

Corporate Planning & Monitoring Cell,
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भारत संचार निगम लिमिटेड
(भारत सरकार का उपक्रम)
BHARAT SANCHAR NIGAM LIMITED
(A Govt. of India Enterprise)

No: 1-207/2010/CP&M/

Dt: 09/06/2011

To,

All BUs Head - Director (CM) / Director (CFA) / Director (Enterprise) / ED (NB)
Director (HR) / ED (Finance) / ED (CN)
Sr GM (Regulation)

Sub: Follow up action on the recommendation made by BRPSE in its 86th meeting held on 21.12.2010 and its review by DOT on the Action taken report in the meeting held in Sanchar Bhavan on 25.05.2011 regarding...

Ref: DOT file 10-16/2010-SU I Dated 31st May 2011

1. This is with reference to the review meeting held under the chairmanship of Member(S) on 25.05.2011 on the Action taken report submitted by BSNL on the recommendation made by BRPSE to improve BSNL's physical and financial performance in its 86th meeting held on 21.12.2010.
2. The Action taken report submitted by BSNL on the various recommendations made by BRPSE is placed at **Annex I**
3. DOT vide letter under reference placed at **Annexure II** has sought additional inputs on the Action Taken report submitted by DOT. The desired inputs along with the units who has to provide the same are indicated below

3.1 **Recommendation 1 (Para 2.18.1 (i)):** - To suggest the ways through which operational level synergy between BSNL and MTNL can be achieved, within the present regulatory and legal framework, in consultation with MTNL

-----**Action by:** DIR (Enterprise) / Sr GM (Regulation)

3.2 **Recommendation No 2 (Para 2.18.1 (ii)):** - BSNL may submit business plan as well as strategy for sustainable growth based on SWOT analysis in terms of financial figures i.e cost, expenditure and results expected.

Comments of CP&M Cell: The projected revenue, expenditure from 2011-12 to 2016-17 was discussed and finalized under the chairmanship of CMD in the meeting held in the board room on 03.06.2011 in the presence of DIR(CFA), DIR(HR), ED(F), ED(CA), Sr GMs/ GMs of Business planning unit, BFC&I.

Respective planning units are now required to provide inputs how the projected revenues will be achieved..... **Action by All BU Heads**

3.3 **Recommendation No 3 (Para 2.18.1 (iii))** – BSNL may submit details about category wise identifications of surplus staff as well as broad financial implications of suggested VRS options. Further, steps envisaged to reduce cost of maintenance of infrastructure, results expected in financial terms and the time taken to achieve intended results may also be indicated.....**Action By: DIR (HR)**

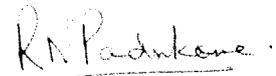
3.4 **Recommendation No 4 (Para 2.18 (iv)):-** Details of Strategic and Non-Strategic activities as well as non-recoverable cost on strategic activities may be intimated after taking into consideration the views of of Administrator (USOF) as communicated vide letter No 30-8/2006-USF dated 24-5-11,

Comments of CP&M Cell: The copy of the letter is placed at Annex III. In addition to observation of Administrator (USOF), BSNL for its CAPEX plans 2011-12 has projected BE of Rs 15,277 Crores. All BUs are requested to segregate each of the proposed project as part of BE 2011-12 in the form of strategic & non-strategic also

-----**Action By All BU Heads**

4. All concerned are requested to provide point wise inputs on each of the above actionable points on top most priority and in any case positively by 14/06/2011.

Encl: As above



(R.N.PADUKONE)

Pr. General Manager (Corporate Planning & Monitoring)

Copy To:

[1] CMD BSNL for information please

[2] ED(CA) for information please

[2] All Sr GMs / GMs of Planning Units / Finance - Sr GM (BP-Ent) / Sr GM (BP-CM) / Sr GM (BP-CFA) / Sr GM (BFC&I) / Sr GM (CNP) / Sr GM (CNO) / Sr GM (NWP-GSM-I)/ Sr GM(NWP-CDMA/Wi-Max) / Sr GM (NWP-BB) / Sr GM (NWP-CFA) / Sr GM(Trg) / GM (Corporate Restructuring) /

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भारत संचार निगम लिमिटेड
(भारत सरकार का उपक्रम)
BHARAT SANCHAR NIGAM LIMITED
(A Govt. of India Enterprise)

No: 1-207/BRPSE/2010-CP&M

Dt: 19/05/2011

Sub: Follow up action on the Recommendations made by the Board for Reconstruction of Public Sector Enterprise (BRPSE) in its meeting held with officials of DOT and BSNL on 21.12.2010

Ref: 1. DIR (PSU-I) Letter No 10-16/2010-SU I dated 16th May 2011
2. DIR (PSU-I) Letter No 10-16/2010-SU I dated 1st March 2011

The point wise action taken / action planned by BSNL on the various recommendations made by BRPSE in its review meeting held on 21.12.2010 are given below.

