

# TELECOMMUNICATIONS PRICES REPORT 1993/94

Prepared by Wendy Hanlin for the Communications Law Centre, September 1994

## Sources

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Telstra PSTS Tariff (as amended July 1994).  
Optus Long Distance Pricing Schedule (July 1994).  
AUSTEL, *Payphones*, Final Report to the Minister for Transport and Communications, December 1992.  
AUSTEL, *Telecom proposal to increase public payphone charges from 30c to 40c*, Report to the  
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## Table of Contents

Introduction .....	8
Access Costs .....	8
NTP .....	8
Payphones .....	9
Flexiplans .....	9
Long Distance Tariffs - Telecom vs Optus .....	11
International Tariffs - Telecom vs Optus .....	15
Local Calls .....	16
Optus Service Availability .....	17
Conclusion .....	17

## List of Figures

Fig. 1	Annual Rental Charges v CPI .....	8
Fig. 2	Telecom Payphone Fee v CPI .....	9
Fig. 3	Optional Customer Calling Plans (Flexiplans) - Telecom .....	10
Fig. 4	Customer Calling Plans - Optus .....	10
Fig. 5a	Telecom STD Charges - 50-85km Range .....	11
Fig. 5b	50-85km Range - Telecom & Optus v CPI .....	11
Fig. 5c	Current STD Charges - 50-85km Range .....	11
Fig. 6a	Telecom STD Charges 85-165km Range .....	12
Fig. 6b	85-165km Range - Telecom & Optus v CPI .....	12
Fig. 6c	Current STD Charges - 85-165km Range .....	12
Fig. 7a	Telecom STD Charges 165-745km Range .....	13
Fig. 7b	165-745km Range - Telecom & Optus v CPI .....	13
Fig. 7c	Current STD Charges - 165-745km Range .....	13
Fig. 8a	Telecom STD Charges - Over 750km Range .....	14
Fig. 8b	Over 750km Range - Telecom & Optus v CPI .....	14
Fig. 8c	Current STD Charges - Over 750km Range .....	14
Fig. 9a	Telecom International Calls - Peak Rates per Minute v CPI .....	15
Fig. 9b	Telecom Asia Pacific Calls - Peak Rates per Minute v CPI .....	15
Fig. 9c	International Calls at Peak Rate per Minute .....	16
Fig. 10	Telecom Local Call Fee v CPI .....	16
Fig. 11	ICCA Rollout to 1 July 1994 .....	17



## Introduction

Price movements during the second year of competition between the carriers have been less dramatic than in the preceding year. Whilst deaveraging continues to provide cheaper rates for inter-capital calls compared with equidistant non-capital calls, there have been few alterations to prices since our last report. This means that overall, most calls are cheaper in real terms than they were a year ago.

CU's graphs plot Telecom price movements from the financial years 1984/85. Where graphs compare Telecom and Optus prices we have used the base year 1989/90, which is the base year of the current CPI used by the Reserve Bank. In the base year, the CPI and the price of the service item begin at 100, and price increases or decreases are plotted from this point. Where the line representing the service price falls below the CPI line, the prices increased at a rate less than inflation - that is, prices *fell* in real terms. Where the line representing the service falls above the CPI line, prices *increased* in real terms. Where the line falls below 100, prices decreased in both real and nominal terms.

## Access Costs

The cost of accessing the system is an important aspect of the overall cost of telecommunications services to consumers. Obviously, cheaper tariffs for calls are of no benefit to those who cannot afford to have the telephone connected.

It is cause for concern that the continuing broad thrust of the carriers to bring prices into line with real costs may result in increased access costs for people on low incomes and outside metropolitan areas. This, combined with tariff

deaveraging, would make the phone less affordable to these groups of people.

At present, price control arrangements set by the Government limit price increases for telephone connections and rentals to no more than CPI in any given year.

In January 1994, Telecom increased access rental charges by 40c per month, bringing the monthly rental fee to \$14.15 for residential users and \$25.40 for business customers. Fig. 1 shows rental charges graphed against CPI over the past decade, and shows that increases in rental charges remain below CPI. Connection fees remained unchanged in the past year.

