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The Advisor (F & EA)
TRAI, New Delhi

Sub. : Comments on TRAI Consultation Paper on “Review of Tariff for Domestic Leased Line Circuits”.

TRAI issued consultation paper on 24.03.2014 on the aforesaid subject and asked the various stakeholders to comment on the issues mentioned in the consultation paper. In this regard it is submitted that MTNL is of the firm view that the proposal to put ceilings for tariffs for DLC's will benefit only the major operators having Pan India presence. TRAI's objective to standardize the costs of service for all operators is not justified as the networks of operators are different e.g. some have pan-India presence, while some are only operating in small regions, some are providing access services only, while others are providing NLD/ ILD services, some (major operators) are providing all the services (Access/ NLD/ ILD) on pan- India basis therefore benefiting from the economies of scale and hence reduced costs. MTNL being a Government PSU with license to operate only in Delhi and Mumbai is on a different footing and besides it has to bear the different legacy costs, hence the operating expenses being very high raises the costs of services and shall not be compared with costs of other operators. Therefore MTNL is of the view that the tariffs for Domestic Leased Circuits shall not be regulated and be left to be decided by the open market.

The fact that the domestic leased circuits consists of local leads and trunk groups and MTNL being provider of local leads and trunk group connectivity for its customers with in Delhi and Mumbai as well as between Delhi and Mumbai, the provision of services to individual customers and to other service providers has different connotations. The services provided to customers are not in the purview of regulations except filing of tariff in line of wireless and wire line service tariff whereas the provision to other providers for their business is not interconnection but a business case between two operators. Secondly local lead transmission confines the services to the designated customer as dedicated line only whereas trunk group provision is a conglomeration of various transmission activities of data, voice and video etc., of the service provider owning the circuits as well as of housing other service provider's equipment with provision of

dedicated transmission media for the service provided to their customers and hence the costing of the same is very complex and cumbersome and also does not come under any regulations of TRAI.

Besides there is already sufficient competition in market to provide these services to regulate the tariff of leased circuit. Besides, the powers of TRAI under section 11 of TRAI act 1997 *inter alia include vide sub section (1) (g) to lay down and ensure the time period for providing local and long distance circuits of telecommunication between different service providers but not beyond that and ab initio there is no scope for making the regulations on the issue of tariff or forbearance in case of domestic leased circuits.* Secondly the provision of such circuits is not a mandatory or enforceable condition precedent to interconnectivity and therefore does not fall under the regulatory regime and operators can not be forced to conduct business without having any logical nexus to their costing parameters in providing such circuits at appropriate prices. Another feature of the provisioning is that the virtual or phantom provisioning on MPLS-VPN protocols as well as on physical E2E (end to end) provision are selective and interchangeable options for the clientele and therefore any attempt to regulate this business segment would have a cascading impact on the weighted average cost of capital required to maintain the resources to cater to the competitive business requirements, since this business segment is all the more expanding and hence already competitive and any further tinkering would leave no scope or leverage for business case and below the belt pricing with price war would be the ultimate result of this sort of intrusion by TRAI, if it makes forays into uncharted terrains not in its domain. Precisely for this reason only BSNL and MTNL challenged the earlier regulations also.

Therefore it is earnestly requested to not to indulge in this sort of regulations. However, the following comments are submitted for consideration to TRAI:

Q1: 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)?

MTNL Comment: No, the costing of different operators will be different based on the service network, operating profile, geographical region and different components of costs and also business options of clientele being different. Therefore the cost of individual component for each operator needs to be considered on weighted average basis. Any particular approach to ascertain the standard costs may not work.

Q2: 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:

(i) Return on Capital Employed (ROCE)

(ii) Useful lives of transmission equipment and Optical Fiber Cable (OFC) separately

(iii) Average no. of fiber pairs lit in OFC in trunk segment and local lead segment separately

(iv) Utilization factor of OFC system in trunk segment and local lead segment separately?

MTNL Comment : though *the answer to Q1 is not in the affirmative, yet* in case TRAI considers this approach, following needs to be revisited:

- As mentioned in the consultation paper, the concept of selection of second lowest cost of any component/service is not justified. The average/highest submitted costs may be considered.
- The proportion of bituminous soil and soft soil has been considered as 15:85 in earlier approach while it is actually reverse in present scenario which may be taken as 90:10 as most of the tracks in India are bituminized. In particular the tracks in Delhi and Mumbai where MTNL has presence are completely bituminized or concretized while soil in Delhi area being fully rocky and that of Mumbai is also of the admixture of rocky and semi rocky except some part of alluvial soil on the coast. As such the application of generic principles and platitudinous and common place theories for the entire country and foisting it on MTNL with limited geographical presence on telecom map is not justified.
- Operating costs are considered as 10% of costs, which is not sufficient to take care of manpower cost, AMC, infrastructure cost, housing cost and other running expenses. In the year 2005 the equipment cost was much higher and the operating cost such as salary, labour, electricity etc. were low. Now the situation is reversed i.e. the cost of equipment is lowered but the operating expenditure like salary, labour, electricity etc has increased many fold. Further as per our experience through tender cost of optical fibre has increased many fold. In case of MTNL, because of different legacy costs, the operating costs are much higher.