Recommendation 1 (Para 2.18 (i)) :

"The Board strongly recommends the merger of ITI Ltd. with BSNL or its takeover by the BSNL as a separate subsidiary thereby ensuring strategic vertical integrations. This should enable BSNL to combine service providing with manufacture of the products and thus emerge as a leading global player as some of the Chinese companies have done in recent times. ITI's product mix could be appropriately changed to enable it to produce mobile telephones and other products by bringing in the latest foreign technologies. ITI's accumulated losses may also help BSNL to gain tax advantages. Similarly, there is no reason for the MTNL to continue as a separate entity. This could also be brought under BSNL as a subsidiary"

Action taken / Action Planned:

ITI Merger:

The corporate objectives and business strategies of BSNL and ITI are quite diverse. BSNL is a telecom operator while ITI is equipment manufacturing company. The core business of BSNL is to provide high quality telecom services and state-of-the-art/ innovative products across different business and customer segments by sourcing and leveraging the latest technologies. On the other hand, ITI is into equipment manufacturing and is ridden with many weaknesses such as inadequate in-house R&D, very high cost base, shortage of relevant skills, low value addition etc. BSNL does not have expertise or skills to assist ITI in any of these areas. The fast pace of changes in telecommunication technologies and the competition is further eroding ITI's profitability at a rapid pace. In the absence of any shared corporate objectives or business synergies, vertical integration of BSNL into telecom equipment manufacturing will not be in its business interests.

It will be relevant to mention that BSNL has started incurring losses since 2009-10 and therefore the suggestion of BSNL gaining Tax advantage from the accumulated losses of ITI does not arise.

BSNL's salary and wage cost is more than 50% of its revenues . Thus, to curtail staff expenditure and revive BSNL, BRPSE itself has recommended implementation of VRS in BSNL. That being the case, the recommendation regarding merger with ITI will be contrary to those recommendations and further compound the problem of BSNL as all the staff of ITI will also become part of already excess staff in BSNL.

MTNL Merger:

All the major telecom players such as Bharti, Reliance and Tata have Pan-India presence and are able to exploit this to garner customers in all the LSAs thus increasing their market share. In the case of Enterprise customers, Delhi and Mumbai is the hub for majority of corporate decisions and hence having presence in Delhi and Mumbai will bring in better business for BSNL. Due to the restrictions in the licensing conditions, BSNL and MTNL can not operate in each others area. This operational synergy is very much required between BSNL and MTNL particularly from high margin enterprise business. The synergy between two PSUs shall not only help the PSUs present a unified view to this elite segment but shall also improve overall service delivery and service assurance.

Following two points need to be carefully addressed before any decision on the merger of MTNL in BSNL is taken.

- (i) **Salary:** The salary of the employees of MTNL is relatively higher than that of BSNL. On merger, it is anticipated, that the employees of BSNL may also demand matching pay with that of MTNL which will further increase the salary & wage cost of the combined entity adversely affecting the viability of the combined entity.
- (ii) **Pension:** The pension of the employees of the MTNL is paid through MTNL internal resources whereas the pension of the employees of BSNL is paid through the consolidated fund of India of the Government. On merger, the employees of MTNL may also demand payment of pension through the Government which may increase the financial burden of the Government.

Recommendation 2 (Para 2.18 (ii)):

"The Board advised D/o Telecom and BSNL to submit a cogent revival / restructuring plan for BSNL within a period of four months for the consideration of the BRPSE, incorporating business plan as well as strategy for sustainable growth of the company, taking into account the above suggestions and observations of the Board. The plan should be based on the SWOT analysis of the company and, inter alia, include the merger of MTNL and BSNL. The plan could also be appraised by independent consultant for greater clarity."

Action taken / Planned:

BSNL has constituted a core group consisting of officers from all the Business units and Corporate Affairs to suggest / recommend measures to improve services, growth and brand-image of BSNL.

