
Prices for Telecommunications Services 1992/93

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Sources

AOTC Corporate Pricing Division
AOTC Annual Reports 1984-1991/92
AOTC Carrier Charges Price Control Determination 1992
AOTC PSTS Tariff (as amended at July 1993)
Optus Pricing Division
Reserve Bank of Australia

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AOTC and Optus Charges 1993: Deaveraging Begins

CU's annual survey of standard telephone charges has entered the first year of the competition era. And there is much to report.

CU established a database for the prices of basic telecommunication services in 1992, when it became obvious that the introduction of competition would shatter existing price structures. The choice of services to be monitored is influenced by our concern for the interests of residential consumers. Thus, the price of services such as Faxstream or teleconferencing options have not been monitored.

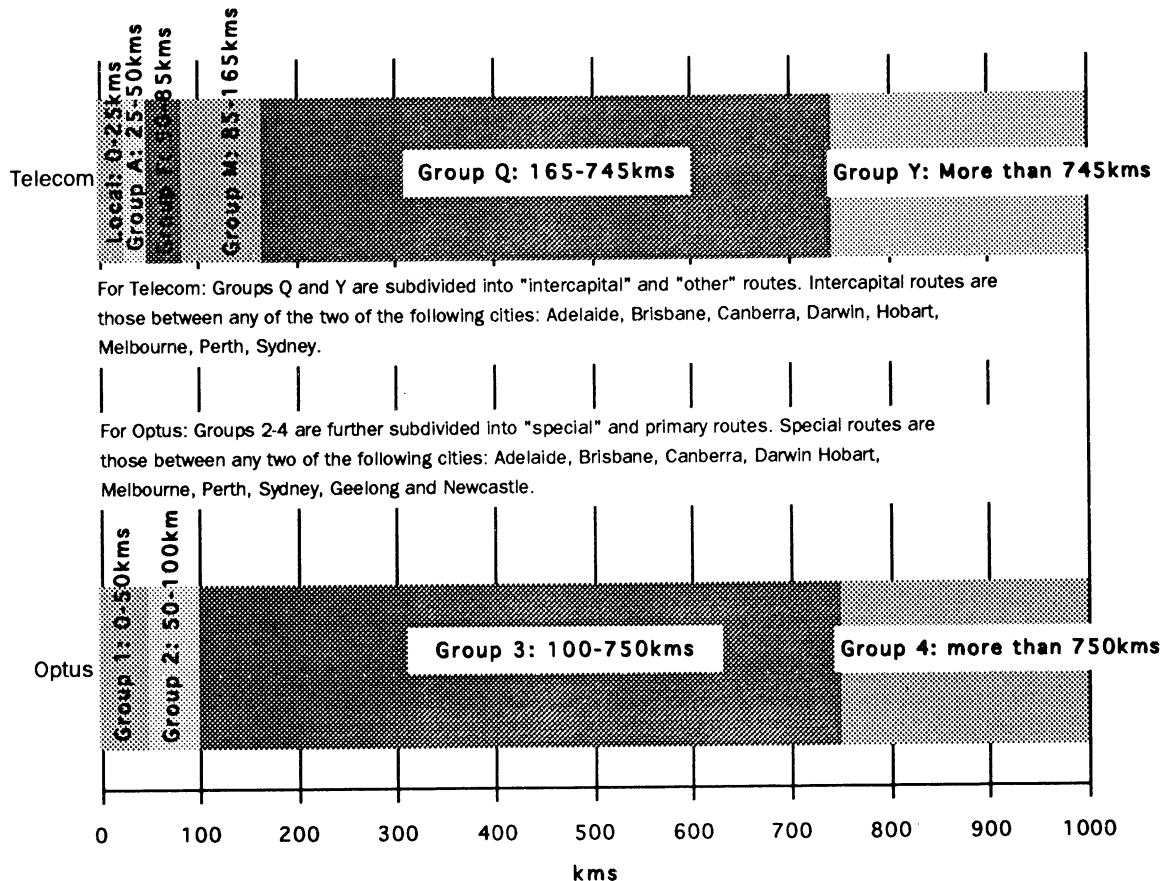
At the time of our first special issue on telecommunications prices (August 1992, CU80), Optus had not yet entered the market. One year later, the Optus network has reached a number of cities in Eastern Australia (see page 6) and is competing keenly with Telecom. CU has continued to plot Telecom's prices for basic items such as rental charges, local calls, payphone charges, STD and IDD connections against the Consumer Price Index (CPI) which measures the increase in prices generally (ie. inflation). The prices, stated as of **30 July 1993**, have been indexed to allow a sensible comparison between financial years.

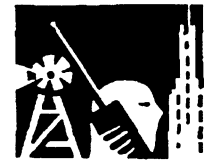
CU's graphs plot price increases from the financial year 1984-5. This is also the base year of the current CPI index used by the Reserve Bank of Australia. This means that in 1984-5 the CPI and the price of the particular service item begin at 100. Price increases or decreases are plotted from this point. Where the line representing the change in prices for a particular service falls below the CPI line, the prices have increased at a rate less than inflation. This means that prices fell in **real terms**. If the line representing prices is above the CPI line, prices have increased in real terms. Where the line falls below 100, prices have fallen in both real and **nominal terms**.

In the series of accompanying tables (the 'B Tables', ie. 6B, 7B and so on), we have contrasted Telecom and Optus prices for the same services (where relevant) as they stood at **30 July 1993**. The call routes in both the A Tables and the B Tables have been strategically selected to illustrate the effect of deaveraged pricing. In all B Tables one call route originates in a capital city, whereas the other origi-

Continued on page 9 ...

Table 1: Distance Zoning (Telecom and Optus)





... Continued from page 8

nates in a smaller centre such as Newcastle. In the B Tables a number of little-used Tasmanian routes have been priced to illustrate the difference between 'per second' pricing and 'meter-pulse' (or 'flat unit fee') pricing. The latter form of pricing is rapidly falling into disuse with the upgrading of the telecommunications network throughout the country. Nevertheless, *CU* considers it important that the interests of the people of Dodge's Ferry on the West Coast of Tasmania are not forgotten in the broader scheme of price movements.