- Amortization factor of 1.5 is also much less. It should be considered as 4 (four).
- Regarding the useful life of optical fibre cable and transmission component, for all practical purpose the life of optical fiber may be considered as 10 years and equipment as 8 years keeping in view the frequent cut and repair of cable and fast technological changes rendering the present system outdated and without any support.
- Average number of fibers lit in the optical fibre in trunk segment and local lead segment may kindly be taken as 40% and 25% respectively.

Following utilization factor may be considered for OFC system:

TABLE-I

S No	Bandwidth	OFC system considered for serving	Utilization factor
1	STM1 (155 Mbps)	STM-4	1
2	DS-3	STM-4	3
3.	E1 (2Mbps)	STM-1	16
4.	64 Kbps	STM-1	16*30

Above utilization factor is proposed keeping in view the local lead as MTNL is mostly providing local leads to the customers, wherein it is incurring expenditure.

Q3: 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.

MTNL Comment : Tariff should be left to the operator as will be driven by competitive forces as already explained in the preamble.

Q4: In your opinion, what are the bandwidth capacities of P2P-DLCs for which ceiling tariffs need to be prescribed?

MTNL Comment: If it is inevitable to go with making regulations. The ceiling tariffs can be prescribed upto 2 Mbps DLC's.

Q5: In your opinion, is there a need for prescribing separate ceiling tariffs for local lead and trunk segment?

MTNL Comment: No

Q6: In your opinion, is there a need for prescribing separate ceiling tariffs for remote and hilly areas?

MTNL Comment: Not Applicable for MTNL however MTNL insist that similarly there should be the separate higher ceiling tariff for Metro Cities such as Mumbai, Delhi etc. because of the higher cost due to the following reasons:

1. Higher Road Restoration charges (Increase in Capital and Maintenance Cost)
2. Higher cost of Skilled and unskilled labour (Increase in Capital and Maintenance Cost)
3. Higher Electricity Charges (Increase in OPEX)
4. Higher Space and Property Taxes (Higher OPEX)
5. Higher HRA to employees (Higher OPEX)

Q7: 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?

MTNL Comment: Existing norms may be considered as there appears to be no rationale for changing the same given anywhere in the consultation paper.

Q8: In your opinion, is the distance interval of 5 km still relevant for prescribing distance-based ceiling tariffs for P2P-DLCs?

MTNL Comment: As already answered under Q7..

Q9: 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?

MTNL Comment: Not applicable.

Q10: What equipped capacities of trunk segment and local lead of P2P-DLC should be used for computation of ceiling tariffs of various bandwidth capacities?

MTNL Comment: As per TABLE-I given above in Q2.

Q11: Should VPNs such as MPLS-VPNs also be brought under tariff regulations for DLC?

MTNL Comment: No the tariff should be independent of technology being employed. . In case of MPLS VPN the majority circuits are working with unicasting only. Practically these circuits are working as P2P long distance circuits from sites to the Data Centre. To have the redundancy the auto routing towards DR (Data Recovery) or NR (Near Recovery) sites the VPN is very useful. Normally as a policy the Data Centre and DR sites are separated geographically with very long distance. In such scenario the distance based (from site to Data Centre) charging is impractical and also to make the billing simple the MPLS VPN are not provisioned based on distance.

However various access technologies (SDH, FTTH, MLLN, MES etc. on Copper or Fibre) are used to extend the local lead to Edge router as the edge routers are not available at each location.

Accordingly the concept of regulation itself is unpractical and bringing such virtual circuits with attendant difficulties in tracing and tracking of relative costs has no logic. In addition there will be gradual switching to IP based VPN with mesh networking allowing connections to various sites and locations moving away gradually from intra- company links on frame relay and ATM based connectivity which further makes the issue complex as well as redundant.

Q12: In case your response to Q11 is in the affirmative, what method should be used for computation of cost based ceiling tariffs for VPNs?

MTNL Comment: Not applicable in view of reply of Q11.

Q13: 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?

MTNL Comment : Yes, even though the MLLN is not an expanding network but still it is extensively used for the access network (Local Lead) for existing as well as new circuits. It provides the better manageability, scalability up to 2 Mbps and Maintenance to meet the SLA.

Q14: 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?

MTNL Comment :

1.The fixed costs of production once incurred by legacy operators like MTNL the same becomes irreversible and can not be recovered any more if the regulatory pricing control mechanism comes into picture at a later point of time catapulting

the costing on the basis of current market scenario and prices for CAPEX and OPEX. In that case the existing legacy operators are requires to be allowed the coefficient for sunk costs and they should include the major costs incurred on excavation works and restoration of surfaces investing high capital costs for the ducts and other transmission routing infrastructure etc. already created.

2. Secondly the telecom industry is in a deep debt trap and the large amount of long term debts taken in connection with various telecom one time upfront charges paid by operators and hence the weighted average cost of capital for financing the DLC projects also need to be considered in the cost calculations.

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