

To,

Advisor (I&amp;FN)

TRAI, New Delhi.

Sir,

This is with reference to the matter of financial support to BSNL for meeting the deficit arising out of commercially non remunerative rural wireline services for the DELs installed before 01.04.2002.

The matter has already been presented to TRAI, including financial calculations and statements audited by Company's statutory auditors, duly appointed by CAG of India. However while the recommendations of TRAI are still awaited, BSNL continues to incur the expenditure & resultant losses on maintenance of these rural wirelines.

It is requested to kindly get the matter processed expeditiously, and pending final recommendations, consider issuing interim recommendations for an adhoc amount to be given to BSNL for partially mitigating this loss.

  
(Karuna Raman)

GM (TP / RA)

Copy for kind information to:

1. Principal Advisor (FA & IFA), TRAI New Delhi
2. CMD / Director (CFA) BSNL CO New Delhi
3. ED (Finance) BSNL CO New Delhi
4. Jt Secretary (Telecom), DoT Sanchar Bhawan New Delhi
5. PGM (Regulation) BSNL CO New Delhi
6. GM (CA) / GM (Finance - CFA) / Sr GM (NWO-CFA) BSNL CO New Delhi