Comment

But how much does it cost?

A few years ago, writing about telecommunications deregulation, American professor Eli Noam said that, in time, introducing competition would prove to have been the easy part - the hard part would be dealing with the consequences.

One of the toughest things about dealing with the consequences of deregulation is that, extraordinary as it may sound, no-one quite knows what it costs to deliver telecommunications services.

Not in the aggregate - any telecommunications company can add up the cheques it writes each year and work out its total expenditure. So too, the cost of laying an optic fibre cable, or installing a new switch, is clear enough.

But the cost of individual services is much more elusive. The same infrastructure gets shared by a wide range of different kinds of services - the same optical fibre cable carries voice telephone calls, facsimile messages, information being downloaded from websites and other services - and its capacity is utilised more or less efficiently at different times of the day. How, in these circumstances, do you decide what proportion of the cost of fibre installation and maintenance should be attributed to the cost of a single voice call carried over it? And when you upgrade a facility (e.g. converting to digital) to enable it both to handle new types of service and to more efficiently handle existing types of service, how do you allocate the cost of the upgrade across existing and new services?

With great difficulty, as two groups which have been working on costing methodologies for the Australian telecommunications industry have confirmed.

The Australian Communications Authority (ACA) has been working with a U.S. consultant, Bellcore, and the Australian carriers Telstra, Optus and Vodafone, to develop a model which more accurately assesses the cost of the uneconomic services which the universal service provider (currently Telstra) is required to offer under statutory universal service arrangements.

This cost is crucial for the industry because all carriers contribute to it, in proportion to their share of industry revenue. If, as Telstra has recently claimed, the real cost is not the $250-odd million per year which has been billed for the past few years, but $1.8 billion, even carriers contributing a tiny share will feel it.

For some of this time, the Australian Competition and Consumer Commission (ACCC) has been working with another consultant, National Economic Research Associates (NERA), to help it to assess more accurately the cost of providing carriage services, so as to fix an "interconnection" price which must be charged by carriers offering certain carriage services which have been "declared" by the ACCC.

These exercises are, on the face of it, about more *accurate* costing, but they are also about more *appropriate* costing: that is, about setting input costs which are most likely to deliver the kinds of outcomes which the architects of the regulatory regime envisaged; particularly a healthy and potentially profitable environment for new service providers.

They highlight the extent to which the communications industry is still a regulated industry despite the rhetoric of deregulation and open competition. It is regulated not just because of the social and cultural role it plays, but because the nature of the business demands technical, and hence financial, cooperation among the players, to ensure that integrated services are provided to customers who demand "inter-operability" and "end-to-end connectivity" - the jargon the industry uses to describe a user's ability to communicate with anyone else, anywhere, once you connect to any one network. And financial cooperation doesn't often come easily where the bargaining power of the parties is unequal.

The two examples also highlight the way this bargaining power can vest in surprising ways. In the interconnection case, Telstra, with the infrastructure, has been able to set the terms for those seeking access to it. The regulator's job has been to improve those terms to a state where others who need access to infrastructure in order to deliver economically and socially useful services, can get it at a price that allows them to earn a reasonable return on their investments.

In the universal service case, Telstra, with the infrastructure, has been trying to get others to pay what it sees as a fair share of the cost of using it to deliver uneconomic services. It's been seething for the best part of a decade about its inability to do so.

The players in the telecoms industry know exactly what they want this Christmas. But despite the liberalisation of 1997, they are still waiting for regulatory Santa to tell them how much it will cost.

If he's got an eye for policy and a half-major in the awkward science of telecommunications costing, he might have the nerve to ask them how much they want it to cost.

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