TCL Response to Consultation Paper on Review of Tariff for Domestic Leased Circuits

The DLC and VPN market in India has evolved and come a long way from the initial 3 NLD licensees in 2002 to 31 licensees at present. More than half of these 31 licensees are extensively and actively competing in the market all across the country thus resulting in competitive prices being offered to the Enterprises both large and small in the market. The tariffs for DLC services were regulated by TRAI vide its tariff order TTO (36 Amendment) dated 21-04-2005 wherein ceiling tariffs was prescribed for the DLC services. Due to intense competition in the DLC service market the current prices offered in the market as a percentage of the TRAI prescribed Ceiling tariff of 2005 are significantly discounted. This fact is also duly recognized and validated by Table 2.1 & 2.2 in the present consultation paper.

It is a known fact that in the markets where market forces have taken over the pricing of the services, regulation generally takes a back seat and retains only an oversight on the market conditions to assess in case any regulatory intervention is required in future. It is our submission that the DLC/VPN market has now matured where the price levels are being determined basis fast changing competitive forces and should operate on the principles of Laissez-faire rather than being regulated by tariff orders. In case there are certain remote or hilly areas where market prices are still high due to lack of competition owing to factors of higher cost of providing services, market potential of such areas etc. then in such cases efforts should be made to incentivize provision of DLC services in such areas through subsidies through USO Fund mechanism or providing other benefits to the NLDOs who provide services in these areas or who are willing to provide these services in such areas. This would lead to increased competition in such areas leading to lower prices and benefits to the market consumers in such areas. Thus it is our submission to the Authority that tariffs for DLC and VPN services should not be regulated and should be forborne. Additionally special schemes should be promulgated for proliferation of competition in the underserved regions of the country in respect of these services.

With above submissions we now undertake to respond to various questions in the Consultation Paper.

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)?

Response:

It is our submission that as stated above that since competitive forces have taken over tariffs for DLC service should not be regulated. However if cost based tariff for point to point DLCs is required to be computed then it should be based on a bottoms up fully allocated cost model – service offering to the end customer which should include all the components and not necessarily restricting to infrastructure space and power, Fiber, Right of Way charges, Electronics such as terminal equipment, repeater stations, cross-connects, field & NOC maintenance, OSS&BSS systems, capacity utilization percentage, replacement costs due to technology obsolesce, costs for providing guaranteed service levels, reporting, including cost of local leads at both ends to access the customer end locations.

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:

Response:

(i) Return on Capital Employed (ROCE) – 25%

(ii) Useful lives of transmission equipment and Optical Fiber Cable (OFC) separately – 8 Years, and 15 Years respectively

(iii) Average no. of fiber pairs lit in OFC in trunk segment and local lead segment separately – 1-2 pairs NLD trunk 5-6 pairs in MAN

(iv) Utilization factor of OFC system in trunk segment and local lead segment separately? – 60-70% in trunk and MAN

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.

Response:

Not applicable in view of response to Q1.

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

Response:

It is our submission that as stated above while Tata Communications is of the view that since competitive forces have taken over tariffs for DLC service should not be regulated. However if the ceiling tariffs still need to be prescribed then it may be considered for the following capacities:

E1, E3, DS3, STM-1, STM-4, STM-16 and STM-64/10G.

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

Response:

Today as observed in Table 2.1 & 2.2 of the consultation paper, the price discounts w.r.t. the base tariffs generally increase with the distance and bandwidth. This is further driven by the fact that the Right of Way (ROW) costs in metros and Tier-1 cities are multifold higher than that in other regions and on the national trunk routes and long hauls. Hence the higher unit cost base coupled with a lower tariff ceiling for local leads which are generally assumed to be within 50km distance leads to lower discounts being offered.

Thus if DLC tariffs still are required to be regulated then there is a need to prescribe a separate tariff for local leads as the infrastructure costs for local leads is significantly different compared to the NLD trunk segment.