The key recommendations made by the Core Group are:

- (i) Fortification of stable revenue streams through concerted focus on broadband, NGN voice and enterprise business with major focus on Government projects.
- (ii) Focussing on top 100 Cities from monitoring purpose
- (iii) Focus on tower & Infra business and real estate infrastructure monetisation.
- (iv) Clear cut segregation of commercial activities from social obligation to ensure both top line and bottom line.
- (v) Centralization of various support activities such as planning, procurement including marketing and more focus on customer care, service delivery & service assurance, revenue management and maintenance of assets on decentralized basis.
- (vi) Value based management for all CAPEX activities thereby undertaking only those projects which adds value to the organization through augmenting its bottom line.
- (vii) Segment wise technology roll out rather than carpet roll out.
- (viii) Progressive migration of BSNL's ~~disparate~~ ^{Current} network to Next generation network thereby ensuring convergence, consolidation and seamless delivery of various services to end customers across different technologies.
- (ix) Realignment of work force along with introduction of various measures to reduce the spiralling salary and wage cost.
- (x) Implementation of Enterprise IT systems such as ERP on top most priority so as to enable centralized monitoring and faster dissemination of information.

Recommendation 3 (Para 2.18 (iii)):

"BSNL may include VRS plan to rationalize the manpower at worker and management level and also sources for funding its VRS plan. Steps may also be taken to reduce the cost on maintenance of infrastructure and capitalize its surplus assets including land and buildings."

Action Planned /Proposal for VRS in BSNL

Though the Unions and Associations in BSNL have always opposed VRS scheme, there is an urgent need for giving some attractive opportunity to those who are voluntarily wanting to take retirement to create win-win situation both for the employee and the organization. An alternate VRS scheme, which is different from the DPE suggested schemes, is also being examined. Details of the two schemes are as follows:

DPE Scheme (Option 1)

DPE scheme for VRS in Enterprises that make marginal profits or loss-making Enterprises, known as the Gujarat Scheme, is as follows:

- a. The compensation will consist of salary of 35 days for every completed year of service and 25 days for the balance of service left until superannuation. The compensation will be subject to a minimum of Rs.25,000/- or 250 days salary whichever is higher. However, this compensation shall not exceed

the sum of the salary that the employee would draw at the prevailing level for the balance of the period left before superannuation.

- b. Salary for the purpose of VRS will consist of basic pay and DA only.
- c. Arrears of wages due to revision etc. will not be included in computing the eligible amount.
- d. Payment of bonus should conform to the provisions in the Bonus Act; Casual Leave may be encashed in proportionate measure up to the date of VRS.

Alternate Scheme of BSNL (Option 2)

- i. The scheme will be open to all employees (executives and non-executives) more than 55 years of age.
- ii. With a view to make the scheme attractive, the employee opting for VRS will be given advance increments notionally on the date of retirement, in the scale of pay being drawn by him/her which he/she would have earned in the normal course till the age of superannuation. Here, normal means only those increments he/she would have earned in his existing pay scale without taking into consideration any extraneous factors like possible time bound/post based promotions, comparison with junior, etc. To illustrate the point, an employee opting for VRS after completing the age of 56 may be offered 3 additional increments of pay, if he/she is not stagnating, otherwise stagnation increments due may be added on the date of retirement under VRS scheme.
- iii. The notional pay so fixed will be counted for the purpose of pensionary benefits and other benefits such as leave encashment, TA etc.
- iv. The notional increments granted will be granted by BSNL as a special case for the purpose of VRS. No additional pension contribution will be given by BSNL to DOT for the normally remaining service of the employee seeking VRS.
- v. VRS will be open to all, i.e. without any restriction of Service, Group or Grade. The Management however, will reserve the right to accept or reject any application without assigning any reason thereof.

Funding for VRS implementation in BSNL

DPE guidelines [OM No.2 (32)/97-DPE (WC) GL-XXII dated 5th May 2000] provide for budgetary support from the Govt. to the marginally profit or loss making enterprises for VRS implementation. In view of BSNL's current financial situation, financial liability of VRS implementation may be borne entirely by the DoT *including leave encashment under option 2 above*

The DoT may give its approval to the proposal (Option 1 or Option 2) in principle after which discussions will be held with all stakeholders including the Associations and the Unions for finalizing the scheme.

Steps taken to reduce the cost on maintenance of infrastructure and capitalize surplus assets including land and buildings

Following actions have been initiated by BSNL to reduce the operational expenses.

