

CONSUMER PROTECTION ASSOCIATION  
HIMMATNAGAR  
DIST. : SABARKANTHA  
GUJARAT

**Consultation Paper on  
Review of Tariff for Domestic Leased Circuits**

INTRODUCTION :

Evidence available from Banking Finance and Accounting (F&A), Customer Interaction Services (CIS), Human Resource Administration and niche business services indicates the good performance of IT in India and importantly credits to TRAI for managing cost effective availability of telecommunication. According to NASSCOM, with significant bandwidth capacity lying unutilized and the steady advancement in technology making access faster and less expensive than before, it is likely that the share of telecommunications in the

cost structure of an IT-BPO firm may further decline. Firms are also managing to lower their facilities costs by expanding into other tier-II locations. Improving the quality and lowering the cost of telecommunications services holds a key role in improving overall economic performance, especially in developing countries as a result of:

- Better and low-cost telecom services bolster internal efficiency, competitiveness and strengthen the links of developing economies with global markets.
- More competitive telecom markets improve the investment climate, and greatly enhance the attractiveness of liberalizing countries to FDI.
- A low access cost and high-quality telecommunications infrastructure also facilitates the diffusion of the internet and ICT applications. And the spread of the internet holds great promise in helping developing countries catch up more rapidly with the expanding pool of global knowledge.

□ Developing countries may also be able to successfully position themselves in the global ICT market by nurturing competitive advantage in specific niches. It is well known that telecommunications can create direct as well as indirect benefits. Direct benefits include revenue and employment generation. As with any other form of development, the presence and growth of industries producing telecommunications goods and services is clearly important to the growth of real GDP. An important indirect benefit through the use of telecom user services is the (impact) increase in productivity.

Benefits of the telecommunications sector are no longer thought to be confined to the sector itself. The role of telecommunications as essential to the facilitation of international trade, economic development, and the enrichment of citizens' lives has become widely accepted. We have seen that one third

of the economic growth could be attributed to the direct and indirect impact of the Telecommunication Sector.

In the intervening period since the year 2005, the Indian telecom services market has witnessed a remarkable increase in the supply and demand of DLCs and significant advancements in the transmission technologies. As a result of these factors, the market for DLCs in the country has undergone several changes.

Evidence for India demonstrates the importance of credible regulatory intervention and competition in driving prices of DLCs and IPLCs to reflect their true cost. In doing so, substantial benefit has been reaped by user industries such as IT and BPOs. In addition, analysis by the Confederation of Indian Industry, National Broadband Economy Committee shows that the total present value (2004) of benefit to the Indian

economy due to growth from broadband is expected to be US\$90 billion for the years 2010 – 2020, with an 11% additional growth in labor productivity. Broadband growth is, inter alia, contingent upon availability and price of infrastructure. According to CII this activity is expected to launch new business lines and increased efficiency in existing businesses, leading to direct employment of 1.8 million and total employment of 62 million by 2020.

### **Issues for Consultation**

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)?

Yes.

The advantages of bottom -up approach include greater accuracy, greater transparency and greater commission control over the modeling process.

Revenue from leased circuits itself comprises about 2% of the incumbent's revenues, so direct impact of the reduction could not have been a reason for the reluctance to reduce price. In past not only industry survive' the first round of price cut, it is prospering even after a second round of price cuts implemented by TRAI.

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?

As per the expert view.

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.

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

As per the expert view.

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

Yes

Software exporters, BPO industries, Banks and other Financial Services Companies are key users. The competitiveness of these industries in the global market is dependent to a large extent on the price they pay. In addition, Internet Service Providers also use it for their upstream connectivity abroad and high cost get reflected into the internet access tariff which could adversely affect internet growth in the country.

In both market, regulatory intervention is necessary to start with but competition is as much necessary to ensure that cost reduction through technical progress should be passed on to the consumers. Competition ensures that service providers race to offer their customer better and faster access at increasingly attractive prices.

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

Yes.

TRAI should develop separate cap. Leased line tariff should be cost oriented in order to stimulate economic activities and efficiency. High prices:

- (1) Discourage other operator to lease lines.
- (2) Imply a loss in revenue for the incumbent.

(3) Results in over investment in the network and most importantly

(4) Constrain economic activity that relies on or is linked to the use of leased lines

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?

As per the expert Advice.

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

Yes.

Easy to calculate.

- a. For distance lying in between the distance mentioned above the tariff shall be charged on pro rata basis. The calculations should be done by taking the difference of the upper and lower distance slabs & dividing by 5 for arriving at per km distance exceeding multiples of five.
- b. Installation and Testing charges should be fixed.

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?

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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?

As per the expert View.

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

Yes.

The benefits of affording access to competitor to a leased circuit derive not only from regulation induced price decline but also from competition in the supply of services to final users and the stimulus to dynamic efficiency that is provided by the competition.

Intervention is necessary not only for rationalizing the tariff structure but also ensure that

Indian growing prowess in the Information Technology enabled services ( ITES ) should not be constrained.

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?

As per the expert opinion.

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?

Yes.

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?

Satellite based leased circuits.

Cpa/08-04/14

10.04.2014

To,

Hon. Shri Manish Sinha,  
Advisor, ( F & EA ),  
Telecom Regulatory Authority of India,  
Mahanagar Door Sanchar Bhavan,  
Jawahar Lal Naheru Marg,  
NEW DELHI : 110 002.

Sub. : Suggestions for the Consultation Paper No.  
01/2014 on Review of Tariff for Domestic leased  
circuit dated 24th March, 2014.

Hon. Sir,

Namaskar !

With reference to your above mentioned subject, please  
find herewith our suggestions.

You are requested to do needful and oblige.

Thanks.

Yours faithfully,

( Dr. Kashyapnath )

President

Member organization TRAI

Encl. : As above.

Copy to : Hon. Shri S.S. Panwar,

Joint Advisor, (CA), TRAI.