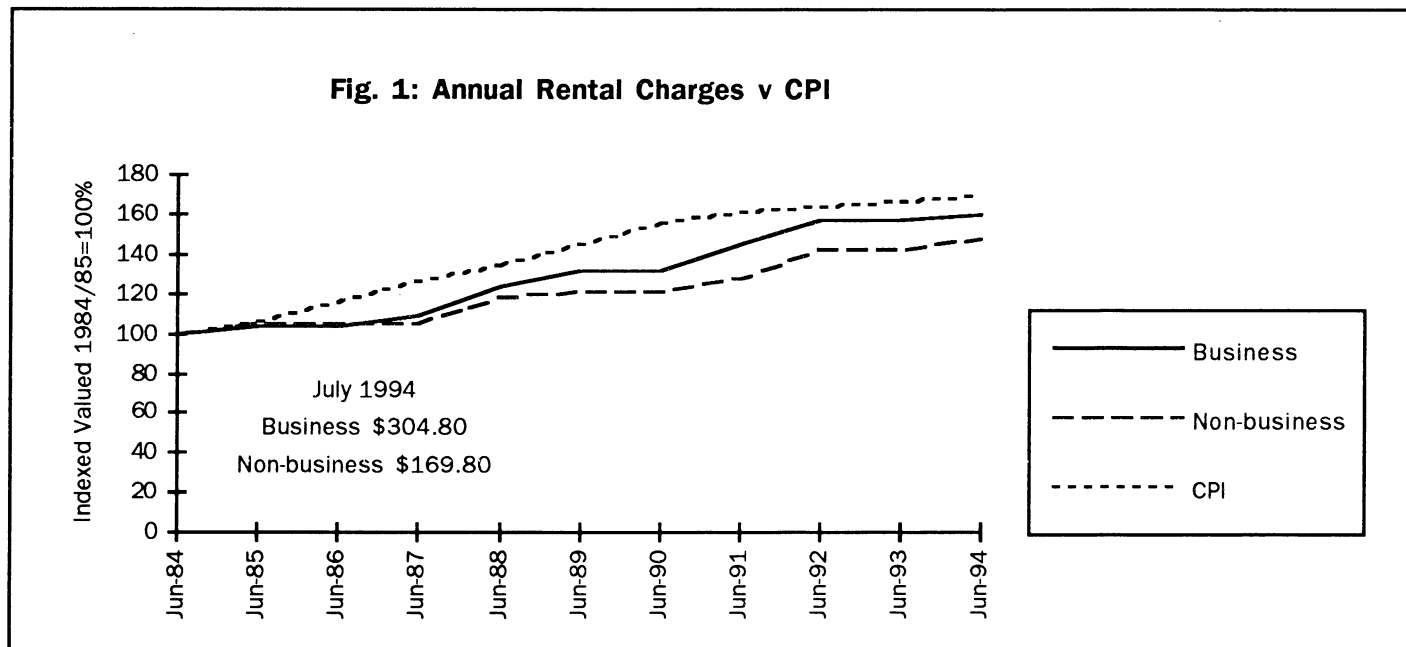
## NTP Could Affect Access Costs

An issue which may influence future access costs is that of the network termination point (NTP) location (see CU 91). At present carriers have the exclusive right to install telecommunications facilities up to the first telephone wall socket for single line premises, or the main distribution frame for multi-line premises. They must also discover and repair faults up to the NTP at no cost to customers.

In 1992, AUSTEL was asked to report on Government plans to move the NTP to the *property* boundary. AUSTEL recommended to the Minister that the NTP be moved to the *building* boundary. The Minister has not yet announced his decision on this matter. If the change goes ahead, customers could choose between having Telecom or a third party install the line between the NTP and the wall socket.

Customers would then have to bear the cost of the connection between a building entry point and their telephone socket which, under the current system, is part of

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the standard installation charge - even though actual costs may vary from one premises to another. With competition entering into this area, some customers - for example, people living on the top floor of a high rise building - might find installation charges become prohibitive.

CU will continue to monitor the potential effect on the consumer of any change to the NTP location.

## Payphones

On 1 April 1994 Telecom announced that it proposed to increase the local and long distance per metre pulse (the time unit of an STD or IDD call attracting a fee) fee from 30c to 40c for public payphones. The rise was finally approved by the Minister and took effect on 30 September. Fig. 2 shows that until 30 September, the cost of a local call from a payphone had increased slightly less than CPI. The rise to 40c would constitute a price increase in real terms.

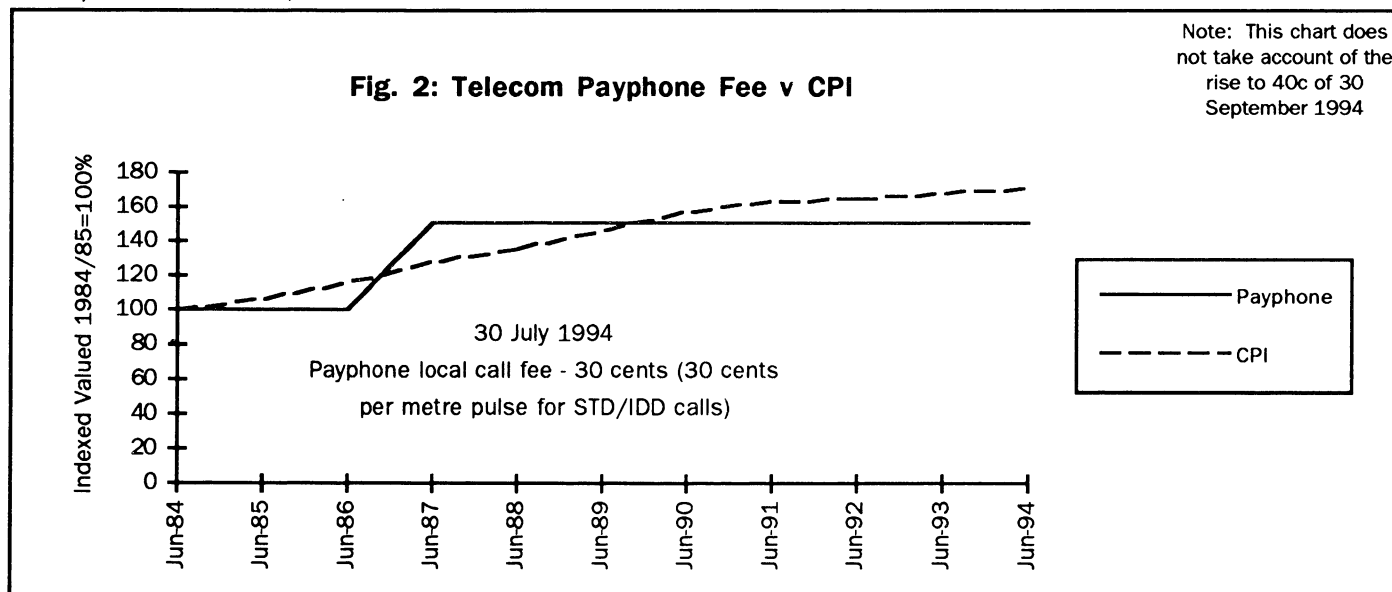
To cushion the impact of this increase on low income earners, 2.3 million free \$4 Phonecards have been issued -

It seems likely that the fee increase will further disadvantage some low income earners, particularly those without a home phone. Research for AUSTEL's Payphone Investigation<sup>2</sup> showed that people without a home phone make on average 25 calls per month. Even if the phonecard is viewed as providing a 10 cent top-up on each call (from the original 30 cents to 40 cents) rather than paying for 10 local calls, on this evidence it would last the average user less than two months; even less if timed calls are made. The 'cushion' provided by the Phonecard is a small one at best!

