25th April, 2014

The Advisor (F&EA)
The Telecom Regulatory Authority of India,
Mahanagar Doorsanchar Bhawan,
Old Minto Road,
New Delhi 110002

Idea Cellular's response to TRAI Pre-Consultation Paper on "Review of Tariff for DLCs"

Sir,

At the outset, we wish to submit that **benefit to the customers** and the **sustainable health of Industry** need to be the only criteria for any Regulatory and Policy interventions. Idea Cellular has always advocated **'Forbearance'** in matters of tariffs, especially when there is hyper competition in the market and the tariffs are among the lowest in the world in spite of rising Regulatory and operational costs. The Regulatory experience in the Indian Telecom industry clearly shows that the competitive intensity itself results in the best tariffs for the customers. Competition and the large number of players in the DLC market has ensured that DLC Tariffs have for a long time been operating at a level that is far below the tariff ceilings prescribed by the TRAI. In view of the same, we submit that DLC tariffs should be under forbearance and whenever there is a monopolistic situation resulting in inadequate competition, Regulatory intervention would be the best mechanism to serve the end customer. We support COAI views in this regard.

Without prejudice to the above, any review of DLC tariffs must first include appropriate returns on the capital employed and derived on the basis of "Fully Allocated Costs". This method has the advantage of simplicity and also ensures that costs corresponding to each network element on the basis of work done are taken into account and are based on accounting data submitted to the Regulator from time to time.

Before submitting our responses to the questions raised in the Consultation Paper, we believe it is relevant to understand the legacy and background to the present queries.

1. TRAI first issued ceiling tariffs for DLCs in India in 1999. At that time, the DLC market had the following characteristics:
   a. The DLC market was monopolistic in nature.
   b. There was no clear regulation to provide DLCs as a mandatory service.
   c. The DLC pricing was thus neither market driven nor cost driven.

   Through the TTO 1999, TRAI mandated provision of DLCs and also prescribed tariff ceilings for various capacities. This helped the expansion of DLCs as a customer-focused Telecom Service.

2. TRAI then reviewed the DLC pricing through its Consultation Paper in 2004 and issued TTO for DLCs in 2005. The resultant drops in tariff ceiling were in the range of 70% to 88% depending on capacities.

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3. In the recently issued Consultation Paper (CP), TRAI has acknowledged the following :

    a. **The DLC prices are already at discounts of between 60% and 88% to the tariff ceilings prescribed by TRAI in TTO 2005.**
    b. **MPLS VPN prices are not regulated by TRAI. Based on the current market conditions, the MPLS VPN prices are also at effective discounts of almost 90% in comparison to the DLC tariff ceilings of TTO 2005.**
    c. TRAI also makes an observation that capacities of Transmission backbones have increased and costs per unit of DLC capacity have fallen.

With the above in view, we wish to submit the following to the attention of TRAI:

a. The fact that DLC prices are at huge discounts shows that the DLC market has adequate competition. The fall in prices has been without any regulatory intervention and is in response to the growth in demand and competitive situation in the market.
b. As the Consultation paper (CP) points out, there are already almost 9 ASPs and 31 NLDOs who offer DLC services in India. Thus there is adequate competition in the market.
c. As far as the reducing cost per unit of capacity due to increasing backbone size is concerned, the DLC providers (including Idea) have already passed on the benefits to customers in the form of discounts. In fact the cost of ROW has continually increased over the last few years in a disparate manner across the country :

    i. The ROW for National routes are in the range Rs.2-3Lacs per Km, while those in municipal areas are Rs.5-8Lacs per Km. In fact in certain municipal areas like Pune, Mumbai; the ROW charges are extremely high and are in the range of Rs.50-80Lacs per Km.
    ii. There are frequent road expansion and repairing works carried across India resulting in higher operations & maintenance costs.
    iii. In spite of such cost increases on per Km basis in OFC; operators have worked on reducing costs as a result of capacity increases and the use of new technologies such as DWDM. The resultant benefits thus achieved have been passed on to customers in the form of discounts on DLCs.

d. As far as MPLS VPN is concerned, it is a classic case of an innovative service being launched in a competitive market. Also as **the TRAI consultation paper itself points out, the MPLS VPN prices are at more than 90% discounts to DLC prices. This again illustrates that there is adequate competition in the DLC market.**

e. There are a few pockets in India where there is not enough competition in the DLC market. These are basically remote and hilly regions such Northeast, Assam and J&K. In such areas, there are either no discounts or discounts offered are very low. Similar conditions may also arise on certain routes from time to time due to unforeseen conditions.

We reiterate that whenever a market matures and enters a fully competitive market driven mode, such as the DLC market at present, **economic principles would suggest de-regulating the prices.**

In view of the above, we submit the following fundamental principles for the Authority's considerations:

a. **TRAI should not regulate the DLC pricing at present and not prescribe any tariff ceilings for DLCs.**

b. **TRAI should only consider providing tariff ceilings for areas where there is lack of adequate competition. Such areas presently include Assam, Northeast, and J&K.**

TRAI should also consider prescribing ceiling prices whenever any major DLC route in India becomes devoid of adequate competition or a in case of certain unforeseen events or natural calamities.

