

**COAI Response to TRAI Consultation Paper No. 12/2004 on
'Revision of Ceiling Tariff for Domestic Leased Circuits'**

We welcome the Authority's initiative to examine the tariffs for Domestic Leased Circuits. The Authority has already undertaken a similar examination of the Ceiling Tariffs for International Private Leased Circuits vide its Consultation Paper No. 10/2004 dated April 30, 2004 and we look forward to the Authority's determination on this issue.

The review of the tariffs for domestic leased circuits too, is appropriate and timely in light of the significant decline in the costs of transmission equipment coupled with the rapid advances in technology. We believe that the reduced tariffs being proposed by the Authority will go a long way in driving the growth of broadband services in the country and meeting the challenging targets laid down by the Authority in its recommendations on accelerating the growth of internet and broadband in India.

Our response to the issues raised by the Authority are as below:

1. What are the shortcomings, if any, in the methodology used in this Paper?

We are in broad agreement with the methodology used by the Authority in the Consultation Paper of adopting the cost of an STM-1 link as the reference point for calculating cost of 2 Mbps/64Kbps circuits. However the following factors may be considered:

- Despite acknowledging that normally Regulators tend to use cost of the most efficient operator, The Authority has chosen to adopt a normated approach to derive the annual rental value. We believe that it would be more appropriate for the Authority to follow international practices and adopt the cost of the most efficient operator. In fact, a large number of Regulators are adopting long Range Forward Looking Cost while determining the cost based tariffs.
- The Authority has mentioned in para-14 of the Consultation Paper, that on trunk routes where demand is more, the systems used are STM-4, STM-16 and WDM. We believe that the proportion of leased circuits on such routes vis-à-vis the total

leased circuits in the country is likely to be fairly high say, 40-50%. The exact information can be easily obtained from BSNL. In the light of the same, it may be appropriate for the Authority to provide for weighted average on account of the high capacity systems like WDM, STM 16, while working out the equipment cost of an STM-1 link. The cost of 1E1 link can then be derived from the weighted average cost of 1STM Link by dividing it with 63. As the deployment of higher capacity systems would continue to grow and equipment costs keep coming down, it is suggested that the pricing/tariffs of the circuits be reviewed on a yearly basis.

- There is no need to consider both a capacity utilization factor of 80% and a redundancy factor of 25%. We believe that it would be sufficient to take a capacity utilization factor of 75% as this will also take care of the provision for redundancy. This should provide the guarantee of 25% redundancy for each capacity hired.
- The O&M charges @ 10% of Capex for all the elements of the network i.e. equipments, cables and other investments are significantly on the higher side. We understand that even BSNL in its cost estimates does not provide such high O&M charges for optical fibre cables, buildings etc. The O&M charges of the private NLD operators are ranging between 3% to 5%.

It is submitted that the annual ceiling rentals proposed for domestic leased circuits may be reviewed in the light of the above submissions.

2. Should the tariff for leased line be specified on per kilometer basis for the first 5 Kms. and on a slab basis at 5 Km. Interval thereafter?

Yes, the tariff for leased line should be specified on a per kilometer basis for the local leads and on the slab basis of 5 kilometers for the long distance segment of a leased circuit.

3. Should the chargeable distance be 1.25 times of the radial distance calculated for the purpose of domestic leased circuit?

The present method for working out the chargeable distance as 1.25 times the radial distance was adopted at a time when DOT was the monopoly service provider. This should now be reviewed by working out the typical ratio in respect of a large number of existing circuits so as to arrive at the correct statistical average. However, till this is done, the present factor of 1.25 times may be continued with, only in the case of local leads. **In the case of long distance circuits, the actual radial distance should be taken into account.**

- 4. Is the suggested ratio of 1:8:23 with respect to E1, DS3 and STM1 respectively as price multiples appropriate? If not, suggest an alternative approach along with its basis.**

The Authority has proposed a ratio of 1:8:23 for E1, DS-3 and STM-1 circuits which is the same as had been proposed by it in the case of International Private Leased Circuits. In our response to the earlier consultation, we had submitted that while the reduction proposed by the Authority was welcome as a first step, it must be noted that there was still scope for further reduction as the ratio was still significantly out of line with the international practices of 1:4.5:10.5 tabled by the Authority. Accordingly, we believe that even in the case of domestic leased circuits, there would be scope for further reductions.

- 5. In the event of any demand from buyers for bandwidths between E1 and DS3 and between DS3 and STM1, what should be the basis for arriving at the appropriate price multiple?**

This would depend upon the methodology adopted for working out the cost of an E1, DS-3 and STM-1 links. A simple method could be to work out the tariff for higher capacity circuits between E1 and DS-3, by working out proportionate tariff vis-à-vis tariff for DS-3 i.e. $N/21 \times TDS-3$ where N is the number of E1s for which the leased circuit is required; 21 is the capacity of DS-3 vis-à-vis E1 and TDS-3 is the ceiling tariff for circuit of DS-3 capacity. Similar method could be adopted for working out the tariff for a circuit having capacity between DS-3 and STM-1 with reference to ceiling tariff for STM-1.

It would be pertinent to note that **DS-3 configuration is not used in domestic leased circuits in India.**

Normally the capacity is leased on annual basis, hence when the capacity is increased between any two points then the cumulative capacity should be the criterion for fixing the charges.

6. Should the pricing for local lead/ link be considered differently than the pricing for long distance networks? What should be the framework and related terms and conditions for local lead? What should be the coverage of local lead?

Yes, the pricing for local lead/ link should be considered differently than the pricing for long distance domestic leased circuits.

- The segment of the leased circuit between the transmission centre at the SDCC and the customer premises at the two ends of a long distance circuit should be treated as local leads. The chargeable distance for the local leads should be worked out on per Km. Basis.
- As for the long distance segment, the price should be worked out in slabs of 5 Kms.

Further, the local leads should be unbundled and it should be made mandatory for the incumbents to provide local leads, wherever required, for extending the long distance circuits leased from other service providers. At present, BSNL/MTNL enjoy a 'near monopoly power' in the local link segment of the domestic leased circuits, BSNL/MTNL are exploiting this by not permitting the long distance leased circuits by other service providers to be extended over their local leads. The Authority should, therefore, unbundle the local leads and also issue appropriate directive to the incumbents to not to refuse the end-to-end circuits to be built-up partly over their network and partly over networks of other service providers.

7. Should access providers who offer the 'within city limits' or local lead be required to come for prior approval to the Authority for the policy governing the basis for their Rent and Guarantee and Contribution Basis Agreements?

We agree with the Authority that there is a need for establishing clear norms about the R&G terms and conditions and the minimum guarantee period so that the lessee is not tied down for too long a period of time, which will be against the customers' interests due to ever-falling costs and tariffs.

Thus, the R&G terms should be clearly laid down by the Authority. Similarly, the elements, which go into the charges for contribution works, should also be laid down by the Authority.