AUSTEL research also showed that 50 per cent of people without home phones cited cost as the main reason for not installing one. It follows that a 33 per cent increase in payphone charges will have a significant impact on this group.

Privately owned or leased payphones operate in a competitive market and are not subject to price control. The 10c price increase is expected to flow through to these phones.

Fig. 2: Telecom Payphone Fee v CPI



once only - to certain people on social benefits schemes, such as pensioners and veterans not receiving a home phone allowance, people on Jobstart and Newstart, and working families with a health care card.

Telecom claims that the increased fee is necessary to enable marginal profitability for public payphones. Since the last payphone price rise in 1986, investment in the payphone system has increased the number of payphones working at any one time from 65 per cent to 93 per cent, seen the introduction of a card charging option and a reduction in long distance call fees by increasing the length of each timed pulse attracting a fee<sup>1</sup>.

The cost of making an STD phone call from a public payphone is higher than calling from a home phone. For example, a five minute call at peak time from Sydney to Wollongong costs \$1.27 from a home phone, while the same call from a payphone costs \$1.67.

<sup>1</sup> AUSTEL, Telecom proposal to increase public payphone charges from 30c to 40c. Report to the Minister for Transport and Communications, January 1994.

## Flexiplans

Both Optus and Telecom offer 'flexiplan' schemes which provide discounts on certain services. People can enter these schemes by paying a monthly fee, achieving a specified call volume, or preselecting a particular carrier.

The schemes provide significant benefits to high volume customers (primarily businesses). Residential customers can take advantage of schemes offering discounts on long distance calls to certain nominated numbers, STD area codes or countries. Telecom has a variety of optional schemes which customers may choose to suit their needs. Optus has no optional schemes, but automatically provides discounts according to usage.

<sup>2</sup> AUSTEL, Payphones, Final Report to the Minister for Transport and Communications, December 1992.

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The benefits consumers receive from entering a flexiplan depend entirely on their particular consumption of services over a given period, and it is not possible to make an overall comparison of flexiplans. Summaries of the flexiplans offered by Telecom and Optus are given at Fig. 3. and Fig. 4.

**Fig.3 Optional Customer Calling Plans (Flexiplans)  
TELECOM**

SCHEME	DESCRIPTION	ENTRY COST	LIMITATIONS
Everyday Saver STD	Extension of off-peak period with further 10% discount during standard off-peak period	\$2 per month	
Select Saver STD and IDD	10% discount on calls to up to 25 area or country codes	\$10 per month minimum usage	No discount if less than \$10 per month spent
Value Saver Business Saver Corporate Saver	Incremental discounts of 2-7% based on call volume	\$10-\$20 per month	Corporate Saver ceases 30/11/94 Ineligible calls - 005.
Total Call Saver 1&2	Flat discount of 5-6% on aggregated call charges	\$5-\$15 per month	Ineligible calls - 005, CustomNet, FaxStream, Freecall 008, non-PSTS calls
Family and Friends BusinessCircle	10% discount on calls to 5 selected numbers (any STD, international, mobile)	\$1 per month	Ineligible calls 0055, CustomNet, Freecall 008, non-PSTS calls
0011 China, 0011 Greece etc	Discounts of up to 20% on calls to specific countries	\$1 per month	During specified time periods only
World Bonus World Bonus 2	5-10% discount on international rates	\$4 per month	WB1 - first \$5 of calls per month free
Corporate Flexiplan 1&2	Variable discounts on aggregated calls	\$65-\$100 per month	Ineligible calls - 005, CustomNet, FaxStream, nonPSTS. CF 2 ceases on 30/11/94
Call Saver 1-8	Variable discounts of 3-25% based on call volume	\$0.75-\$25 per month	Ineligible calls vary according to individual plans

**Fig. 4: Customer Calling Plans  
OPTUS**

SCHEME	DESCRIPTION	ENTRY COST	LIMITATIONS
Optus Advantage	Variable discounts of 1-20% of standard Optus fee depending on call volume	No upfront fee. \$30 per month minimum usage	Maximum discount 20% for \$1 000 000 of calls per month or more
Optus Instant Saver	6% discount on top of normal Optus Advantage discount	No upfront fee Automatic to preselected Optus customers only	



## Long Distance Tariffs - Telecom v Optus

In last year's pricing report *CU* noted that both carriers had begun to deaverage prices on some long distance domestic routes. This means that calls between capital cities are becoming cheaper compared with equidistant calls to or between non-capital destinations. Over the past year there has been little change to call charges by either carrier. Prices have thus continued to decrease in real terms.

Over the past decade Telecom STD charges have steadily fallen in comparison with CPI. Figs. 5a - 8a illustrate this trend.