A new addition to *CU's* price survey is the monitoring of IDD calls to South Pacific destinations. These destinations have been the subject of many competitive offerings by both carriers.

Flexiplans, Discounts and Zoning Changes

The major qualification to *CU's* attempt to compare Telecom and Optus's prices for specific services is the impossibility of considering the effect of Telecom's **Customer Calling Plans** (more popularly known as **Flexiplans**) on the price of a particular service. This shortcoming cannot be remedied in a straight comparison between Telecom and Optus prices. Firstly, the advantages of Flexiplans can only be calculated if a person's level of consumption for specific services over a standard period of time (usually a month) is known. *In other words, Optus versus Telecom comparisons can only be made on the basis of a particular person's bill for a particular period of time.* Who should *CU* choose as a model consumer? Secondly, given the plethora of Flexiplans currently offered by Telecom, which Flexiplan should *CU* choose for this consumer?

There is a similar problem in reporting Optus prices. The **Optus Advantage** offers a discount based on a subscriber's monthly consumption. The **Optus Annual Bonus** offers \$10 back for every \$200 spent at the end of the financial year (with a maximum rebate of \$500).

In both cases, only a stable, representative and identifiable pattern of consumption over a monthly period will provide the type of information needed to make a sensible comparison between carriers. In the future, *CU* hopes to establish a database of 'telephone diaries' which will contain the information (destination of calls, day of the week, time of day, duration) that would allow their economically rational (!) keeper to make a more informed choice between Telecom and Optus.

Consumers also need to be aware of the **differences in the time and distance zoning** used by the carriers. Tables 1 and 2 below explain the different time and distance zonings used by the carriers for national (ie. STD) calls. On 29 July, Optus claimed a 'World First' when it announced the creation of off-peak time zones for all international destinations. Telecom is bound to respond to this challenge.

Findings

Telecom's rental charges, local call fees and payphone charges have not been altered (Tables 3, 4 and 5). But price discrimination between calling routes of similar distances has certainly begun. Both Telecom and Optus have discriminated between 'inter-capital'/'special' routes and 'other'/'primary' routes, charging less for the former. We told you so! (See *CU* 80 and 88). Telecom's 'inter-capital' routes involve calls between any two capital cities in Australia. Optus's 'special' routes cover connections between the eight capital cities, Newcastle and Geelong (see Table 1).

The clearest effects of deaveraging can be seen in Tables 8A-B and 9A-B which deal with calls made in the range of 165-745kms and distances above 745kms. Until 1992, the cost of a Sydney-Darwin phonecall with Telecom (3,150 kms) was equal to that of a Newcastle-Wyndham phonecall (3,070kms). This year, the Sydney-Darwin route costs \$2.54 every 5 minutes at the day rate, while Newcastle-Wyndham costs \$2.62 (see Table 9A).

A more striking illustration is in Table 8A, with the Sydney-Melbourne (714kms and \$1.73 every five minutes at the day rate) and Sydney-Wagga Wagga (376kms, but priced at \$1.85 every five minutes). Optus has followed suit in both cases (see Tables 8B and 9B). *CU* expects this deaveraging process to be continued by both carriers in all STD distance bands.

International call prices (Tables 10A(1), 10A(2) and 10B) have experienced deaveraging for some time. This year's figures indicate that the trend is continuing. Prices for calls to destinations such as Costa Rica have increased disproportionately to the rather mild increases in the CPI (indicating a significant increase in real terms), while prices for calls to the UK and the USA have continued to fall in real and nominal terms. Table 10A(2) illustrates the volatility of price changes in the Asia-Pacific Region in the period since 1984-5. Readers may wish to compare the growing divergence between prices for calls to Hong Kong and calls to the People's Republic of China.

Optus has undercut Telecom's standard STD and IDD prices in all but the odd few IDD destinations (eg. calls to Poland and the Czech Republic). If a consumer is to pre-select a carrier on a purely personal cost/benefit analysis, he or she is best advised to stay with Telecom and enter a Flexiplan or vote for Optus. *The option of staying with Telecom but not entering a Flexiplan is, in CU's opinion, not cost-effective.* If *CU* is correct, those consumers who do not have itemised billing facilities are bearing many of the costs of telecommunications competition without accessing any benefits. They cannot access Optus services, nor can they use Telecom's Flexiplans which rely on itemised billing facilities. Nor, for this same reason, will they be able to avail themselves of the local call option which Telecom might introduce next year (See our story on page 19). □

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**Table 2: Time Zoning
(Telecom and Optus)**