- (i) The TDM TAXs deployed across the country to cater to landline operations are progressively being replaced with the IP TAX to reduce cost on power, AMC.
- (ii) Existing employees are being retrained and reoriented to undertake new set of activities in sales and marketing activities e.g. project Udaan and Vijay.
- (iii) No additional manpower is being deployed although number of broadband connections is increasing at the rate of 15% to 20% per year and several new services are being introduced.

Following actions have been initiated by BSNL to capitalize its telecom assets including land and building.

- (i) A dedicated business unit called 'New Business' headed by an Executive Director has been carved within BSNL to provide sustained focus on leveraging the huge infrastructure such as Towers, land and buildings of BSNL.
- (ii) BSNL is also using its training infrastructure for imparting both advanced and basic level training to prospective participant.
- (iii) Auctioning of higher bandwidths like 'lambda' to carriers and service providers
- (iv) Selling of international bandwidth on Bharat Lanka Cable (BLC) to carriers and also to leverage its upcoming capacity on EIG submarine cable

Recommendation 4 (Para 2.18 (iv)):

"BSNL may divide its activities into strategic and non-strategic. D/o Telecom may seek Government support to fund strategic non-recoverable cost to ensure sustainable growth of BSNL."

Action taken / Action Planned:

The major contributors to BSNL losses, in addition to disproportionate salary & wage cost, are the various unviable telecom operations such as rural wire line, telegraph system, rural Wi-Max etc which BSNL has been asked to do as part of social obligation.

BSNL has already taken up with DOT for providing due compensation for various economically unviable schemes which it has executed in the past. The same was included as a part of the 100 days action plan announced by Hon'MOC&IT. Further decision in this regard is awaited from DOT.

Further all the new plans in which DOT / USO intends to involve BSNL in its implementation and maintenance such as National Broadband Plan (Providing broadband connectivity to 2.5 lakhs panchayats) are being analyzed by BSNL and due compensation is being worked out for implementing, operating and maintaining the said infrastructure.

In addition, all the major expansions that BSNL shall be undertaking in future such as mobile expansion, broadband expansion, NGN deployment etc shall be governed by BSNL purely by the business requirement. The deployment plans such as covering villages > 1000 population or > 3000 population etc shall be examined purely from the business requirement. The cases, other than those governed by business requirement, shall be executed, provided adequate compensation is given by the DOT / USO.

Recommendation 5 (Para 2.18 (v)):

"The board further advised the D/o Telecom / BSNL to prepare timelines for the implementation of the various measures enumerated by CMD, BSNL for improving its performance. The plan translating into financial numbers should lay down the milestones, with accountability and responsibility at suitable levels, in order to complete them in the prescribed time frame."

Action taken / Action Planned:

As per the DPE guidelines, BSNL has signed an MOU with DOT on 15/03/2011. The key physical and financial targets for the year 2011-12 are given in Table 1.

Table 1: MOU Physical and Financial targets for 2011-12

Parameter	Sub-Item	Unit	Target
Financial	Gross Sales	Rs Crores	37,000
	Gross Margin	Rs Crores	10,670
Physical	Net addition in Landline connection	Lakhs	0
	Net addition in mobile connection	Lakhs	200
	Wire line broadband	Lakhs	35
	Wireless broadband	Lakhs	40

Based on the MOU targets, the targets for the four business units have been defined. The same has been further distributed at the level of Circles. The targets have also been made as part of IPMS (Individual Performance Management System) / GPMS (Group Performance Management System).

Recommendation 6 (Para 2.18 (vi)):

"The Board advised D/o Telecom and the Board of BSNL to closely monitor the performance of BSNL regularly so as to take timely corrective measure, for ensuring its continued growth."

Action taken / Planned:

The physical and financial targets are being monitored at various level of BSNL (SSA / Circle) including at the level of corporate office (monthly) and DOT on quarterly basis.

Annexure - D

File No. 10-16/2010-SU.I

Ministry of Communications & IT
Department of Telecommunications
PSU Division, Sanchar Bhavan, New Delhi

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07-06-11

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e 6/6

10/19 May
16/04/11 Dated 31st May 2011

To,
The CMD,
BSNL, New Delhi.

10/19 May
16/04/11
E.D. (CA)
GM (Res)

961-194
21/5/11

Subject: 86th Meeting of the Board for Reconstruction of Public Sector Enterprises (BRPSE) to review the present status of performance and financial position of Bharat Sanchar Nigam Limited (BSNL) held on 21.12.2010—Follow up Action regarding.