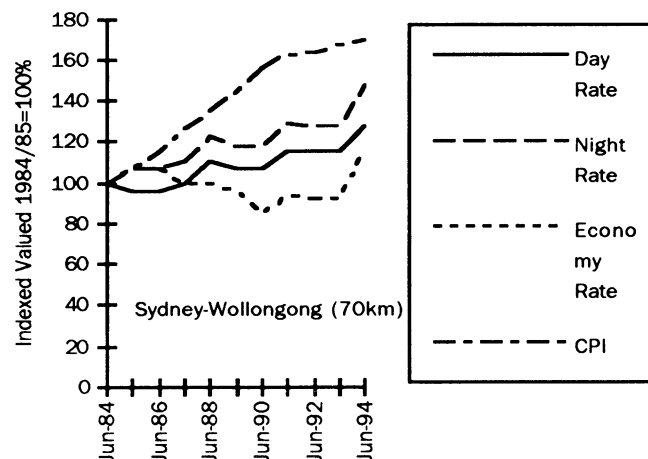
In general, the greater the distance, the greater the relative price decrease. Figs. 7b and 8b demonstrate the effect of deaveraging on longer distance routes. There has been no nominal change to prices and no further deaveraging during the 1993/94 year. This means all prices have fallen in real terms.

The current charges for all routes surveyed by *CU* are shown in Figs. 5c-8c. All per second prices remain unaltered since last report except Optus Sydney-Wollongong. Fig. 5b compares Telecom and Optus charges for the relatively short (70km) Sydney-Wollongong route. Telecom increased the charge for this route in real terms 12 months ago. This is the only route surveyed for which Optus increased its charges.

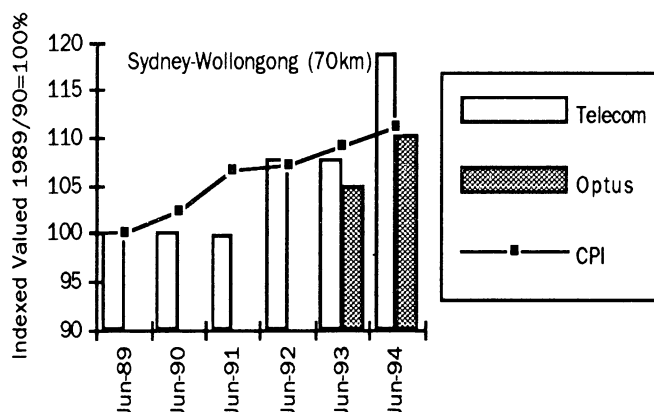
Last year, *CU* highlighted the plight of people from areas such as Dodges Ferry, Tasmania, who are serviced by non-CCR exchanges. This year Dodges Ferry has a CCR exchange but there are still many areas in Australia with non-CCR exchanges.<sup>3</sup> Customers connected to non-CCR exchanges do not have access to the full range of Flexi Plan options and cannot use Optus, and thus receive fewer benefits of competition than other Australians (especially those in the capital cities). These exchanges will eventually be updated, but in the meantime the people of Primrose Sands are not fully benefitting from competition..

<sup>3</sup> For purposes of comparison, *CU* is substituting Primrose Sands, Tasmania - still a non-CCR exchange for Dodges Ferry.

**Fig. 5a: Telecom STD Charges - 50-85km Range**



**Fig. 5b: 50-85km Range  
Telecom and Optus v CPI**



**Fig. 5c: Current STD Charges - 50-85km Range**

(Where a change has occurred the July 1993 charge is given in brackets)

	Telecom Average charge for 5 min			Optus Average charge for 5 min		
	Day	Night	Economy	Peak	Off-Peak	Weekend
Sydney-Wollongong (70km)	\$1.27	\$0.89	\$0.58	\$1.18 (1.12)	\$0.82	\$0.65
Newcastle-Singleton (65.7km)	\$1.27	\$0.89	\$0.58	\$1.18 (1.12)	\$0.82	\$0.65
Primrose Sands*-Glenhuon (Tas) (56km)	\$1.25	\$1.00	\$0.50	No Service		

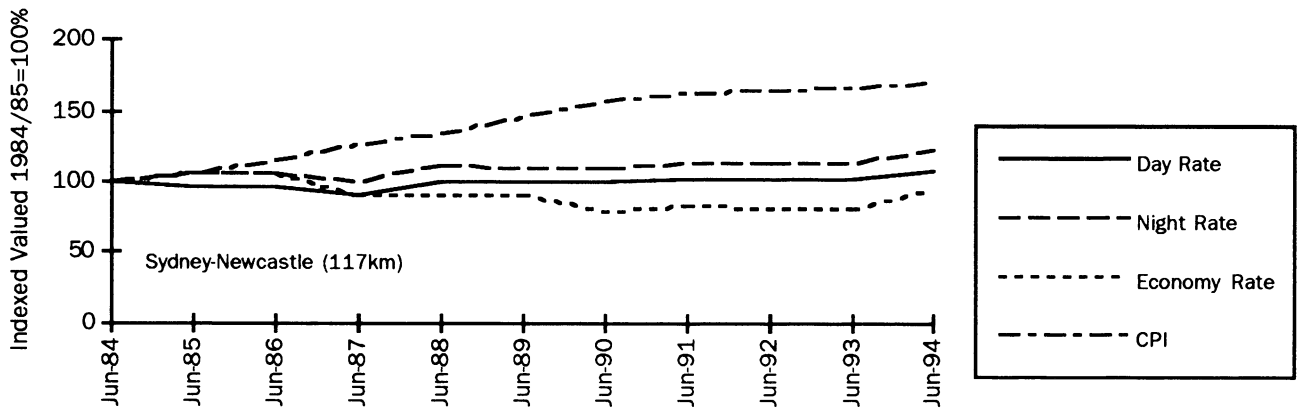
\*This route is priced according to the Unit Fee system outlined in s.4.3.5.8(b) of Telecom PSTS Tariff as amended July 1994. The other Telecom routes are priced 'per second' according to s.4.3.5.8(a) of the PSTS Tariff. Neither Optus or Telecom tariffs listed take account of discounts derived through consumption levels (eg. Flexiplans, Optus Advantage etc)

