

Tendering the Universal Service Obligation

The Communications Law Centre seminar provided an opportunity for policymakers, industry, experts and user groups to discuss options for delivery of the USO

Well-designed auctions can be used to identify the true costs of delivering the Universal Service Obligation (USO) for telecommunications, and reduce the need for complex cost modelling, according to Dennis Weller, chief economist with independent telecommunications carrier GTE from Irving, Texas. Weller was a keynote speaker at the seminar "Tendering the Universal Service Obligation" hosted by the Communications Law Centre (CLC) on April 14, 1999, with the assistance of Clayton Utz.

The Minister for Communications, Information Technology and the Arts, Senator Richard Alston, supported the idea of auctioning the USO and indicated that it had the potential to deliver lower cost and more technologically advanced services than were available to many consumers dependent on the USO. He also noted that providing the USO could be a platform for carriers to deliver additional and high value services to customers using the same infrastructure. Tendering the USO would also clarify the true costs of delivering these services and give carriers opportunities to bid against Telstra.

Weller was invited by the CLC to provide a perspective on auctioning the USO. He suggested that auctions gave telecommunications carriers the chance to bid for the franchise to provide services in places where they may otherwise be lacking. Weller, who has worked with Paul Milgrom (he delivered the Nobel Lecture on the application of auctions to delivery of USOs and has developed a model for the telecommunications sector) argued that the government should set a minimum standard for the USO and encourage carriers to do better, although bids should be considered only on price to avoid "beauty contests".

Tendering also removes the need to undertake complex cost modelling to assess the value of services, and permits regulators to quickly assess the merits of bids and make ready comparisons between telecommunications providers. Weller favoured the USO being confined to a particular range of services and for multiple providers to compete in the market. Competition between suppliers for the USO would encourage telecommunications companies to provide additional services beyond the level required by regulators.

Weller preferred an approach to tendering the USO which involved establishment of regional markets rather than a single national zone. Multiple providers could be given the tender to undertake services in an area to ensure that consumers had a choice, although regulators could choose a single supplier if this was more cost-effective. This approach allows services and technologies to be tailored to the conditions which exist in particular areas and supports competition. Another advantage of a regional approach is that an area could be used as a test bed for the process to ensure that consumers received the required level of services, and for costs to be monitored. Lessons from the region could then be applied to later tenders.

Weller also favoured multiple providers of the USO competing within a number of regional markets to provide a service that was costed on a per customer basis rather than an average level of support. He argued that small or regional markets minimised the entry costs for potential USO providers and allowed costs to be more readily identified than if Australia was treated as a single market. Moreover, regulators should periodically open markets for tenders to allow consumers to reap benefits of new technology and service innovation.

La Trobe University economist Professor Rod Maddock was more cautious about the likely cost savings from changing carriers and breaking the market into small areas. Having just returned from examining USO tendering systems in Peru, Colombia, and Chile, he noted that the relatively small size of the market and limited number of telecommunications carriers operating in Australia were conditions which must be considered in designing an auction for the USO. Maddock argued that tendering may not turn out to be a cheaper way of delivering the USO. When assessing the cost of Australia Post's USO it was found that the incremental cost was about \$60 million and the fully distributed one \$120 million. He also calculated that an operator attempting to provide the same services on a stand-alone basis would be faced with spending \$180 million.

Representatives from Telstra, Cable & Wireless Optus and Vodafone also addressed the seminar. Martin Mercer, group manager, regulatory strategy at Telstra, argued that a hasty or ill-designed auction process might not improve the delivery of the USO nor achieve the advantages expected. In his view, consumers relying on the USO must be protected from failure of the

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auction process or of a carrier to deliver the promised services.

Cable & Wireless Optus' group manager, regulatory, Adam Suckling, noted that present conditions did not permit customers to gain the benefits of competition or innovation. He also argued that selective use of satellite technology to deliver USO services to people living more than four kilometres from an exchange would cut the cost to carriers. Cable & Wireless Optus would consider bidding for the USO and use satellite technology to deliver services to communities in regional and remote locations.

Chris Dalton, manager, regulatory policy, Vodafone, said the carrier wanted to use digital GSM technology to deliver the USO and was critical of the consultant's report prepared for the Australian

Communications Authority which suggested it was not an appropriate delivery method. Dalton also argued carriers should be interested in providing the USO as it was a low-risk franchise where loss was refunded through levy arrangements. He was critical of Telstra's recent USO cost claim of \$1.8 billion and said it perpetuated the myth that providing services to rural areas was expensive when technology had largely overcome distance as an obstacle.

The final speaker, Mark Needham of the National Farmers' Federation, presented a rural and regional perspective on the USO and suggested that telecommunications carriers should be interested in setting up services outside metropolitan areas as there were opportunities for market growth. Needham also suggested that the development of a new

regime for delivering the USO must include an opportunity for scrutiny of the Customer Service Guarantee in relation to timing, restoration time and other issues.

"Tendering the Universal Service Obligation" was part of a two-year project about rural communications issues called Mapping Future Directions for Communications in Rural and Regional Australia. The project, funded under the Australian Research Council's Strategic Partnerships with Industry Research and Training Scheme, has Cable and Wireless Optus and the National Farmers' Federation as partners.

A copy of the seminar report is available for \$25. Contact Stephen McElhinney at the Communications Law Centre on (02) 9663 0551, or email smcelhinney@comslaw.org.au

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Shaking up the USO

There was plenty of action related to the Universal Service Obligation (USO) for Telecommunications during April 1999. Against the background of legislative activity to cap the cost of the USO at \$253.32 million, the Department of Communications, Information Technology and the Arts (DCITA) released a discussion paper before Easter which sought comment and expressions of interest on approaches to tendering the USO. The paper raised tendering as a way for the market to sort out the conflicting claims over the cost of delivering this social policy in telecommunications by giving carriers the option to bid for the USO franchise and apply their technological specialities to addressing the needs of consumers in rural and regional areas. The deadline for comments on the paper, *Provision of the Telecommunications Universal Service Obligation: Request*

for Comments and Expressions of Interest, is May 28, 1999. It can be found at www.dcita.gov.au.

On April 20, the Australian Communications Authority (ACA) released revised versions of studies into Telstra's much criticised \$1.8 billion cost claim for providing the USO in 1997-98. The reports, USO Forward Looking Technologies Study Final Position Paper prepared by Gibson Quai, and Telstra's Weighted Average Cost of Capital presented by the Allen Consulting Group, argued that the cost of delivering the USO was between \$425-600 million, depending on the model and inputs used. Both reports are available at www.aca.gov.au. The ACA will complete its assessment of the Net Universal Service Cost will be completed before June 30, 1999.

Finally, the government announced legislation to implement its 1998

election promise to enhance the USO to make available a digital data service of at least 64 kilobits per second to all Australians on demand. The enhancements guarantee that all Australians, regardless of where they live, will have access to a standard telephone service, payphones and a suite of new facilities if they want them. If the legislation is passed, the USO will include a 64 kbps ISDN service on demand for 96 per cent of the population, a comparable satellite-delivered service allowing Internet access to the remaining four per cent, and reimbursement of up to 50 per cent of the price of purchasing the necessary satellite-receiving equipment. The subsidy will be funded by telecommunications carriers as part of modified universal service arrangements.

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