

Rethinking universal service

Fay Holthuyzen, deputy chief executive of the National Office for the Information Economy, sets out the principles the government will apply in reconsidering Australia's universal arrangements

I think it is a fair comment that the funding arrangements for the universal service regime have now become an issue largely because of Telstra's claim (which is currently being tested) that the universal service obligation (USO) now costs more than \$1.8 billion - a seven-and-a-half-fold increase.

In order to avoid unnecessary destabilisation in the industry generally, the government announced that it would be seeking agreement from the industry to cap the USO at \$253.32 million for the 1997-98 year, and failing that to legislate to achieve this outcome.

But the scale of this claim, and the potential uncertainty it has generated has called into question the current USO funding arrangements. It was for this reason, however, that the government also asked the Australian Communications Authority (ACA) to provide a report on:

- what the ACA considers that the real cost of providing the USO actually is; and
- what the ACA considers might be appropriate arrangements for the future funding of the USO.

I will focus my comments on the latter of these two matters.

Future funding arrangements

It is important that a full and wide-ranging discussion takes place about the future possible arrangements for funding the USO albeit over the next two or three months. In order to encourage industry, user and consumer input, the government intends releasing early in 1999 a discussion paper canvassing the issues and the spectrum of possible funding mechanisms.

It is the government's intention that all possible options be considered on their merits. At one end of the spectrum is the option to maintain the existing ex-poste assessment mechanism with or without modifications designed to improve certainty or transparency regarding the assessment process. At the other extreme, an option is for the universal service provider to be required to fully bear the net cost of the USO itself.

Between these two extremes, a range of possible alternatives exist, including:

- ex-ante net cost assessment models, thereby providing industry with some understanding of USO costs which will need to be funded for a period of some years;
- direct government funding or supplementation models; and
- hybrid arrangements combining a number of these alternatives.

No particular models have been ruled out of consideration and the government will welcome other innovative suggestions.

But before considering any future models, it is important to identify the underlying principles which should drive any consideration of changes to the current USO funding arrangements. These principles might be summarised under seven headings.

Certainty

Firstly, recent developments have clearly shown that any funding mechanism should provide as much certainty to the industry as possible. Uncertainty regarding the contribution of industry players to the net USO cost may affect normal business planning decisions which is neither in the interests of individual players nor the competitive regime generally. Destabilisation of the industry or negative effects on investment decision-making is clearly undesirable. I would see this principle as probably paramount.

Transparency

It is important that there is transparency regarding the real cost of the USO. The industry must be confident that the net cost is reasonably incurred and that there has been a rigorous process in arriving at the net cost amount. Transparency will also assist the government and community to give due consideration to the implications of adjusting or enhancing the universal service obligations themselves. It also enables decisions on how to fund the USO to take account of the actual quantum.

Fairness and equity

The net cost of the USO should be funded in an equitable and fair manner. Fairness and equity are concepts that are open to interpretation. But I think we would all agree that the underlying idea is that industry players should pay their "fair share" of the

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USO. The real debate is about what is "fair" under different circumstances. At one end of the spectrum there is a view that the universal service provider is simply providing a service on behalf of the industry as a whole and should be compensated directly for that. At the other extreme there is a view that the USO should be funded on an "ability to pay" concept and that while the competitive market is still in a developmental phase new competitors may have a more limited capability to fund the net cost. "Fairness" probably should also give some recognition to the benefits, if any, that a universal service provider receives from providing the USO. The Minister has already made some comments about benefits identified by OfTel in the U.K. accruing to British Telecom from its role as the universal service provider.

Minimum administrative and compliance costs

Any funding mechanism should seek to reduce to a minimum administrative and compliance costs for both the ACA and the industry. It would seem fair to say that considerable money, time and effort have been expended in recent years administering the USO and we should be looking to reduce those costs.

Flexibility

A new funding mechanism should retain a degree of flexibility. The industry is rapidly evolving and the USO itself will change with time. A funding mechanism which is suitable for current arrangements will need to evolve with the broader industry and regulatory environment.

Tendering

Future funding mechanisms must be designed in such a way as to allow the incorporation of alternative approaches to funding the USO, such as tendering. The government

has clearly indicated its desire to pursue the potential for tendering at least some aspects of the universal

Seminar: Tendering the Universal Service Obligation, April 14, 1999, Clayton Utz, Sydney

U.S. telecommunications economist Dennis Weller and Senator Richard Alston, Minister for Communications, Information Technology and the Arts will speak at a CLC seminar on universal service tendering in Sydney in April.

Weller, the Chief Economist at U.S. telco GTE, is based in Irving, Texas. He has worked with auction theory specialist Paul Milgrom on the subject of universal service tendering and has produced one of the best-developed models for its implementation. Milgrom delivered the 1996 Nobel Lecture on the subject of USO tendering in honour of Nobel Economics Laureate, William Vickrey.

The government is expected to release a discussion paper on tendering before the seminar.

Other speakers will include Professor Rod Maddock from the School of Business at Melbourne's La Trobe University and representatives from Optus and Telstra.

The event is being held as part of the CLC's two-year research project "Mapping Future Directions for Communications in Rural and Regional Australia", which is being supported by the Australian Research Council, Cable & Wireless Optus and the National Farmers Federation.

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service obligation in order to ensure the Australian community receives these services by the most efficient and effective means possible. A new funding arrangement must not hinder such a development.

Tendering is a complex issue. The National Office for the Information Economy intends releasing a discussion paper this year seeking industry and community input on the issues which will need to be resolved in pursuing tendering of the USO.

Avoid negative effects

Finally, a new funding mechanism must avoid any negative effects on industry growth and competition as much as possible. The government acknowledges and understands the inter-relationships between the USO and other key regulatory issues. In developing a new funding mechanism we must ensure that the impact of that mechanism on other policy areas is conducive to the development of the industry generally.

There are clearly tensions between these policy principles. In formulating new funding mechanisms those tensions will need to be acknowledged, considered and balanced in the final decisionmaking. But I believe the principles do provide a basis on which to begin discussions.

It is the government's intention that a discussion paper be released in 1999 in response to which submissions from industry, consumer, user and community groups will be invited. This paper will expand on these principles and provide a more detailed discussion of some of the potential mechanisms. This is an important matter but one which needs to be addressed expeditiously so that new arrangements can be put in place prior to consideration of the next USO claim.

This article is an edited version of Fay Holthuyzen's address to 'The Telecommunications Industry Futures Forum,' a half-day seminar co-hosted by the Australian Telecommunications Users Group and the Service Providers Action Network in Sydney on December 16, 1998.