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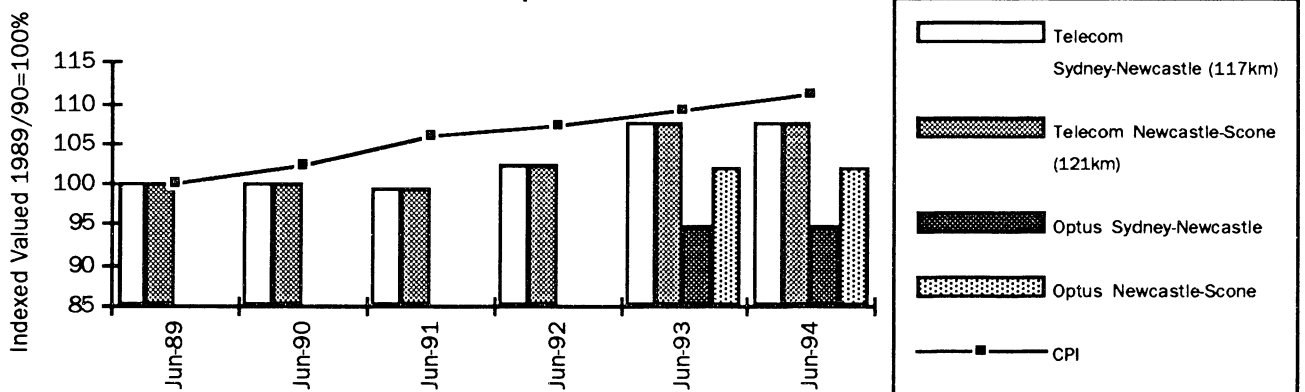


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**Fig. 6a: Telecom STD Charges 85-165km Range**



**Fig. 6b: 85-165km Range  
Telecom and Optus v CPI**



**Fig.6c: Current STD Charges - 100-165km Range**

(Where a change has occurred the July 1993 charge is given in brackets)

	Telecom			Optus		
	Average charge for 5 min			Average charge for 5 min		
	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		

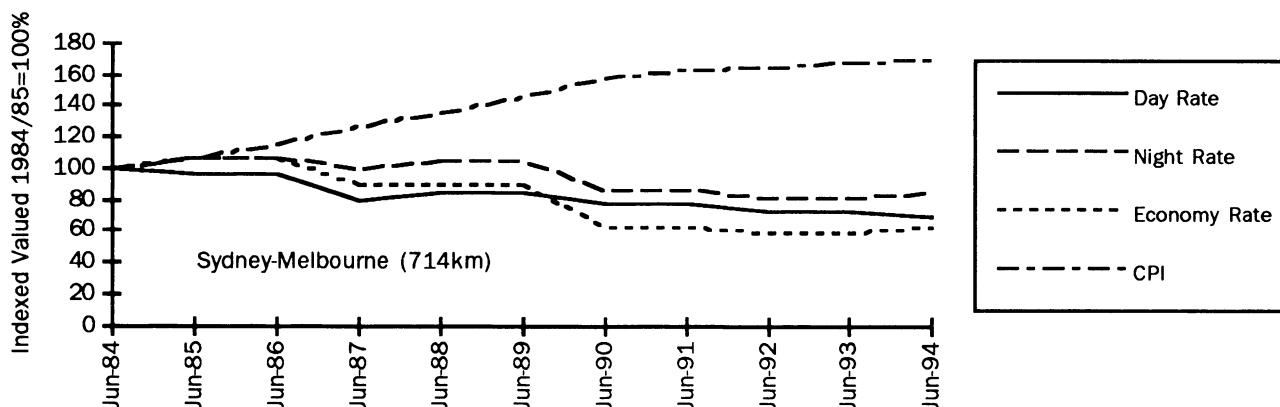
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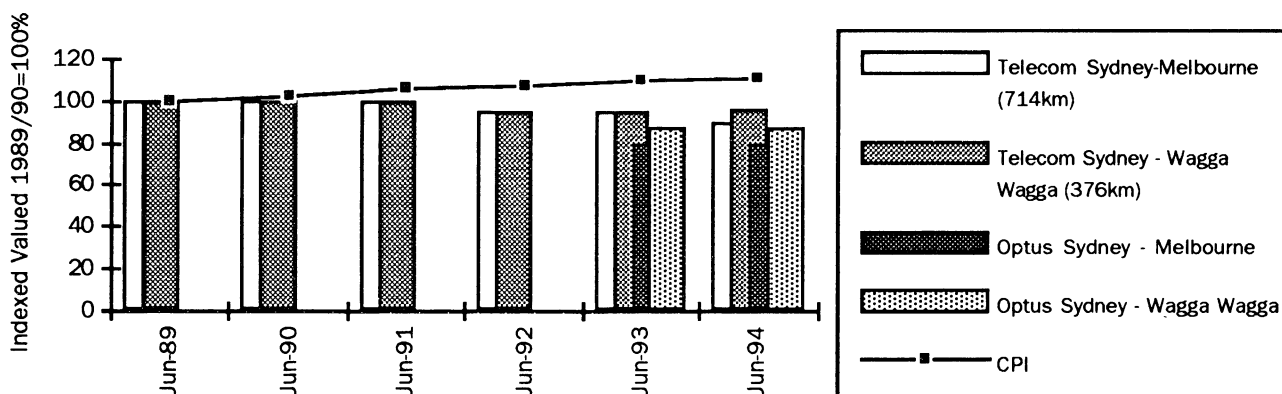


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**Fig. 7a: Telecom STD Charges 165-745km Range**



**Fig. 7b: 165-745km Range  
Telecom and Optus v CPI**



**Fig. 7c: Current STD Charges - 165-745km Range**

(Where a change has occurred the July 1993 charge is given in brackets)