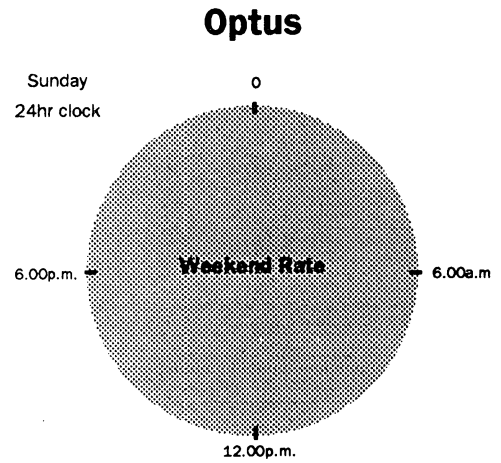
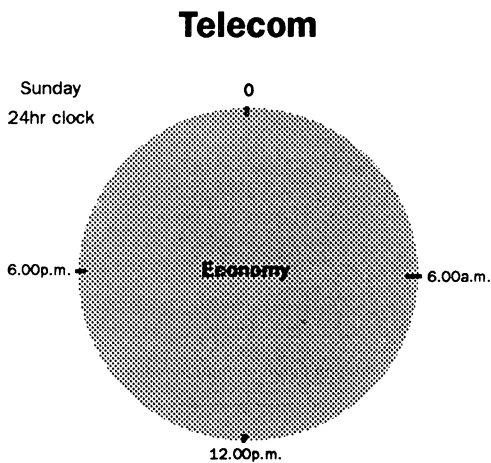
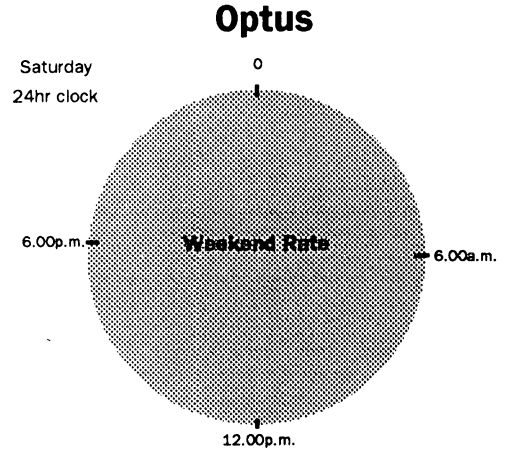
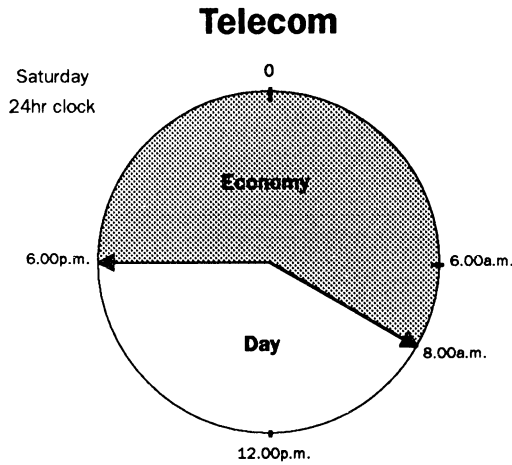
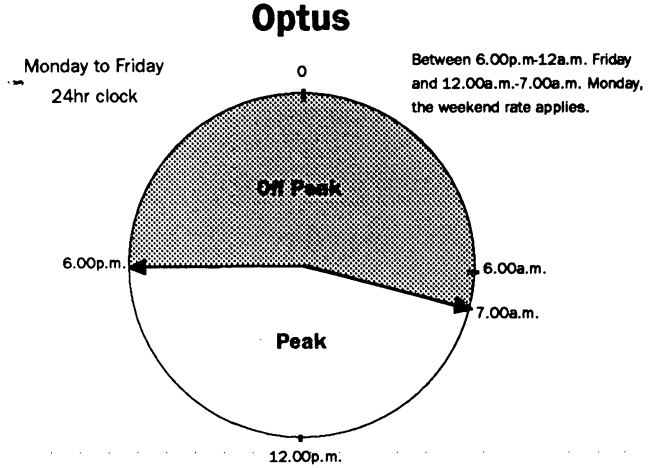
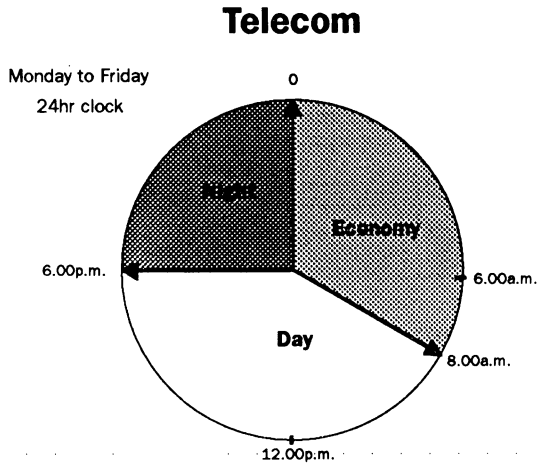




