

Idea Response to TRAI consultation paper on Access Facilitation Charges & Co-location charges at Cable Landing Stations

Q1: Which of the following method of regulating Access Facilitation Charges and Co-location charges (AFC & CLC) should be used in India?

- (a) The prevalent method i.e. submission of AFC & CLC by owner of the cable landing station (OCLS) and approval by the TRAI after scrutiny**
- (b) Submission of AFC & CLC by OCLS and approval by TRAI after consultation with other stakeholders**
- (c) Fixing of cost based AFC & CLC by TRAI**
- (d) Left for mutual negotiation between OCLS and the Indian International Telecommunication Entity (ITE)**
- (e) Any other method, please elaborate in detail.**

Idea Response:

Considering that the AFC and CLS charges in India are extremely high at the current juncture, a very effective regulatory intervention is needed to ensure these two charges are within reasonable limits.

After the last Regulation by the Authority in 2007, the AFC and CLS charges have remained constant/ unchanged, while the amount of International capacity landing into India has grown manifold. This means that the OCLS have not shown self-initiative in reducing the AFC and CLC charges, even though the same could have been possible with growing demand and better utilization of assets. International benchmarking (*refer recent media reports*) also shows that the fee fixed by the Indian players is much higher than what is charged in other countries, For example, a long-distance carrier connecting to a cable landing station in Changi, Singapore, pays less than \$3,875 per annum for 10 Gbps bandwidth while in India the charge goes up to \$ 2,50,000 per annum, nearly 60 times of what one needs to pay in Singapore. Further, internationally, generally cable landing charges account for a very nominal or maximum 5 per cent of the bandwidth cost, but in India they are as high as 45-50 per cent.

We would like to submit here that all charging by the OCLS should be based on fair charging principles, and transparent reflecting the actual costs incurred. As a Regulator, the onus is on the TRAI to ensure that OCLS do not include any unnecessary elements in the charges and that the mandated charges are truly reflective of the efforts and resources incurred by them in the provision of this Service.

It is therefore important that the Terms and Conditions offered by the OCLS in India are benchmarked against that offered by Landing Parties in other countries to ensure that they are indeed reasonable and justifiable.

In turn, this is likely to benefit national competitiveness, boost economic growth and create jobs. It will also help to reduce the digital divide, make services more affordable and thus to improve social cohesion.

As regards the charges, it is pertinent to note that the Cable system projects are customized projects which are built across different time periods. Therefore, cost estimation for each cable system is time consuming and estimate based.

We believe that method (b) is most appropriate as it is most transparent, less time consuming and it allows all stakeholder to provide their inputs.

Q 2: In case AFC & CLC are regulated using method (a) or method (b) above, is there a need to issue guidelines containing algorithm and network elements to be considered for calculating AFC & CLC to the OCLSs? If yes, what should be these guidelines?

Idea Response:

Method (a) is not recommended as this being the prevailing method has not been effective in ensuring market driven pricing. If the method (b) is followed, there is definitely a case for issuance of guidelines containing algorithms and network elements. Such framework should be made applicable to all existing as well as new International Cable Landing Stations in India.

In any event, clear cut guidelines should be issued about which cost/network element needs to be taken and which not, along with the algorithms. Otherwise, different stakeholders will use different methods that will lead to confusion and make it difficult to compare costs.

Additionally, most of the OCLS have the CLS and Meet Me Room (MMR) at two different places in the city where the cable lands. As the OCLS deliver capacity at the MMR, they charge high local loop BW charges for the carriage of the CLS landed capacity to the MMR. This further adds to the costs of the landed International capacities.

Q 3: In case, AFC & CLC are regulated using method (a), (b) or (c) above, please suggest the value of pre-tax WACC, method of depreciation and useful life of each network element? Please provide justification in support of your answer.

Idea Response:

TRAI should fix the pre-tax WACC at an appropriate level to arrive at the price for these facilities and avoid confusion about the expected return of capital employed among the OCLS. The SBI PLR (Prime lending rate) may be used as bench mark for this purpose.

The existing method of depreciation @ 10% per annum based on Straight Line is acceptable and should be continued with. WDV method of depreciation could lead to higher depreciation cost in first few years, when the capacity utilization is generally less, leading to skewed cost structure.

Q 4: Which cost heads/ network elements should be included/ excluded while calculating Access Facilitation and Co-location charges? Please enumerate the items with specific reasons.