	Telecom Average charge for 5 min			Optus Average charge for 5 min		
	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
Primrose Sands (Tas)*- Queenstown (Tas) (165km)	\$1.75	\$1.25	\$0.75	No Service		

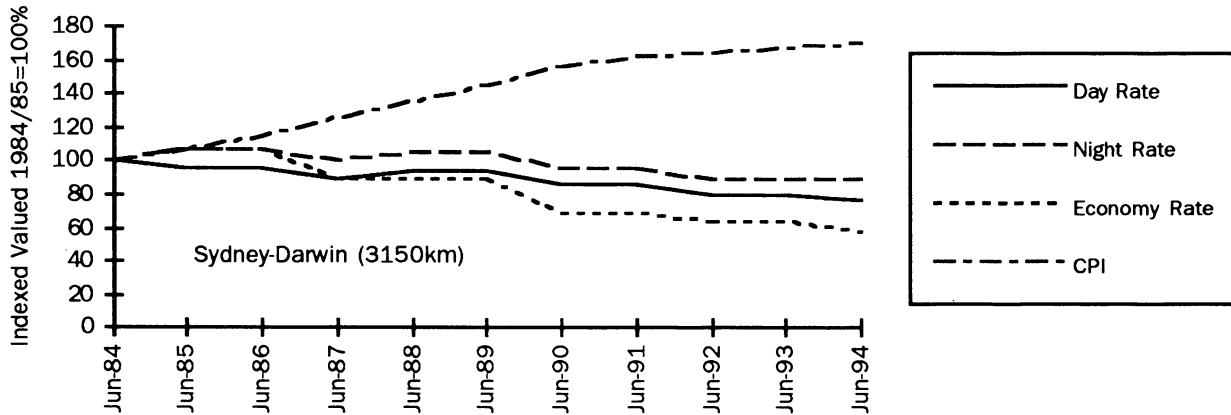
\*This route is priced according to the Unit Fee system outlined in s.4.3.5.8(b) of Telecom PSTS Tariff as amended July 1994. The other Telecom routes are priced 'per second' according to s.4.3.5.8(a) of the PSTS Tariff. Neither Optus or Telecom tariffs listed take account of discounts derived through consumption levels (eg. Fexiplans, Optus Advantage etc)

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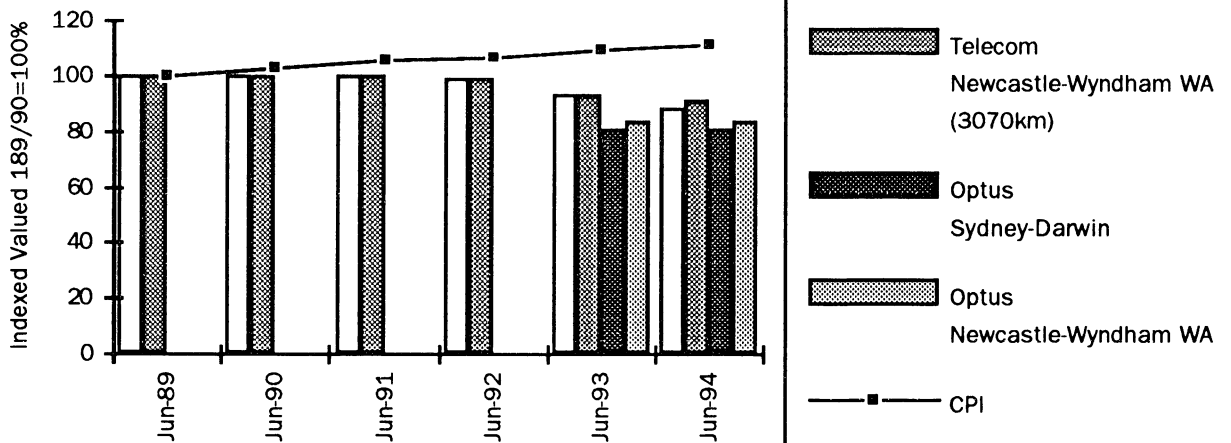


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**Fig. 8a: Telecom STD Charges - Over 750km Range**



**Fig. 8b: Over 750km Range  
Telecom and Optus v CPI**



**Fig. 8c: Current STD Charges - Over 750km Range**

(Where a change has occurred the July 1993 charge is given in brackets)

	Telecom Average charge for 5 min			Optus Average charge for 5 min		
	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
Primrose Sands (Tas)*- Perth (>750km)	\$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 July 1994. The other Telecom routes are priced 'per second' according to s.4.3.5.8(a) of the PSTS Tariff. Neither Optus or Telecom tariffs listed take account of discounts derived through consumption levels (eg. Fexiplans, Optus Advantage etc)