Table 3: Telecom Rental Charges v CPI

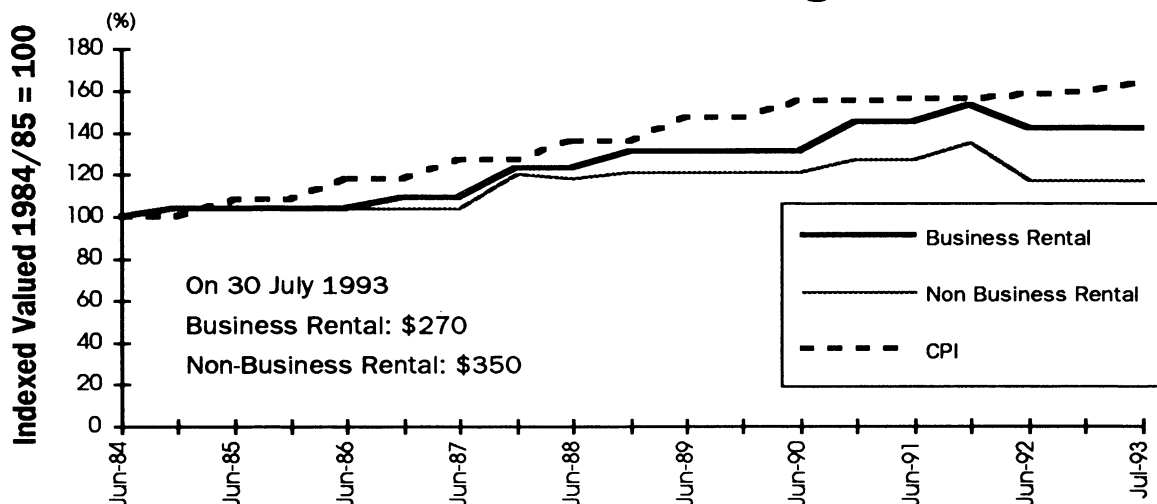


Table 4: Telecom Local Fees v CPI

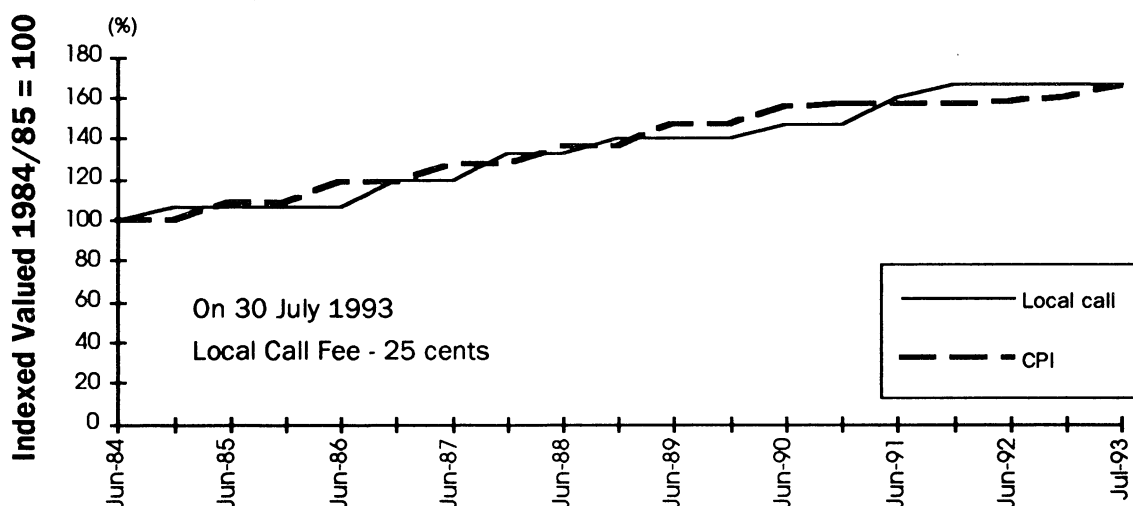
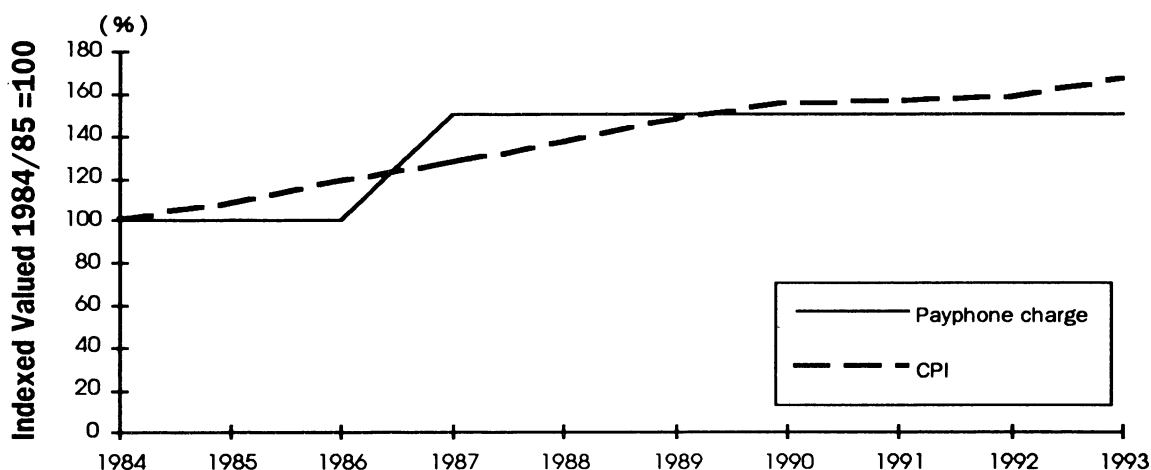


Table 5: Payphones v CPI



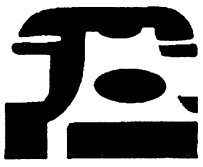
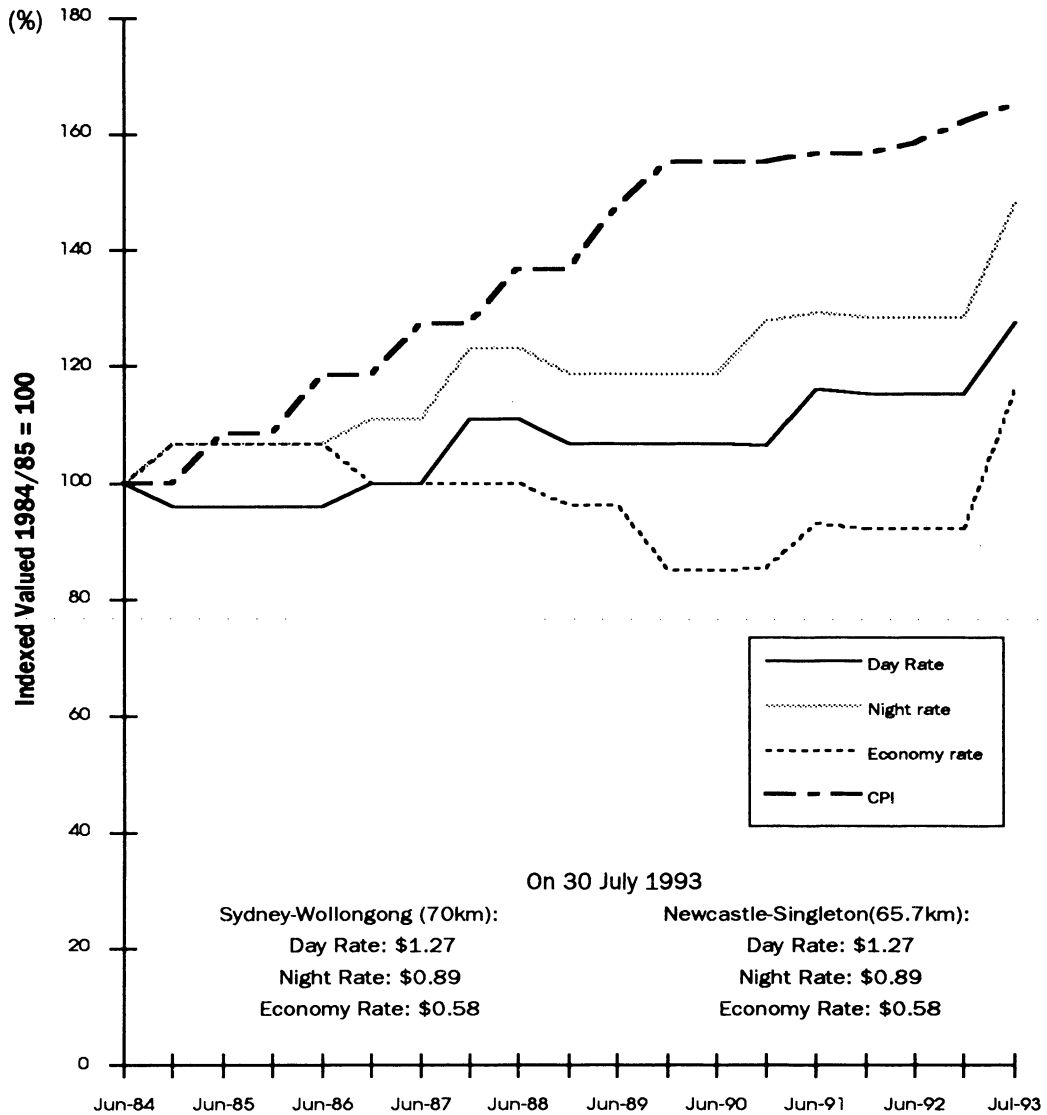