Sir,

I am directed to say that meeting of the committee constituted for analyzing the inputs received from BSNL and other Divisions of Department of Telecommunications and to finalize a restructuring plan for its onward transmission to BRPSE was held under the Chairmanship of Member (Services), Telecom Commission on 25.05.2011.

2. Recommendation-wise inputs received from BSNL in the matter and the input provided by Administrator (USOF) vide letter No.30-8/2006-USF dated 24-5-11 were discussed in detail. As decided in the aforesaid meeting, BSNL is requested to furnish further inputs on the following for consideration during the next meeting of the committee:

- (i) Recommendation No.1 {para 2.18.1 (i)} - To suggest the ways through which operational level synergy between BSNL and MTNL can be achieved, within the present regulatory and legal framework, in consultation with MTNL.
- (ii) Recommendation No.2 {para 2.18.1 (ii)} - BSNL may submit business plan as well as strategy for sustainable growth based on SWOT Analysis in terms of financial figures i.e. cost, expenditure and results expected.
- (iii) Recommendation No.3 {para 2.18.1 (iii)} - BSNL may submit details about category-wise identification of surplus staff as well as broad financial implications of suggested VRS options. Further, steps envisaged to reduce cost of maintenance of infrastructure, results expected in financial terms and the time frame to achieve intended results may also be indicated.
- (iv) Recommendation No.4 {para 2.18.1 (iv)} - Details of Strategic & non-strategic activities as well as non-recoverable cost on strategic activities may be intimated after taking into consideration the views of Administrator (USOF) as communicated vide letter No.30-8/2006-USF dated 24-5-11, which has already been handed over to the BSNL during the meeting.
- (v) Recommendation No.5 {para 2.18.1 (v)} - The comments furnished by BSNL w.r.t. this recommendation are not in accordance with the recommendation of BRPSE. BSNL may revisit it and submit the details strictly in the manner specified in the BRPSE recommendations.

3. Required details may please be sent on top priority as the next meeting of the committee is proposed to be held soon, for which a separate intimation will be sent.

Yours faithfully

Sanjeev Gupta
(Sanjeev Gupta)
Director (PSU-I)

31/5/11
Tele: 23036019/23372494

gmp
for n/a of putting up reply
maths
7/6
Copy for information to : Member (S), Advisor (F), JS (T)
PC (M)

01123372493

Handwritten note: 111

**No. 30-8/2006-USF
Government of India
Department of Telecommunication
Universal Service Obligation Fund
Sanchar Bhavan, New Delhi-110001**

Dated: 24.5.11

To

The Member(S), Telecom Commission
Department of Telecommunications,
Sanchar Bhavan, 20 Ashoka Road,
New Delhi 110001

Subject: Support from DoT/USOF for BSNL's existing rural wire lines (and network)

Reference, CMD BSNL's Letter No. 1-1/2011/TP/BSNL dated 8.5.11 on the abovementioned subject, addressed to Secretary (T) and endorsed to the undersigned for comments/necessary action.

2. In the context of formation of a DoT Committee under your Chairmanship, for analysing the inputs received from BSNL and various Divisions of DoT and to finalise a restructuring plan for onward submission to BRPSE, I would like to bring to kind notice certain issues with regard to continuance of USOF support for BSNL's rural wire line network.

3. These are placed in the enclosed Annexure.

Encl: As above

Handwritten notes:
Shri Gupta
DIR (PSV-I)
Please circulate to all
Committee members for
info & n/a in connection
with BRPSE recommendation
25/5/11

Signature
Ajay Bhattacharya
Administrator (USOF)

Handwritten note:
PR circulate to BSNL members.
285

DCM (CPM)

*ANNEXURE I***NOTE ON SUPPORT FROM DOT/USOF FOR BSNL'S EXISTING RURAL
WIRE LINES AND NETWORK****A. BACKGROUND**

USOF had earlier given inputs on TRAI's consultation paper No. 2/2008 dated 21.1.08 regarding the matter of ADC and its subsumption into USOF wherein a view had been expressed that USOF should not be call upon to subsidise the incumbent's wire line network lieu of ADC. Detailed reasoning for the same was provided vide letter No. 30-8/2006-USF dated 8.2.08. (copy enclosed as *ANNEXURE II*).

