

IMPACT OF COMPETITION POLICY REFORMS ON RURAL AND REGIONAL AUSTRALIA

Telstra's supplementary submission comments on a number of specific telecommunications issues raised in the Draft Report.

There are two main issues Telstra wishes to address. First, is the Commission's request for further information on the circumstances in which the costs and benefits of reform should be weighed in terms of national interest when conducting legislation reviews. Telstra believes that there is a compelling need to reconcile the competing interests of government and regulators to advance national competition policy reforms whilst also delivering on a range of other social objectives, including assistance to country Australia. Telstra believes that the "public interest" test outlined in Competition Principles Agreement provides a mechanism for weighing up the costs and benefits of competition policy and other telecommunications regulatory reforms.

Second, the draft report comments about variations in service performance across rural telecommunications services, and notes that "what constitutes a minimum level of service is a social, rather than a competition policy issue" (p.164 Draft Report). Telstra takes a different view, and considers that the setting of minimum service standards also needs to be addressed in the context of competition reforms of the telecommunication sectors, because it represents a significant cost to market entry.

Telstra has also addressed separately issues related to employment changes and the costs of supporting the universal service obligation across regional Australia, which have been raised by the Commission with Telstra, during the course of the inquiry.

Public Benefit Test

One of the key issues in telecommunications regulation is achieving a balance between promoting facilities-based and access-based competition with ongoing funding support for a range of telecommunications community service obligations such as the USO, access to "000", price controlled services and directory assistance, which have been largely funded via cross subsidies.

Decisions by the ACCC to declare access, or arbitrate on prices incrementally alter the telecommunications competitive framework. Telstra considers that there is scope for the costs and benefits of competitive reforms to be more explicitly addressed as part of the ACCC's decision making process, rather than be confined to a one-off legislative review process.

Currently the ACCC is required to consider the long term interests of end users (LTIE) when considering whether to declare access to a service, access undertakings and arbitration of access prices. The ACCC is also required to apply the LTIE criteria when deciding whether to give the ACA a direction to make technical standards, a direction to make rules about number portability, or when determining whether a carrier's request for access to supplementary facilities is reasonable.

Telstra's concern is that the LTIE criteria do not explicitly require social policy obligations such as CSOs to be recognised in the ACCC's exercise of its competition functions.

There are some important consequences for rural consumer interests that can arise from the current policy imbalance. Regulatory decisions that encourage geographically deaveraged prices at a wholesale level, but do not take account of other social objectives that require geographically uniform pricing at a retail level, (such as the untimed call and metro-country local call price parity obligations) undermine investment that supports services to rural consumers.

The ACCC's suggested approach to the Pricing of Local Telecommunications Services illustrates this point. The ACCC's Discussion Paper has suggested that Telstra's competitors should have access to Telstra's local loop on an unbundled basis at wholesale prices which reflect the costs of provision in each area. This would mean that charges would be very low in urban areas and could be very high in the remoter parts of Australia. This would allow Telstra's competitors to undercut Telstra's current retail charges in the more densely populated areas of Australia. Telstra in turn would be under competitive pressure to realign prices more closely with geographical cost. Such decisions act as a disincentive for increased competition to develop in regional areas.

Uniform pricing that has supported the local call and services such as ISDN that provide Internet access could not survive if the ACCC's proposed approach to charging for unbundled local loops were implemented. The current approach leads to considerable investment uncertainty.

Telstra recognises that Part IIIA of the Trade Practices Act requires the ACCC to consider the public interest when making a determination on arbitrated access, and that the National Competition Council ("NCC") cannot recommend that a service be declared unless it is satisfied that the granting of such access would not be contrary to the public interest. Telstra's concern is that while these provisions in Part IIIA of the TPA allow the ACCC or NCC to recognise the public benefit associated with fulfilling telecommunications CSOs, there is no public benefit assessment that applies to telecommunications access and pricing decisions made under the Telecommunications Act or Part XIC of the TPA.

Telstra believes that there is a simple way to ensure that these important social and competition policy trade offs are explicitly addressed in the regulatory decision making process. Telstra recommends amendments to Part XIC of the TPA and the Telecommunications Act to ensure that the ACCC is explicitly required to consider the impact on meeting telecommunications CSOs, particularly in relation to incentives for regional competition, when the ACCC is considering the declaration of access to services, assessing the “reasonableness” of access undertakings; and arbitrating the terms of access for services and facilities.