Table 6A: Telecom STD Charges - 50-85km Range



Note: The indexed value is based on the average charge for 5 minutes calculated through per second pricing according to s.4.3.5.8(a) of the *Telecommunication PSTS Tariff* as amended in July 1993.

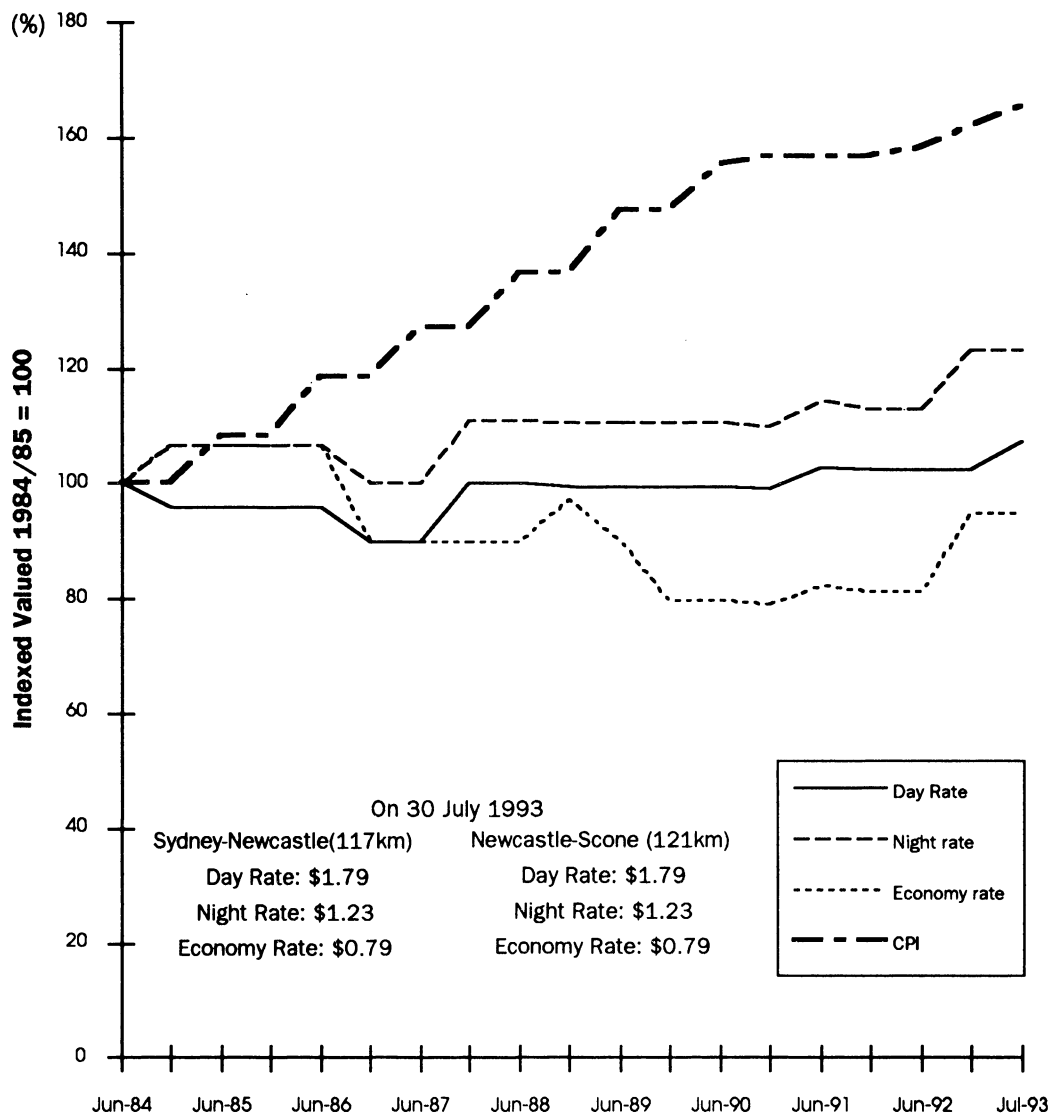
Table 6B: STD Charges - 50-85km Range (Telecom v Optus)

	Telecom Average Charge for 5 mins			Optus Average Charge for 5 mins		
	Day	Night	Economy	Peak	Off-Peak	Weekend
Sydney-Wollongong (70km)	\$1.27	\$0.89	\$0.58	\$1.12	\$0.82	\$0.52
Newcastle-Singleton (65.7km)	\$1.27	\$0.89	\$0.58	\$1.12	\$0.82	\$0.52
Dodge's Ferry (Tas)* - Glenhuon (Tas) (56km)	\$1.25	\$1.00	\$0.50	No Service		

* This route is priced according to the Unit Fee system outlined in s.4.3.5.8(b) of *Telecom PSTS Tariff* as amended at July 1993. Dodge's Ferry and Franklin are ARK (ie. non-CCR) exchanges. The other Telecom routes are priced 'per second' according to s.4.3.5.8(a) of the PSTS Tariff. Neither Optus nor Telecom tariffs take account of discounts derived through consumption levels (eg. Flexiplans, Optus Advantage and Optus Bonus).



