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Common ground on universal service

There was a moment in the debate about rural communications issues at the CLC/NFF "Connecting the Country" conference in Albury in September when it became clear that all the major Australian political parties - the Liberal/National Coalition, Labor and the Australian Democrats - all, broadly supported upgrading the statutory universal service obligation to ensure universal availability of a so-called "digital data capability".

It represented a significant rebuff to those who have argued that the whole concept of universal service was a product of, and relevant only to, voice telephony. Universal service, so the argument went, was about ensuring that the basic tool of electronic communications, the telephone, was accessible to everyone, regardless of where they lived or carried on business. In an era when people's requirements for communications were becoming less homogeneous - some want the web, some want call waiting, some want email and some want their Foxtel - the idea of a uniform standard of communications service to which everyone should be entitled was said to have had its day.

When the Standard Telephone Service Review Group released its report in early 1997, most of its members (including the three major carriers) agreed that the government should set, as a goal, the universal availability of an enhanced level of telecommunications service by 2000. That recommendation was accepted by the government and the Parliament and incorporated into the *Telecommunications Act 1997*.

But this enhanced level of service was not formally incorporated into the statutory universal service obligation itself. That would have meant the costs of providing it were shared among the carriers. What the government chose to do was require it to be made available to 96 per cent of Australians by Telstra, as a condition of its licence. That meant Telstra alone (or rather, its customers) paid the cost.

The recent ACA report which again investigated whether the universal service obligation should be upgraded concluded that the costs of doing so outweighed the benefits (see CU 147, p 3). So it came as something of a surprise when the Minister for Communications, the Information Economy and the Arts announced in the Coalition's "Communications: Making Australia Stronger" policy statement about 10 days before the election that the Coalition, if returned, would upgrade the universal service obligation.

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The argument seems to run like this. By the end of the year, Telstra says it will have a satellite ISDN service available to the four per cent of households in rural and remote Australia who will not have access

to a non-satellite ISDN service by that time. (The service was demonstrated at the conference.) That means ISDN will be universally "available" but not necessarily affordable. The call charges will be more expensive than voice telephony and there'll be new equipment to buy (typically a satellite-receiving dish, a card for the user's computer, a CD-ROM and associated wiring).

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The Coalition says 50 per cent of the cost of the gear will be funded through the universal service obligation. This promise seems intended to ensure, firstly, that other carriers are not paying for Telstra's infrastructure roll-out, and secondly, that ISDN call charges are not subsidised under the universal service obligation. This is a significantly new way to use the statutory universal service funding arrangements although it's not unlike the way some would like to see it working to fund the cost of customer equipment for people with disabilities.

The commitment will go some way towards assisting the affordability of ISDN services, but it will also increase the pressure on the level of call charges for these services. Effectively, ISDN is being confirmed as the kind of service you should upgrade to if you're not satisfied with data

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speeds obtained using your existing telephone connection. But for most home users, ISDN is a Rolls Royce system that comes at a Rolls Royce price. The only way it will get thought of as a basic service is if it gets priced like one.

This issue of the pricing of enhanced services is likely to be one of the major policy challenges of the Coalition's second term if the earlier challenge of getting the infrastructure itself can be met. The government will be constantly reminded of its 1996 election commitment to "bring ISDN into the price cap regime from July 1, 1996. Prices will be brought down to ensure Australia's competitive parity with overseas online markets".

But if the government thought it was getting to the end of the policy challenge of making the next generation of "basic" communications services universally accessible, it got a sharp wake-up call immediately after the election. Telstra greeted the new government with the news that the universal service obligation was a little more expensive than had been previously thought. Currently, it's estimated at around \$250 million. Having recalculated the figures using the new universal service obligation costing model which carriers and the ACA have been working on for some years, Telstra announced that it actually cost \$1.8 billion.

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A company like Optus, which will pay around \$25 million of the roughly \$250 million universal service cost for 1997/98, would pay about \$180 million of the \$1.8 billion. AAPT, a carrier and universal service contributor only since July 1997, would expect to pay some \$30-35 million. Both would pay more than enough to wipe out their expected profits of around \$65 million (Optus, profit after tax and abnormals, 1998/99) and \$13 million (AAPT, profit after tax, calendar 1998) respectively.

Curiously, of the major carriers only Telstra itself, with a profit of roughly \$3 billion for the last financial year, would cope with its share of the net universal cost without going into loss.

It's hard to know what's happened in the provision of standard voice telephony and payphones since 1989 when Telecom estimated that its community service obligations cost it \$800 million. That was using "Fully Distributed Cost" methodology widely interpreted as giving the highest possible cost for this kind of analysis, and hence requiring the largest possible subsidy from other carriers to Telstra. It also defined community service obligations to include not just unprofitable standard telephony and public payphones (which became the statutory universal service obligation), but losses made on services provided at concessional rates to specific groups, including hospitals, fire brigades and other community service organisations and concessional services provided to the disabled.

At the time, the Bureau of Transport and Communications Economics assessed the cost of Telecom's then community service obligations at \$240 million (at an estimated cost of capital of 13.6 per cent) using an "avoidable cost" methodology.

According to Telecom/Telstra's numbers, the cost of providing the unprofitable services, after nearly a decade of technological improvements including the multi-billion dollar digitisation of the entire Telstra network, has more than doubled over the decade, from \$800 million to \$1.8 billion. Add to that the government's proposal to supplement the universal service obligation with a new element - half the cost of satellite equipment for ISDN for the most remote customers.

The politicians in Albury may have found common ground on universal service, but in the industry, it's still shifting sands. <<

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