

Vodafone proposes new USO approach

Voucher schemes may be an effective alternative to current universal service arrangements, says Chris Dalton, Vodafone's regulatory policy manager

There is extensive public debate surrounding Telstra's \$1.8 billion universal service claim for 1997/98 and the government's various rural telecommunications programs. The rural market is a significant and important sector of the telecommunications industry, with annual revenue exceeding \$600 million (based on Telstra's 1997/98 USO claim) and subsidy payments likely to exceed \$500 million in 1999/2000 (based on a \$253 million USO levy, \$25 million mobile digital highway upgrade, \$150 million untimed local call extension, "Networking the Nation" grants and on-demand asymmetric satellite digital data capability).

Not surprisingly the government's decision to invite submissions on the introduction of the competitive selection of Universal Service Obligation (USO) providers has attracted interest from the private sector. In this regard, Vodafone has suggested that consideration be given to a voucher scheme as an alternative to current arrangements. Voucher schemes have already been introduced, or are under active consideration, in parts of the US.

The basic elements of a voucher scheme are:

- Each USO customer contracts with a carrier from a pool of accredited USO providers;
- A standard subsidy is paid from the USO fund to an accredited USO provider for each USO customer that contracts with them to be their USO provider;
- An accredited USO provider has a contractual commitment to each of its USO customers to supply its USO service package to them;
- A USO service package must include the standard telephone service as an option;
- The USO fund is funded by pro-rata carrier contributions based on their share of total telecommunications revenue, and would equal the number of USO customers multiplied by the relevant standard USO subsidy.

The single most important feature of a voucher scheme is that it gives each USO customer effective choice over which accredited provider will supply it with telephone services and the nature and quality of the services to be provided.

In a tendering process, the key factor deciding the successful tenderer and from the customer's perspective, their USO provider, is the size of a bid. In return, the tenderer has an obligation to provide a basic set of services. But where the customer has the ability to select their preferred USO provider the onus is on accredited USO providers to offer USO service packages that will attract USO customers. For instance, a USO customer may wish to

sign up for a USO service package that includes a mobile service capability.

Maximising customer service then becomes a key carrier objective rather than providing a minimum level of service at minimum cost. In this way, USO customers are able to select the USO service package that most closely meets their telecommunications needs, and there is a commercial incentive for accredited USO service providers to develop USO service packages that match these needs.

A further significant feature of this approach is its administrative simplicity. The past nine months have illustrated clearly the cumbersome, contentious and subjective nature of current arrangements. A voucher system would dispense with the need for cost proxy models, sampling, technology assessments, and costly regulatory oversight and control to determine subsidy payments.

Rather, subsidies would be paid solely on the basis of verifiable customer contracts.

A necessary safety net for the implementation of a simple voucher scheme would be reliance on a "Carrier Of Last Resort" (COLR). Under such arrangements, any USO customer not selecting an accredited USO provider would be deemed to be a customer of the COLR for the supply of the standard telephone service. In return, the COLR would be paid the standard subsidy for all USO customers not choosing another accredited USO provider, and for whom verifiable returns of customer contracts would not be required. Where the COLR is the previous incumbent USO provider, there

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would effectively be no change to existing arrangements for the USO customer.

A voucher scheme also has the potential to reduce total net USO levy payments and thus the scope for disputes about USO cost calculations. Paradoxically, an increase in the size of the standard subsidy could lead to a decrease in total net USO payments, as new accredited USO providers are attracted into the market and win market share from the incumbent USO provider (with a net levy credit). In time, the USO market might be expected to find an equilibrium point balancing the range of services included in a USO package against the net cost incurred in supplying the standard telephone service.

Any scheme to enhance rural telecommunications services should seek to achieve:

- Customer choice;
- The ubiquitous provision of a minimum standard of telecommunications services;
- The concurrent promotion of the supply of a wider range of services;
- A technology neutral approach that is competitively equitable and at minimum cost (to customers, carriers and the government);
- The use of minimum regulatory intervention to ensure service provision;
- The most cost-effective use of subsidy payments;
- A single integrated scheme, spanning all subsidy payments.

A carefully designed voucher scheme could be capable of meeting these objectives in a manner that overcomes the shortcomings of current arrangements and avoids the practical difficulties of tendering.

Vodafone has put forward the idea of a voucher scheme as a commercially viable and socially attractive option for the competitive selection of USO providers. Further work and public debate is needed to develop the detail of a voucher scheme that could be implemented in Australia.

Feedback on the concepts and principles outlined in this paper would be most appreciated.

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This is an abbreviated version of a submission made by Vodafone to the Federal Government's review of the provision of the telecommunications universal service obligation. The full submission is available from the Department of Communications, Information Technology and the Arts on <http://www.dcita.gov.au/nsapi>

From The Archives

What advertisers think about television

By advertising on commercial television, major television advertisers indirectly provide by far the largest single source of funding for the production of Australian programs. Over \$500 million was spent on programs by commercial television in 1987-88, more than was provided for film and television production by all the government funding bodies, the ABC and the SBS put together.

This was the starting point for a survey of national television advertisers commissioned last year by the Australian Film Commission and carried out by the Communications Law Centre with assistance from the Australian Association of National

Advertisers and research consultants Newpoll.

A major objective of the survey was to ascertain the criteria which were used to make decisions about ad placement and, in particular, whether the type of program concerned was a significant factor.

The survey showed that costs are the most decisive overall factor in the placement of television advertising, the cost of buying time in particular, but also the cost of producing commercials.

The second most important factor is audience demographics. There are signs that advertisers are increasingly concerned to place their advertising where it will reach specific target markets rather than relying on the traditional "reach and frequency" formula or aiming for sheer numbers.

In fact, audience size was ranked third as a factor in placing ads.

suggested that advertisers are increasingly interested in targeting particular markets rather than aiming for mass audiences or attempting to reach a very wide range of viewers with random spots. When advertisers were asked to rank specific criteria for choosing the program/s with which to associate their advertising, the great majority of advertisers ranked having precise placement for their ads rather than buying random spots above other criteria.

This suggests that if program producers and marketers are able to present a very precise profile of the audience or potential audience for their programs, they are likely to be more successful in attracting advertiser support.

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