Idea Response:

The various cost elements captured in Annexure III, IV and V appear reasonable. The main problem today is that while the STM1 AFC and CLC charges themselves are high, the OCLS do not reduce these charges even for higher capacities. E.g. The AFC & CLC payable for STM16 (2.5Gbps) capacity today are simply STM1 charges multiplied by 16.

As is well known, the only costs that the OCLS would incur for provision of higher capacities is the additional transmission equipment costs (as all other costs are anyway covered). The cost of transmission equipment for higher capacities have declined over the last few quarters and thus for higher capacity Transmission equipment the per unit costs should be much lower.

Q5: What should be periodicity of revision of AFC & CLC? Support your view with reasons.

Idea Response

According to a research from the MIT Center for Digital Research, digital Information is doubling every 1.2 years and will exceed 1000 Exabytes (1Exabyte=10¹⁸ bytes) by 2012.

As the Cable Landing Stations are essentially Bottleneck facilities for landing International Cable capacities into India; there is a need to ensure periodic review of the AFC & CLC. With the rapid increase in International Bandwidth into India, these charges may be reviewed by TRAI atleast every 2 years.

TeleGeography, a telecommunications market research and consulting firm, expects that demand of international bandwidth in India will grow at a compounded annual growth rate (CAGR) of 83 percent between 2009 and 2015.

Based on the above trend we believe that capacity utilization of AFC & CLS will increase exponentially so the prices should be reviewed and regulated by TRAI at least every 2 years to ensure that the prices remain in tune with international prices.

Q 6: In case, cost based AFC & CLC are fixed by TRAI, which costing methodology should be applied to determine these charges? Please support your view with a fully developed cost model along with methodology, calculation sheets and justification thereof.

Idea Response:

We believe that Long Run Incremental Cost (LRIC) Method is most appropriate as it allows re-optimization of cost based on current demand, capital equipment prices and operating costs with certain 'benchmarks'. This will be a more transparent method and will also account for future market dynamics. We submit that this model is beneficial for all stake holders.

Q 7: Whether Access Facilitation charges and O&M charges should be dependent on capacity (i.e. STM-1, STM-4 or STM-16) activated? Support your view with reasons.

Idea Response:

With a view to ensure fair interconnection principles, the AFC as well CLC must be completely cost based. As far as, AFC is concerned, it should be noted that the charges are meant to be a compensation to the OCLS for managing the CLS and not the Capacity. For such access facilitation, the only incremental cost for higher capacities is the cost towards higher capacity DXC. Such cost is incrementally very small.

Thus in our view, it may be fair to specify certain charges for lower capacities (for example, STM1, so that the AFC is not arbitrarily high at this capacity level). For capacities higher than a certain threshold, a single nominal cost-based charge may be specified.

Q 8: If Access Facilitation charges and O&M charges are fixed on the basis of capacity activated;

(a) Should the charges be linearly proportionate to the capacity activated;

or

(b) Should the interface capacity as provided by the submarine cable system at the cable landing station be charged as a base charge while higher or lower bandwidth be charged as the base charge plus charges for multiplexing/ de-multiplexing?

Idea Response:

AFC and O&M charges cannot be linearly applied at all, as the incremental costs for higher capacities are very low. Essentially, the point is that the AFC and O&M costs for higher capacity in a CLS should be only marginally higher as the only additional costs are for the higher capacity DXCs. The cost differential between an STM1 DXC and STM64 DXC or DWDM is only of the order a few Lacs or few Tens of Lacs of Rupees and hence costs should only work out to be marginally higher. It should be noted here that charges, if brought down, will certainly give a fillip to bandwidth consumption.

Q 9: Whether there is a need to fix Access Facilitation charges for all types of submarine cables? If no, which kind of submarine cables may be exempted and why?

Idea Response:

We submit that AFC regulation is needed for all types of submarine cables (whether privately owned or consortium based). It must be kept in consideration here that the 2007 regulation resulted in equal access to CLS, but the OCLS have not shown much initiative in reducing the CLS pricing in view of the growing International traffic. Thus, an AFC determination is needed for all types of submarine cables.

Q 10: Is there a need to introduce any new provision or to modify/delete any of the clauses of the 'International Telecommunication Access to Essential Facilities at Cable Landing Stations Regulation 2007', in order to facilitate access to essential facilities at cable landing station?

Idea Response:

The CLS Regulation of 2007 should be modified in line with the suggestions given by us in response to queries nos. 1 to 8.