Table 7A: Telecom STD Charges - 85-165km Range



Note: The indexed value is based on the average charge for 5 minutes calculated through per second pricing according to s.4.3.5.8(a) of the *Telecommunication PSTS Tariff* as amended in July 1993.

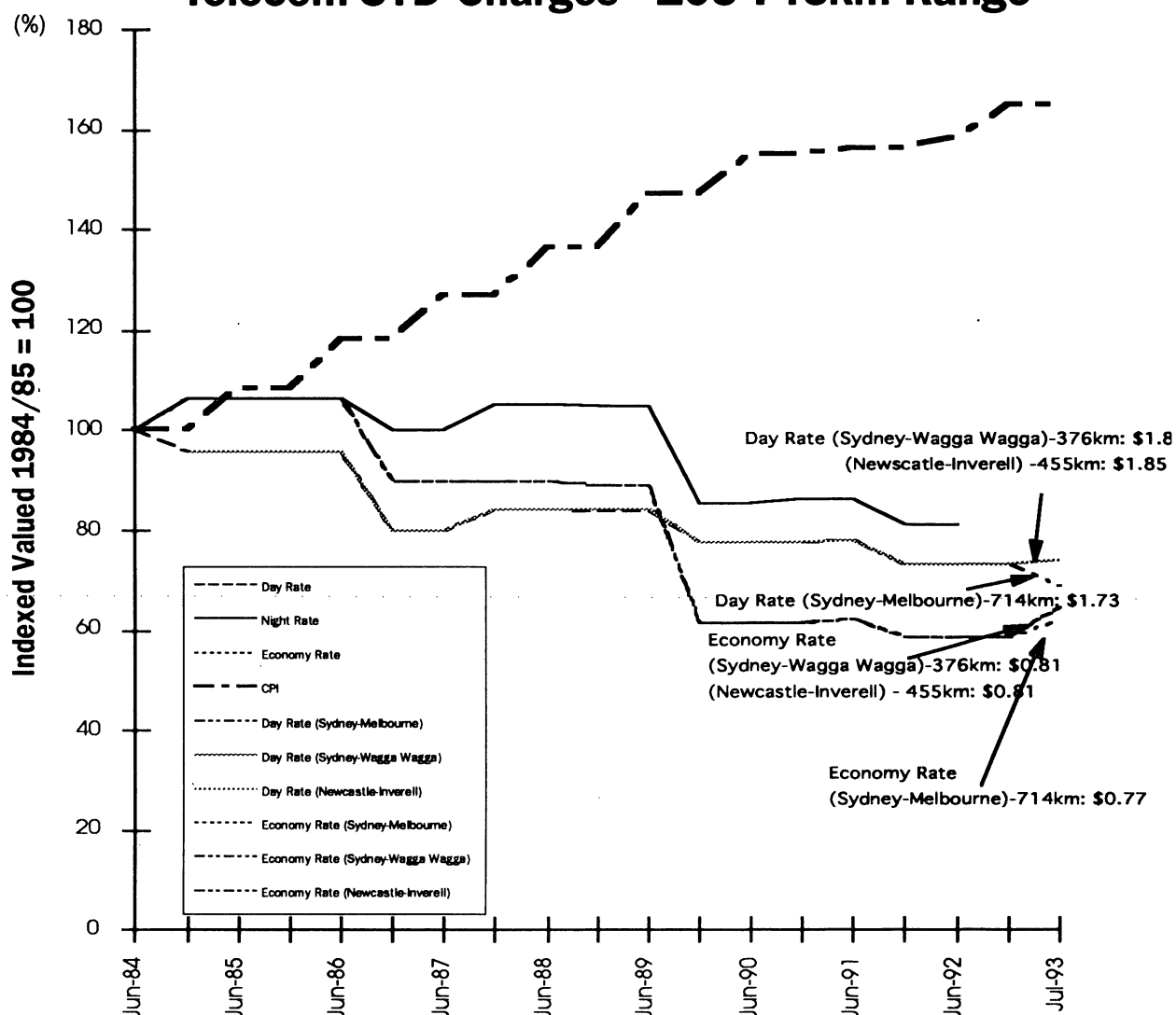
Table 7B: STD Charges - 100-165km Range (Telecom v Optus)

	Telecom Average Charge for 5 mins			Optus Average Charge for 5 mins		
	Day	Night	Economy	Peak	Off-Peak	Weekend
Sydney-Newcastle (117km)	\$1.79	\$1.23	\$0.79	\$1.57	\$1.09	\$0.70
Newcastle-Scone (121km)	\$1.79	\$1.23	\$0.79	\$1.69	\$1.15	\$0.73
Franklin (Tas)* - Queenstown (Tas) (163km)	\$1.75	\$1.25	\$0.75	No Service		

* This route is priced according to the Unit Fee system outlined in s.4.3.5.8(b) of *Telecom PSTS Tariff* as amended at July 1993. Dodge's Ferry and Franklin are ARK (ie. non-CCR) exchanges. The other Telecom routes are priced 'per second' according to s.4.3.5.8(a) of the PSTS Tariff. Neither Optus nor Telecom tariffs take account of discounts derived through consumption levels (eg. Flexiplans, Optus Advantage and Optus Bonus).



**Table 8A:
Telecom STD Charges - 165-745km Range**



Note: The indexed value is based on the average charge for 5 minutes calculated through per second pricing according to s.4.3.5.8(a) of the *Telecommunication PSTS Tariff* as amended in July 1993.