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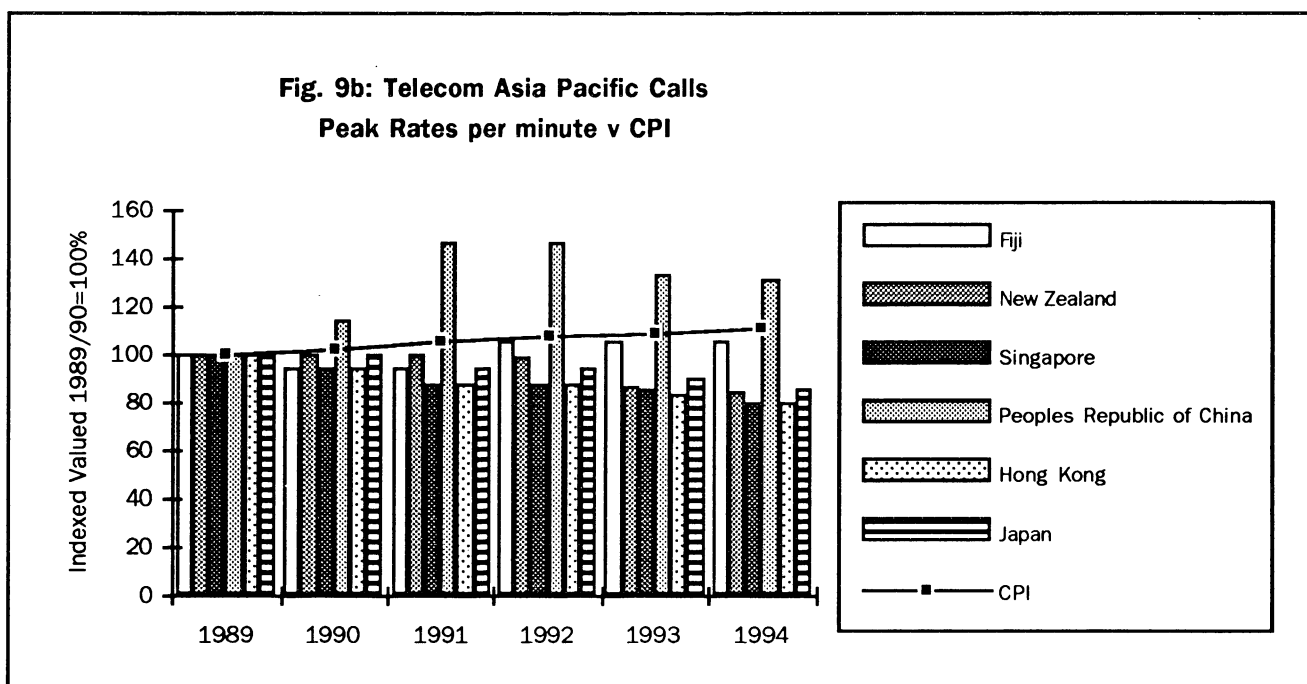
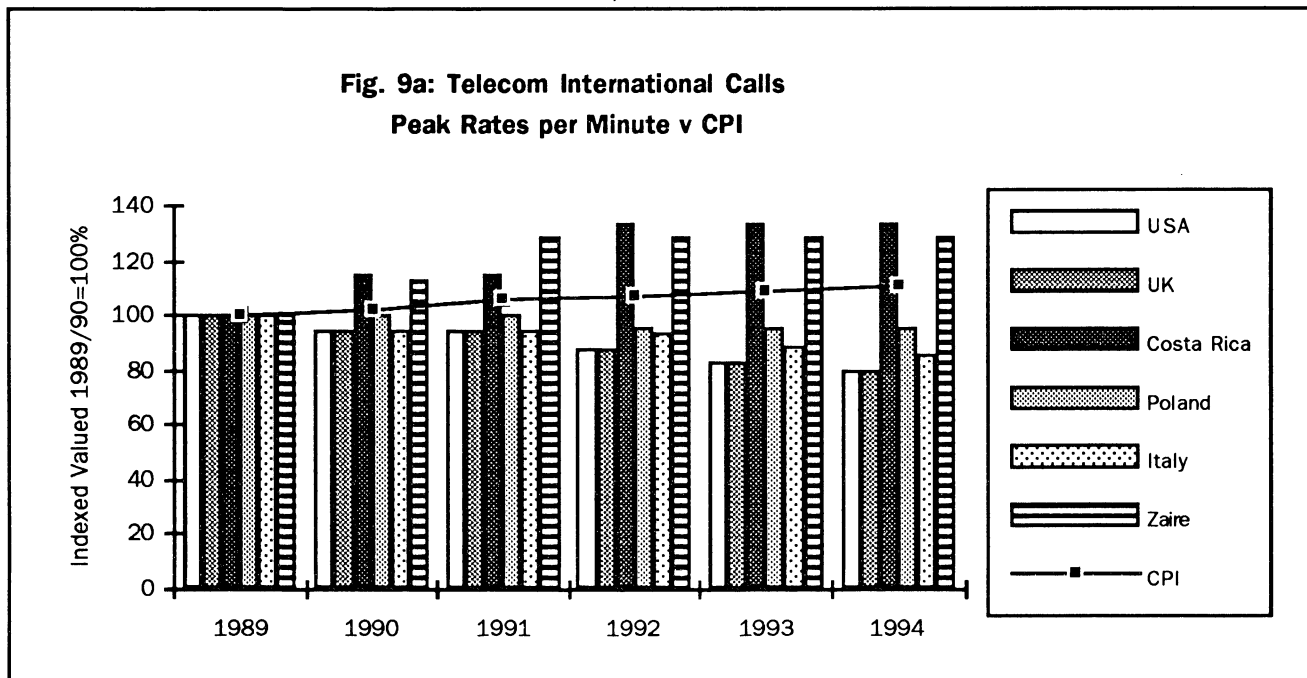




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## International Tariffs - Telecom v Optus

Over the past five years Telecom IDD rates to most destinations surveyed have decreased in real (and often nominal) terms. Figs. 9a and 9b illustrate these price movements. The exceptions to this trend are the rates for calls to Zaire and Costa Rica, which have increased in real terms.



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Since Optus entered the market it has consistently undercut Telecom standard charges for international calls (Fig. 9c). During the past year Optus has decreased the peak per minute charge by up to 9 per cent for all destinations surveyed by CU. Telecom reduced charges for 8 out of the 12 destinations, and all these cuts were to higher volume routes such as the USA and Italy.