Service Performance Measurement Changes

There are two elements that Telstra wishes to raise in relation to the Draft Report’s discussion about service quality and performance in the telecommunications industry.

The first concern relates to the interpretation of the service quality data to draw inferences about actual service performance. The Draft Report is cautious on the interpretation of service quality indicators measuring rural telecommunications service performance over a number of years. Telstra agrees that there are many factors that have influenced service performance over time that need to be reflected in the analysis.

For example, reliance on the AUSTEL/ACA fault reporting series has a number of major limitations as a guide to actual performance. First, the base for measurement of performance has been modified over the previous 8 years. Timeframes for service connection and fault repair have been progressively reduced, which means that Telstra’s performance is being measured by a constantly rising standard. The change in the minimum performance standards over time is outlined in the Attachment (Tables 1-3).

Secondly, in June 1996, the basis of data collection for this particular indicator was modified to more accurately reflect the impact of Telstra’s Customer Participation scheme. The scheme allows customers to exchange faulty rental telephone handsets from nominated post offices and Telstra retail shops. Finally, from 1 January 1998, the Customer Service Guarantee standard that specifies minimum fault repair timeframes required Telstra to move to a different reporting metric. Consistent with the CSG standards, reporting measures take into account mass service disruptions beyond Telstra’s control, such as network outages caused by environmental factors. Whilst Telstra, and indeed other industry participants, refine reporting arrangements to reflect the requirements of the CSG scheme, the standard is considered a more appropriate guide to reflecting actual performance.

In addition, the competitive environment is stimulating market growth as well as diversity in access technologies and changing usage patterns. Market growth and other changes in industry conditions are not reflected in the static analysis that has been undertaken by the ACA on performance reporting.

Certainly Telstra acknowledges that service performance has been variable, both over time and across various geographic regions. There are a number of initiatives underway to improve performance and reduce seasonal and other variations. These initiatives include:

- The Access Renewal program which is doubling annual investment levels in the Customer Access Network to reduce fault rates by sealing the network from weather variations, increasing capacity to meet demand, and ensuring that new applications can be delivered to customers via the copper network;
- Deployment of approximately 300-400 Minisats to alleviate delays in service delivery to customer in rural and remote areas, and provide interim services where necessary;
- Productivity improvements through the use of contract labour to handle peak workloads, and by the creation of a Regional Held Orders team to deploy network services that meet rural and remote customers specific service requirements;
- A dedicated fault reporting centre for Telstra's radio and satellite customers in rural and remote areas of Australia was opened on 12 October 1998. The new centre, based in Brisbane, is known as the Radio Customer Support Centre (RCSC). Radio and satellite customers experiencing service difficulties are now able to report faults through a dedicated 1800 number, seven days a week.

Service is a Competition Policy Issue

Telstra's other concern relates to the conclusion that service quality is a social not a competition policy issue. Telstra takes a different view. There are major competitive implications that arise from the setting of particular service standards.

Service quality parameters are a major driver of capital and operating costs. In the telecommunications industry, Telstra is currently the only carrier declared as the Universal Service Provider. This essentially requires Telstra to provide access to a standard telephone service to any customer that requests service. However, this obligation is balanced, in part, by the requirement to ensure that the USO is fulfilled "as efficiently and economically as practicable" (section 138(b), *Telecommunications Act 1997*). This legislative requirement imposed on the USO establishes a cost-benefit test to the provision of services under the USO.

As the provider of a national network, progressive increases in minimum service functionality and standards under CSGs, along with increases in the penalties that apply for non-performance, has a greater impact on Telstra's cost structures, than that of other telecommunications companies that can select smaller, less costly areas to service. For example, the proposed change in CSG standards to require half day appointments instead of a full day appointment to be offered to customers is estimated to add tens of millions of dollars to Telstra's operating costs.

The fact that the proposed amendments to the CSG Standard, foreshadowed by the Australian Communications Authority and set out in a draft Ministerial direction, are not based on any robust cost benefit analysis similar to that contemplated in section 138 of the Telecommunications Act indicates a defect in the administration of the current regulatory framework.