That said, today pricing is being carried out as an integrated end to end link, instead of pricing separately for the trunk component portion and separately for the local lead component portion.

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

Response:
Connectivity to remote and hilly areas continues to be a challenge due to multiple reasons. First of all, the cost to build out these routes are very high. It being coupled with lower demand, economies of scale are not achieved. In addition, it is challenging to maintain the service level performance of the links due to frequent outages and the associated efforts / costs to improve and maintain the resiliency and performance of the network.

Instead of prescribing separate ceiling tariffs for remote and hilly areas TRAI may consider, utilizing the USO fund to aid TSPs by contributing to the funding of network expansion in these remote and hilly areas or provide other benefits like reduction in LF for revenues accruing out of DLC services in the remote and hilly areas and other similar measures.

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?

Response:
It is our submission that as stated above while Tata Communications is of the view that since competitive forces have taken over tariffs for DLC service including for local lead and trunk

segment, these should not be regulated severally or together as market forces have taken over. However if ceiling tariffs for local lead and trunk segment are still needed to be prescribed then it should be done only for the market segments where there is lack of competition and market forces have not taken over .

In such cases only subject to above the following may be considered in terms of distances:

(i) Trunk segment: Trunk segments should be considered beyond 50kms but not limited to 500kms as the cost to serve a Mumbai – Kolkata link (Chargeable Distance i.e. CD ~2000km) is much higher than a Bangalore - Hyderabad link (CD ~610kms) while the tariff ceiling slab for both the links are the same.

(ii) Local lead segment (separately): Up to 50kms

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

Response:

The distance interval of 5km is relevant for distances of up to 50kms. The same can be increased for distances beyond 50kms up to 500kms. The current slab gives benefit and flexibility to the customer to not pay for more than what they use and can be kept the same.

Beyond 500kms we would recommend to propose a distance interval of 100kms.

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?

Response:

As stated in Q8, we believe that for the trunk routes beyond 500Km, a distance interval of 100Kms should be used.

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?

Response:

The trunk segment in terms of 10G with multiple channel capability and for local lead in terms of STM-1 and its multiples can be used for computation.

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

Response:

In view of intense competition and multiplicity of players in the domestic VPN market it our submission that VPN service tariff and pricing should not be brought under tariff regulation. Moreover any regulation of VPN tariffs will come in the way of innovative offerings as VPN services brings with it complexities and uniqueness and distinct cost benefits to the Enterprises. Some of them are listed below:

- The service encompasses of Port, Last Mile (DLC), CPE, and its management. This means that the pricing a combination of various options and at the same time port based
- Input costs for delivering such services including set up of Infrastructure e.g. PoP (Point of Presence) is not standard and varies location to location.
- The VPN network is a shared network unlike DLC which is dedicated for single customer irrespective of his usage. Regulating the tariff through a ceiling will not justify the sharing of the network

Therefore considering the commercial complexity and service technology it is recommended to NOT bring MPLS-VPNs under tariff regulation.

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?

Response:

NA

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?

Response:

No due to lack of demand of sub-E1 services in p-p DLC.

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

Response:

Following are the key points that need to be kept in mind while carrying out the present review exercise:

- The network topology of a Mobile Network Operator v/s a B2B service provider would vary thus resulting in a different cost base in terms of both fixed and variable costs.
- Right of Way (ROW) charges are a major factor in terms of the cost to serve to the end customer especially in metro cities. The present multi-fold variation in ROW charges by city and region would result in an inaccurate representation of costs.
- Further due to the multiple fiber cuts taking place due to civil infrastructure activities, the service providers need to deploy a more complex mesh network with multi-path protection mechanisms to ensure the service level agreements are adhered to. This aspect in the cost build up consideration today seems to be absent.

- Local Lead unbundling should be carried out. The biggest concern is availability of reliable and cost effective last mile. While TRAI has taken this up in the past but the same has not been implemented. Hence steps needs to be taken to relook that and look at effective compliance of the same.