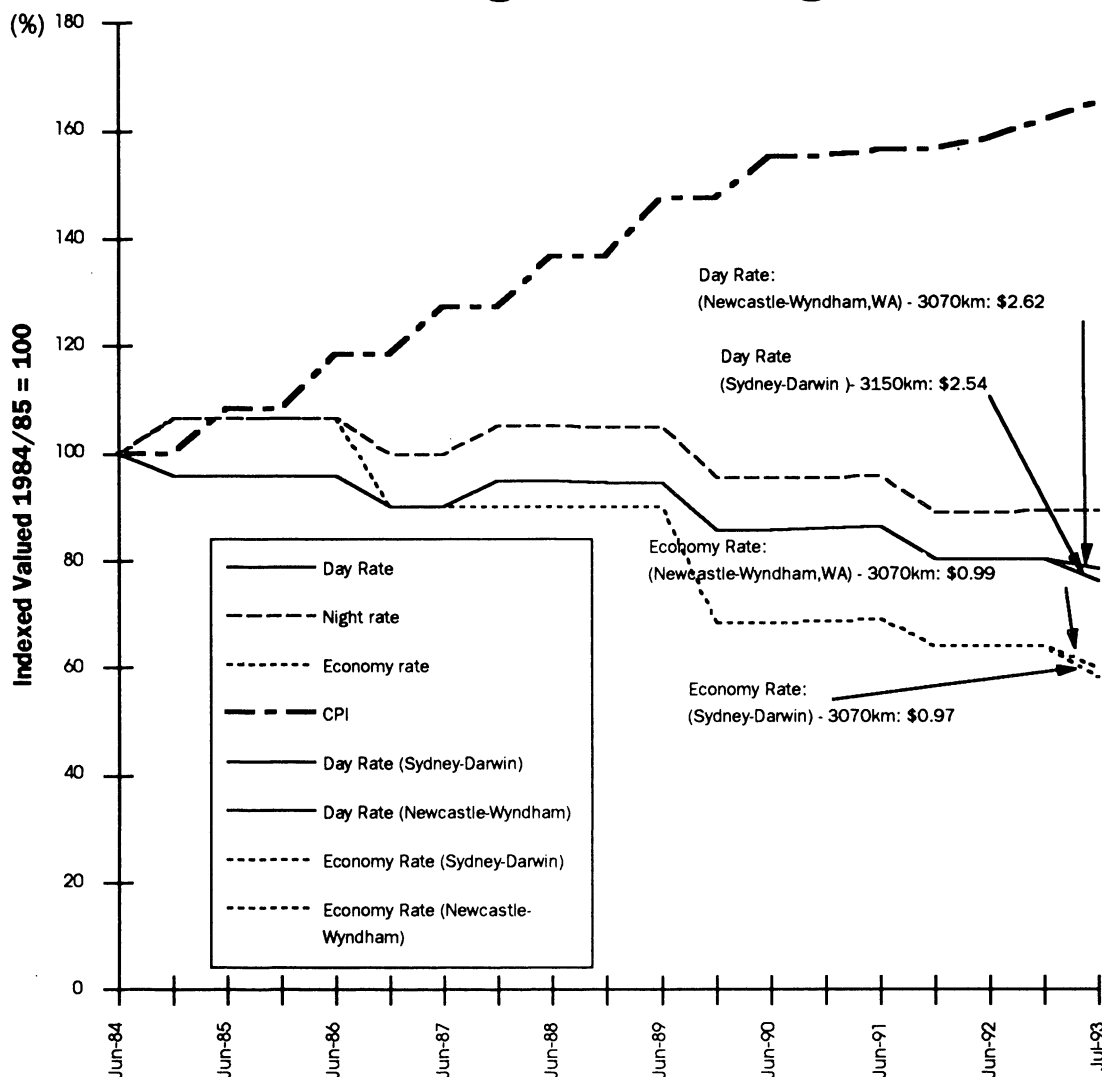
Table 8B: STD Charges - 165-745km Range (Telecom v Optus)

	Telecom Average Charge for 5 mins			Optus Average Charge for 5 mins		
	Day	Night	Economy	Peak	Off-Peak	Weekend
Sydney-Melbourne (714km)	\$1.73	\$1.27	\$0.77	\$1.54	\$1.09	\$0.70
Newcastle-Wagga Wagga (376km)	\$1.85	\$1.27	\$0.81	\$1.69	\$1.15	\$0.73
Newcastle-Inverell (455km)	\$1.85	\$1.27	\$0.81	\$1.69	\$1.15	\$0.73
Dodge's Ferry (Tas)* - Queenstown (Tas) (189km)	\$1.75	\$1.25	\$0.75	No Service		

* This route is priced according to the Unit Fee system outlined in s.4.3.5.8(b) of *Telecom PSTS Tariff* as amended at July 1993. Dodge's Ferry and Franklin are ARK (ie. non-CCR) exchanges. The other Telecom routes are priced 'per second' according to s.4.3.5.8(a) of the *PSTS Tariff*. Neither Optus nor Telecom tariffs take account of discounts derived through consumption levels (eg. Flexiplans, Optus Advantage and Optus Bonus).



Table 9A: STD Charges - Exceeding 750km



Note: The indexed value is based on the average charge for 5 minutes calculated through per second pricing according to s.4.3.5.8(a) of the *Telecommunication PSTS Tariff* as amended in July 1993.

Table 9B: STD Charges - Exceeding 750km (Telecom v Optus)

	Telecom Average Charge for 5 mins			Optus Average Charge for 5 mins		
	Day	Night	Economy	Peak	Off-Peak	Weekend
Sydney-Darwin (3150km)	\$2.54	\$1.79	\$0.97	\$2.32	\$1.60	\$0.85
Newcastle-Wyndham (WA) (3070km)	\$2.62	\$1.79	\$1.00	\$2.44	\$1.66	\$0.85
Dodge's Ferry (Tas)* - Perth (unknown distance: over 745km)	\$2.50	\$1.75	\$1.00	No Service		

* This route is priced according to the Unit Fee system outlined in s.4.3.5.8(b) of *Telecom PSTS Tariff* as amended at July 1993. Dodge's Ferry and Franklin are ARK (ie. non-CCR) exchanges. The other Telecom routes are priced 'per second' according to s.4.3.5.8(a) of the PSTS Tariff. Neither Optus nor Telecom tariffs take account of discounts derived through consumption levels (eg. Flexiplans, Optus Advantage and Optus Bonus).