These increased costs have a resultant flow through to interconnect prices and therefore other competitors cost structures, as well as a flow through to consumers via retail charges when service performance criteria are increased which requires Telstra to direct additional network investment in order to comply.

By way of example, the current network performance specifications for the USO standard telephone service preclude the use of satellite services on a widescale, even though this has been identified by ACA consultants as a optimal forward looking technology choice for the USO. Reliance on satellite to provide service in the majority of small exchange service areas, would inevitably lead to telephone calls that involve two or more satellite hops for completion. Generally there is a time delay involved in one satellite hop. Two or more satellite hops would appear to be inconsistent with the current ACIF industry standard in the Network Performance Plan that specifies that a national voice connection should ideally not traverse more than one geostationary hop. Therefore, the current service standards would appear to add costs to the industry (via the USO) because it effectively rules out the use of more cost effective delivery technologies that might not be USO compliant.

The current USO Plan, approved by the Minister, also provides that customers anywhere in Australia will be able to access a standard telephone service that has a specified feature set, that includes 24 hour access to emergency services and operator assisted services. Telstra currently provides power supply for phone services. In rural and remote areas, where there is no continuous power supply, Telstra has installed solar power and provided back up power for up to 48 hours supply, to ensure that the USO is fulfilled and customers will be able to access emergency services, 24 hours per day, even in the event of a power failure. These costs can form a significant part of the total cost of servicing individual customers in remote areas and add to total USO costs that are shared by the industry. Telstra's estimate of the current costs of providing power supply for a telephone service is outlined below:

Customer Premises Equipment	=	\$15 000 (2 lines)
External shelter	=	\$ 6 200
Mains or solar	=	20% mains 80% solar
Battery back up		
48 hr mains	=	\$4 700
5-8 days solar	=	\$7 130
Solar panels	=	\$4 360
Dish (1.2m-2.4m)	=	\$ 600 average
Installation	=	\$12 500 - \$15 500
TOTAL COST	=	\$39 000 – 49 000 (average)

Telstra is not suggesting that current service standards be reduced. Rather these issues are raised by way of example, to demonstrate that service quality standards can have direct and indirect impacts on competitive supply of services, and through the USO levy to the costs of doing business in the telecommunications industry.

Telstra has previously argued that the progressive ratcheting up of service performance standards and increasing the penalties for performance breaches acts as a disincentive for competitive entry into higher cost markets such as rural and regional telecommunications markets, because it directly adds to the costs of doing business. Setting the minimum service bar too high also disincentivises product innovation that would permit differentiated services to be provided to consumers.

Network Economics Consulting Group undertook a comparative study on telecommunications rural consumer safeguards which examined Australian service standards compared to regulated service standards in four other countries and also aimed to test the proposition that rural consumers were disadvantaged relative to their urban counterparts. It concluded that

“the widespread assumption that rural customers are particularly disadvantaged appears to be unsupported.”¹

The study also found that the tightening of service quality controls might result in a reduction of service standards in rural areas, because potential entrants are discouraged from entering into rural markets, with new technologies, where there is a risk of significant penalties in the event of service failure. A copy of the study is attached.

Therefore, Telstra considers that the competitive impacts of social policy regulation needs to be considered by the Commission, as part of its analysis of rural consumer groups that have benefited from competitive reform of the telecommunications industry.

Additional Comments Sought by the Commission

The Commission also sought additional comments in relation to:

- Employment changes in the industry; and
- Expansion of the Universal Service Obligation to include a digital data service (in response to evidence provided at the Tamworth public hearings about technology availability in rural areas).