2. Subsequently, based upon the decision of the competent authority, USOF Rules have been amended vide Indian Telegraph (Amendment) Rules, 2008 dated 18th July, 2008 to enable USOF to support Rural Household DELs installed prior to 1.4.2002 for a maximum amount of Rs.2000 crore per annum for a period of 3 years. This was to be in-lieu of ADC being phased out and in accordance with the TRAI Recommendations dated 27th March, 2008.

3. Now, a case has been made out by BSNL for continuation of support for its Rural Wire line Network beyond the 3 year period which expires in July 2011. The quantum of deficit projected by BSNL is of the order of RS.9306 crore per annum. This was submitted by BSNL in pursuance of Minutes of Meeting held on 3.3.11 chaired by Secretary(T) to discuss various issues relating to financial support to BSNL from Government/DoT. In this regard, the following comments may kindly be considered:-

B. CONCEPTUAL ANALYSIS

(i) BSNL's Wire Line Network was installed in the DoT period and its CAPEX was funded by DoT. This network has in the past been supported through ADC and various USOF schemes for supporting RDEls (rural household lines) including inter alia the above mentioned subsidy, in lieu of ADC. The total USOF support by way of various RDEL schemes amounts to Rs 9139.08 crore as on 31.3.11. Further, USOF has already supported BSNL by way of Wire line Broadband scheme where Rs.1500 crore of subsidy can be availed by BSNL for Broadband enablement of about 28,000 rural Wire line exchanges. In spite of various forms of support for BSNL's rural operations, the number of rural wire lines continues to decline. This would imply that rural customers are not satisfied with the quality/utility of rural wire lines connectivity (**notwithstanding the low/below cost tariffs**) in comparison with wireless connections for which tariffs are on forbearance.

(ii) While TRAI's estimation of Rs 2000 crore per annum support was based on the 90 lakh RDEls which existed as on 1.4.02, TRAI had underestimated the decline in these RDEls by way of disconnections. As per TRAI each RDEL was to receive a monthly support of Rs 214. An amount of Rs 300 crore was attributed to be the reduction in support on account of disconnected RDEls. This translates into estimate of disconnections of about 11.68 lakh RDEls. Actually, based on data collected from BSNL the decline in numbers of such RDEls stood at 36.55 lakh RDEls as on November 2008.

(iii) **Between April 2008 and March 2011, in spite of USOF support in various forms including inter alia the support extended in lieu of ADC, BSNL's rural wire lines have declined by 29.7 lakhs.**

(iv) As per its mandate and legal framework, any support from USOF has to benefit the rural population by way of access to affordable telecommunications services. USOF schemes should ensure cost effective, competitive service provisioning and a level playing field rather than supporting the survival of a specific

technology/operator as such. The market scenario at the time when ADC was introduced is vastly different from the situation today. While in 2002 the rural teledensity was 1.2%, today it is 33¹%. Further, it is clear that as things stand, the healthy growth in rural telephones is coming not from wire lines but from wireless services. As of February 2011, ERU data indicates that 97% of rural telephones are on wireless technologies and private operators were providing 88% of rural wireless connections.

(v) It is an accepted fact that wire line exchanges are a valuable asset in so much that they can provide broadband. Keeping this aspect in view, BSNL's rural wire line broadband is already being supported by USOF in a result oriented manner. With adequate efforts on BSNL's part this scheme should have been leveraged by them to reverse the decline in utility of rural wire lines. So far 2.68 lakh connections and 4368 kiosks² have been provided by BSNL. Field level reports of interaction with rural subscribers point to poor quality of service and a lack of maintenance, customer relations and marketing efforts by BSNL leading to poor sales and revenues in spite of a fair demand for rural broadband. Subsidy disbursement in this scheme is contingent upon provision of functional broadband connections and kiosks as per terms and conditions of USOF Agreements. As on date, BSNL has received Rs. 115.77 Crore of subsidy against this scheme.

(vi) It is clear that generalised support against rural exchanges without any targets regarding optimum utilisation of the wire line network is not helping to arrest the decline in the number of wire line connections and hence continuance of such support would tantamount to the wastage of physical assets and financial resources by way of underutilised land line exchanges and wasted subsidy support for the same. In such a situation it would perhaps be better to optimise the utilisation of these assets by sharing them with other operators. Unbundling would generate an income stream for BSNL vide rentals and enhance the utility of these national assets

¹ 32.99% as on 28.2.11

² As on 30.4.11

as competitive entry in the landline broadband segment would encourage innovation and improved customer satisfaction.