Table 10A(1): Telecom International Calls v CPI

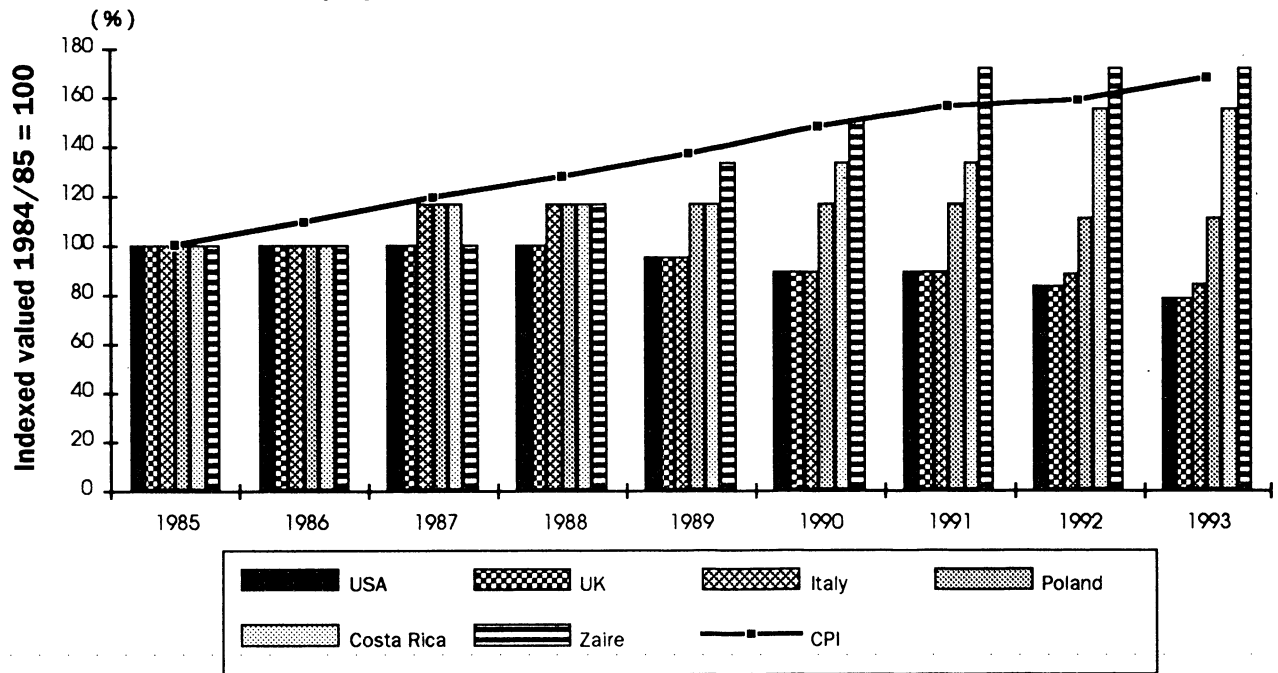


Table 10A(2): Telecom International Calls (Sth Pacific) v CPI

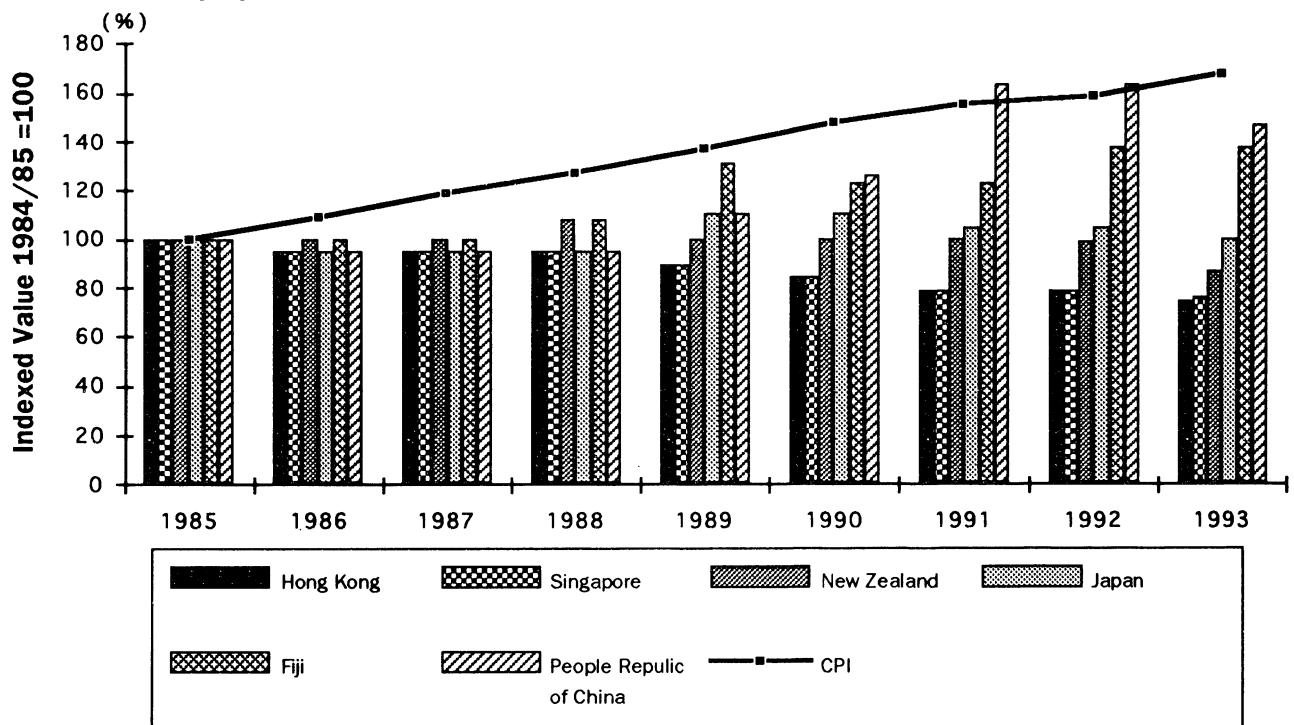


Table 10B: International Calls at Peak Time Per Minute
(excluding Flexiplans or other discounts) as at 30 July 1993

	NZ	Fiji	Sing.	HK	China	Japan	USA	UK	Italy	Poland	C. Rica	Zaire
Telecom	1.13	1.79	1.45	1.41	2.79	1.89	1.40	1.41	1.51	1.99	2.79	3.09
Optus	1.10	1.80	1.34	1.34	2.73	1.76	1.34	1.34	1.43	2.02	2.75	3.03