**Fig. 9c: International Calls at Peak Rate Per Minute**  
(Where a change has occurred the July 1993 price is given in brackets)

	NZ	Fiji	Sing.	HK	China	Japan	USA	UK	Italy	Poland	C.Rica
Telecom	\$1.09 (1.13)	\$1.79	\$1.35 (1.45)	\$1.35 (1.41)	\$2.76 (2.79)	\$1.80 (1.89)	\$1.35 (1.40)	\$1.35 (1.41)	\$1.45 (1.51)	\$1.99	\$2.79
Optus	\$1.00 (1.10)	\$1.70 (1.80)	\$1.25 (1.34)	\$1.25 (1.34)	\$2.64 (2.73)	\$1.67 (1.76)	\$1.24 (1.34)	\$1.25 (1.34)	\$1.33 (1.43)	\$1.92 (2.02)	\$2.66 (2.75)

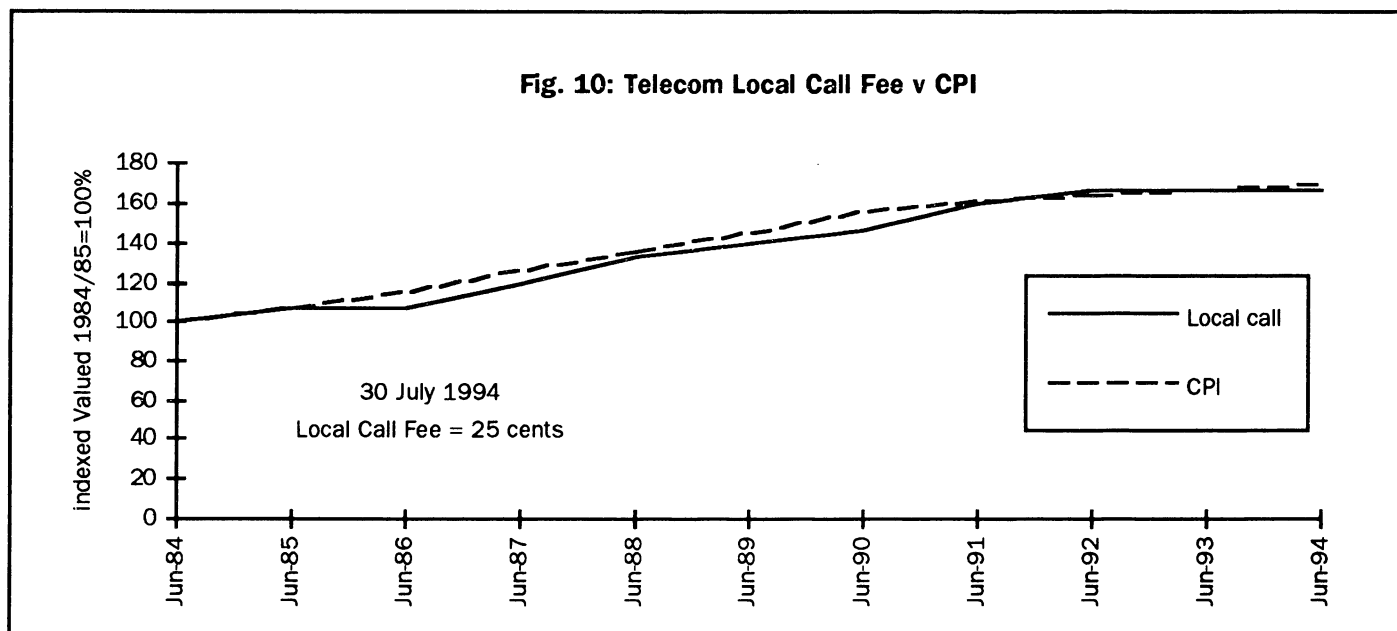
Prices quoted exclude Flexiplans and other discounts

## Local Calls

The fee for a local call from a home phone stands at 25c. The last fee increase was in April 1992. Fig.10 graphs local call fees against CPI for the past decade, and shows that local call fees have closely tracked CPI.

Telecom says it has no plans to raise the fee to 26c in the next financial year, although this would be allowable under the present pricing regime.

**Fig. 10: Telecom Local Call Fee v CPI**





## Optus Availability

By July 1997 Telecom's network must be capable of connecting with Optus throughout Australia. In the meantime, many areas are still waiting for Telecom's network upgrading to enable customers to access Optus for long distance calls.

Fig. 11 shows the inter-carrier charging areas (ICCA) where Optus has a presence for originating traffic as of 1 July 1994. In order for Optus to establish a presence in an ICCA, approximately 80 per cent or more of customers should have access to CCR exchanges. Optus will also consider other factors such as the relevant charges and population density when it decides to establish a presence in an ICCA. People serviced by these exchanges can choose between carriers, and benefit from the full range of flexiplans and receive itemised telephone bills.

It is important to note that this map can be taken only as a rough guide to roll out. In most rolled out areas there are still some lines serviced by non-CCR exchanges. People using these lines still cannot choose between carriers, use the full range of flexiplans or get itemised bills..

In areas such as Melbourne 99 per cent of lines are accessible by Optus, so almost all consumers can choose between the carriers. In other areas fewer lines can be used by Optus. Thus even within the areas rolled out, there are

still some - and in some areas, a significant number of - consumers who do not enjoy the benefits of competition between the carriers.

## Conclusion

Since our last pricing report Optus has further undercut Telecom's standard STD and IDD call rates. The only exception is the economy rate for the 50-85 km range (See Fig. 5c- Optus weekend rate for 50-100 km range).

While areas serviced by Telecom non-CCR exchanges can access some of Telecom's flexiplans, the full range of charging options and itemised billing are not available, and they cannot access Optus services.

Consumers wishing to get the greatest cost benefit face two options: choose Optus, or enter a Telecom flexiplan which suits their individual needs. Unfortunately many consumers still do not have this choice. It seems reasonable to conclude that, although all customers within an area are paying similar phone charges, not all customers receive the same benefits from competition. □

Fig. 11: Inter-carrier Charging Areas