(vii) Even if some additional form of result oriented support was to be considered for rural wire lines, it is a moot point where USOF should support BSNL's net work as per their actual expenditure or as per industry standard regarding per line net costs. Supporting on the basis of actual costs including employee remuneration and office and administrative expenses in this manner would neither incentivise BSNL to rationalise costs and nor would it incentivise BSNL to enhance revenues.

(viii) TRAI has been mindful of the need to improve efficiency, attain sustainability and restrict the period of support as is evident from the following comments:

"ADC was not to make the incumbent perpetually dependent on support but to allow them time for adjustment during the period of transition from a monopolistic environment, where cross- subsidization was possible, to a competitive business environment"

(Source: Consultation Paper No.2/2008)

Further, the Authorities have also remarked that

"At this stage the Authority is required to balance two main objectives. Firstly, to increase the attractiveness of providing connections and adequate services in areas that would otherwise not be a focus of attention for commercially oriented service provider in a competitive environment, i.e. rural and remote SDCA which are particularly high cost and low revenue areas. This also includes the support for sustainability of existing rural wirelines. Secondly, to make this support efficient in such a way that it's level gets adjusted to the profitability of rural operations. The support should get eliminated when the average cost goes down either because of increasing teledensity in the area or fall in the network operating cost or increase in revenue. It is also very important to keep in mind that whatever scheme is finalised to meet the above objectives should not provide incentives for incurring losses but should promote improved performance of the service provider"

(Source: Consultation Paper dated 21st January, 2008)

The Authority has also noted in the IUC Regulation dated 29th October 2003 that:

"For BSNL and MTNL, to the extent that the amount of ADC does not cover the full amount of the deficit over time, the Authority noted that they have benefited on account of being allowed entry into cellular mobile without any entry fee. The Authority also hopes that the deficit would be made good by the profits that these organisations will earn from their cellular mobile and WLL(M) services, bearing in mind the rapid subscriber growth being experienced by these services. This is important to allow more flexibility to the tariff developments, which are a major contributory factor in spurring growth, teledensity and commercial activity in the country. The Authority will be examining all these factors in greater detail at the time of the next review of the ADC regime."

In the Explanatory Memorandum to the IUC regulation 2007 dated 21st March, 2007, the Authority has noted that:

"BSNL has not actively responded to the key purpose for which ADC was given. It may be recalled that ADC had specific purpose to be fulfilled in a time frame (i.e. tariff rebalancing). Further, BSNL is now offering tariff regime for bundled services which appear to be having some element of cross subsidy."

- (ix) In view of the above, it is strongly felt that the Department should re-consider the continuance of support to BSNL against the Rural Wire line Network without linking it to quantifiable improvements in deliverables such as quality and number of rural connections, both voice and data. If unbundling is the means to achieve this then the same should be considered.
- (x) Regarding BSNL's claim of having contributed more to the fund than having received subsidy, it would be pertinent to note that as on date more than 85% of USOF subsidy has been disbursed to BSNL while its share in the rural telephony is around 15% and its share in USL less than 40%. In fact in the financial year 2010-11, BSNL has received 96.83 % of USOF subsidy against a 22.8% share in USL contribution.
- (xi) In fact, given the facts stated above, a view could be taken that supporting BSNL in this manner amounts to cross subsidization of its costs by other operators which is not a justifiable use of the USO Fund.

C. OPEX CALCULATIONS

- (a) As regards, the calculations put forth by BSNL, it may be seen that TRAI calculations rejected the overall mark up of 150% confined the mark up to only 3 cost components, i.e. electricity, fuel and power and network operating costs. These costs constitutes only about 16% of OPEX and hence, the mark up factor of 1.5 was not applied to the total average OPEX but was limited to the sum of these 3 components to arrive at rural OPEX.
- (b) In BSNL's calculations, OPEX items such as employee remuneration, administrative expenses, License Fees etc have been evenly distributed in proportion to the percentage of rural and urban assets which may lead to inaccuracies as some cost items are not correlated to assets. This methodology also does not take into consideration the urban-rural distribution of subscribers. Clearly, certain components of OPEX would be dependent upon the subscriber base. Also, it is not understood why, spectrum fees have been added as a component in the calculation of OPEX for Rural Wire line telephony. To calculate revenue deficit it appears that fixed WLL revenues and costs have been included. On the whole a much more detailed analysis is called for.