Further, in our view there is no need to prescribe any tariff ceilings for MPLS VPN services as this segment of the market is very competitive and customer centric. MPLS VPN is also a constantly evolving service where operators develop incremental service enhancements to respond to innovative customer applications riding on MPLS VPN. MPLS VPN services also require different types of Customer Premise Equipment (CPEs) where customers and operators need to work together to deploy the CPEs in most cost effective manner. There is thus no need to prescribe any tariffs for MPLS VPN.

Our responses to the various questions in the Consultation are as follows:

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)

Idea Comments:

As already highlighted TRAI should not regulate the DLC pricing at present and not prescribe any tariff ceilings for DLCs. TRAI should only consider providing tariff ceilings for areas where there is lack of adequate competition. TRAI should also consider prescribing ceiling prices whenever any major DLC route in India becomes devoid of adequate competition or a in case of certain unforeseen events or natural calamities. Such areas may presently include Assam, Northeast, and J&K.

For locations, devoid with adequate competition, as already highlighted the "Fully Allocated Cost" model is the most appropriate methodology. This method has the advantage of simplicity and also ensures that cost corresponding to each network element on the basis of work done is taken into account and is based on accounting data submitted by service providers in their balance sheet, profit & loss account and accounting separation report.

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 Fibre Cable separately; (iii) Average no. of fibre 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

Idea Comments: For cases where tariff ceilings may be necessary as described in comments of Q1; we recommend the following:

(i) ROCE: We recommend ROCE value of 15% that is also considered appropriate.

(ii) Useful lives of transmission
   a. Equipment : 8yrs
   b. Optical Fibre Cable: 15 Yrs. In India the roads are damaging the infra. The fibre cuts are frequent so the useful life of OFC should be 10 years on a conservative side. It is complex question as OFC routes are of different kinds i.e. local, intercity etc.

(iii) Average no. of fibre pairs lit in OFC in trunk segment and local lead segment: 3-4 pairs on both trunk as well as local lead. However redundant fibre pairs are always kept free for O&M.

(iv) Utilization factor of OFC system in trunk segment and local lead segment: 70% as upgrades need to be initiated at these levels due to the massive growth in capacities.

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.

Idea Comments:

Not Applicable

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

Idea Comments:

For the areas where TRAI tariff ceiling is necessary (lack competition, remote etc), the current practice of prescribing tariffs for E1/ DS3/ STM1 level capacities may be followed. Sub E1 capacities can be under forbearance as E1 is now a minimum unit of capacity generally in the market.

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

Idea Comments:

In areas where TRAI tariff ceilings are necessary (different conditions, lack of adequate competition areas etc.), there should be tariff prescription in slabs as in our response to Q7 below. The cost in local lead segment may be much higher, while in the case of trunk segment the cost would be much less. Such higher cost should be captured in the <50Kms distance slab.

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

Idea Comments:

For remote and hilly areas the cost should be kept separate depending the terrain and region as pointed out above. The cost would be higher in the remote areas depending upon the approachability. Also, in areas with lack of adequate competition and TRAI prescribed ceiling tariffs may be necessary for growth of the market in these areas.

Q7. In your opinion, what are the distances of: (i) trunk segment; (ii) local lead segment (separately) of P2P-DLCs for which ceiling tariffs need to be prescribed?

Idea Comments:

We recommend that for areas where TRAI tariff ceilings are necessary (for remote areas, areas without adequate competition); the pricing should be prescribed for slabs of (i) <50Kms (where the higher costs of ROW should be considered), (ii) 50-500Kms, and (iii) >500Kms

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

Idea Comments:

Response as above in response to 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?

Idea Comments:

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?

Idea Comments:

As pointed out above, market is highly competitive so we should go for forbearance.

For cases where TRAI prescribed tariff ceilings are needed (such as remote and areas lacking enough competition); trunk segment system we suggest STM16 (2.5Gbps) and for local leads STM4 for Metro backbones should be suggested. Even in local leads, the final delivery network still rides on STM1 and thus STM1 should be the benchmark for local leads wherever such tariff ceiling prescription is needed in remote areas etc. As ROW cost is high in local lead so equipped capacities should be different.

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

Idea Comments:
We recommend that MPLS-VPN should not be brought under tariff regulations, as like DLCs, MPLS VPN market is also competitive and has responded to customer need and demand. MPLS VPN market also has many variants such as L2, L3, CPE (Customer Premise Equipment), need for multiple last miles for Tier 1 and Tier 2 locations etc. There is a constant evolution of MPLS VPN service as deployed to customers and it should be left to market sources to enable such innovations and advancements.

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?

Idea Comments:

Not Applicable

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?

Idea Comments:

No comments, we do not offer Managed Leased Line Network (MLLN)

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?

Idea Comments:

DLC services to be included as essential services under State IT/ITES acts and ROW permission to be made simple. The charges by local authorities should be very low and cost based to prevent setback to new OFC infrastructure planned by operators.

TRAI may consider undertaking a study of practices followed internationally by various Regulators with respect to DLC for a better perspective. We understand that the DLC tariffs are mostly under forbearance and de-regulated if they were earlier regulated.

We hope that the Authority will give due consideration to our aforementioned comments before formalizing any guidelines on the issue.

Thanking You

Yours faithfully,
For IDEA Cellular Limited

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