Employment Changes

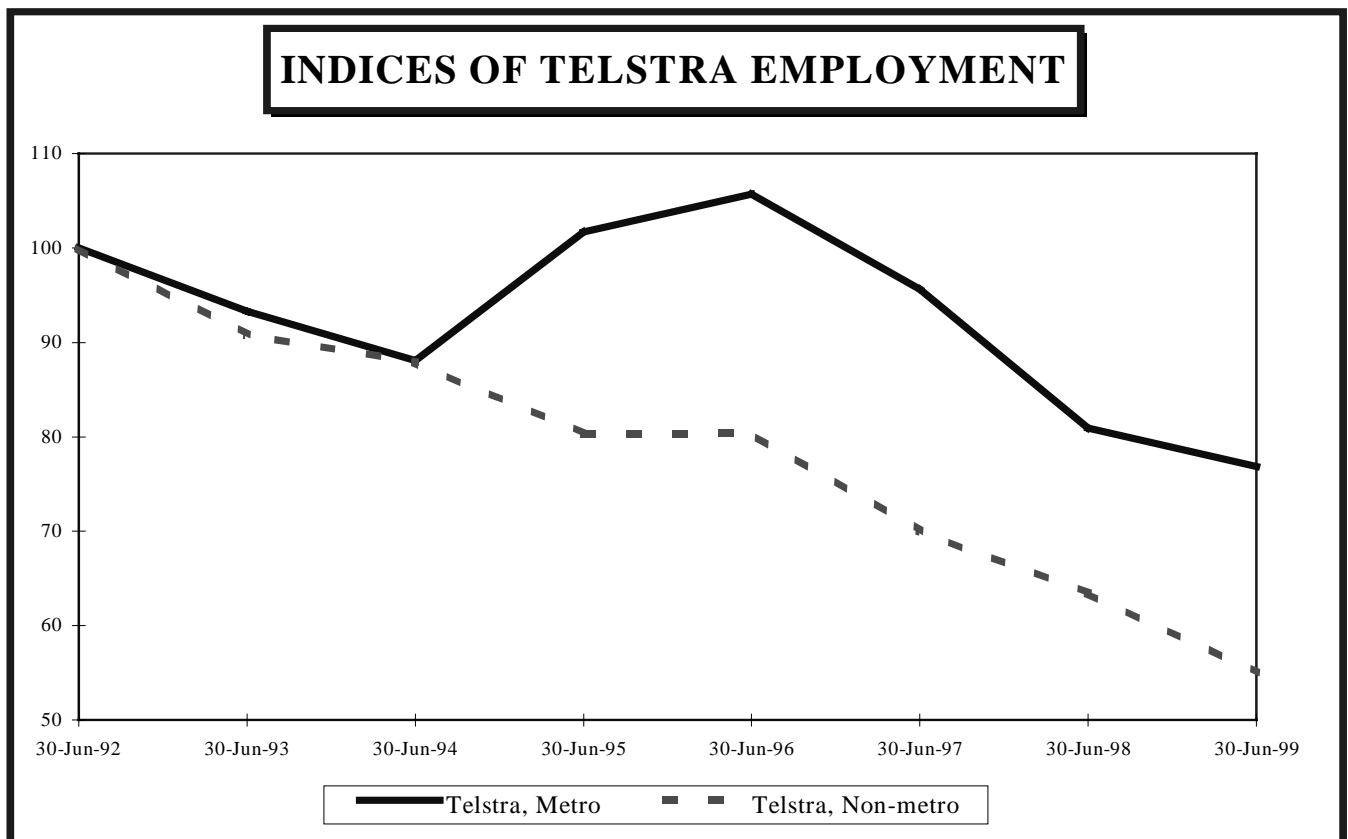
As Telstra noted in its earlier submission, Telstra’s total employment level has varied significantly in recent years in response to the changing market requirements for different skills and labour. It is difficult to substantiate the simple argument that partial privatisation and open competition have caused more pronounced reductions in Telstra’s employment levels in non-metro than metro areas.

¹ Network Economics Consulting Group, Telecommunications Services in the Bush: Are Rural Consumers Getting a Raw Deal? A Comparison of Fixed Telecommunications Service in Rural Australia with Urban Levels of Service and with Service Levels in Canada, New Zealand, the United Kingdom and the United States.” 2 September 1998, p.29

Whilst Telstra employment has declined over the past decade, it has been matched in part by employment gains in the non-Telstra part of the communications services sector generally.

The national competition policy reforms and partial privatisation of Telstra occurred within a similar timeframe. The national competition reforms took effect from 1 July 1997 with the removal of the statutory limitation on the number of carriers and other – pro-competition reforms. Telstra was then partially privatised and listed on the ASX in November 1997.

Telstra accepts that competition policy reforms and partial privatisation have resulted in considerable pressure for reform within Telstra and that this had a significant impact on the overall level of employment at Telstra. However, the chart below shows that metropolitan and non-metropolitan employment in Telstra have declined at roughly the same rate since around June 1996 (ie lines are broadly parallel since 30 June 1996). Certainly there is no evidence that competition policy reforms or partial privatisation have accelerated employment declines in non-metropolitan areas relative to metropolitan areas.



Expansion of the Universal Service Obligation

The Commission also sought some further comments on the views expressed during the inquiry concerning access to higher data speed services under USO arrangements. The issue that has been raised is whether the customer access network should be upgraded to enable every customer on every access line to send and receive 64kbs data.

The Australian Communications Authority (ACA) rejected that proposition in its 1998 review of the Digital Data Service. The ACA concluded that the costs of upgrading the CAN to ensure uniform high speed internet access would outweigh the benefits.

Following the review conducted by the Australian Communications Authority (ACA), the Government responded with legislation, effective from August 1999, to expand the current USO which currently includes a standard telephone service and payphones, to incorporate a new digital data USO. The new digital data USO requires the Digital Data Service Provider to make available:

- a 64 kbps ISDN service on demand to at least 96 per cent of the Australian population; and
- a broadly comparable 64 kbps digital data service using satellite technology for the remainder of the Australian population (ie. 4% or approximately 370,000 people)

One ISDN service on a standard telephone cable connected to a home or office carries two ISDN channels each capable of transmitting, without compression, 64,000 bits of information per second (64 Kbps). This means that up to 128 Kbps can be sent and received at one time. There are technological limitations that inhibit the ability to provide ISDN 4-5kms from an ISDN capable exchange (ie transmission loss across longer line lengths). Commercial tariffs apply to retail usage charges.

The broadly comparable 64kbps digital data service using satellite technology can be met by Telstra's Big Pond Advance service. This service will be available nationally (ie; includes customers who have access to ISDN). However, the 50% rebate on the costs of purchasing the necessary satellite terminal equipment will be available only to the 4% of the population who cannot access ISDN. The rebate will be funded under the industry USO levy arrangements. Commercial tariffs will apply for usage charges. Currently, the new USO arrangements are being established by the Department of Communications, Information Technology and the Arts.

Conclusion

Telstra is interested in the Commission's conclusions and awaits the final report with interest.

Table 1 Maximum period of time for connecting a standard telephone service

The request for service is to a Residence or place of business Where there is:	(1) AUSTEL View June 1992	(2) AUSTEL View Oct 1994	(3) AUSTEL View April 1996# (CSG 1 Jan 98 to 17 May 98)#	(4) Telstra USP May 1998 (CSG 18 May 98 - current)#
An in-place connection	3 days	3 days	3 days	3 days
Readily accessible infrastructure And the recognised area of the town or community has a population of: more than 10,000 people	2 weeks	1 week	1 week	5 days
	2 weeks	2 weeks	2 weeks	10 days
	8 weeks	8 weeks	8 weeks	40 days*
Not readily accessible Infrastructure and the recognised area of the town or community has a population of: more than 2,500 people	8 weeks	4 weeks	4 weeks	1 month
	9 months	26 weeks	26 weeks	6 months
	30 months	27 months	27 months	12 months (for new applications after 1 July 98)

Nb. These figures should be considered indicative only, as there have been changes in terminology and classifications over time. A reference to a 'day' means a reference to a 'working day'.

From 1 January 1998 to 17 May 1998, the relevant planning document for determining the connection periods for the CSG

Standard was the document called AUSTEL's Views of Telstra's Universal Service Obligation, dated April 1996. On 18 May 1998, the Minister approved the USP. From 18 May 1998, the relevant planning document for the CSG Standard became the USP (refer section 7 of the CSG Direction).

* the timeframe may be reduced to within 30 working days if the service is to be delivered by an existing radio concentrator or to within 20 working days if the service is be delivered by a cable and no lead-in is required.

Table 2 Proposed connection timeframes stipulated in the CSG Standard

In-place connection	Time for connecting
All sites that have an 'in-place' connection	Within 2 working days of customer request
In close proximity of external plant (ie. 100 metres)	
Community of more than 10,000 people	Within 1 week of customer request
200 to 10,000 people	Within 2 weeks of customer request
Less than 200 people	Within 3 weeks of customer request

Table 3 Connection timeframes stipulated in the USP

Not in close proximity of external plant - timelines determined by USP Requirements for connections for customers not in close proximity of external plant (e.g. > 100 metres)	
More than 2,500 people	Within 4 weeks of customer request
Between 200 and 2,500 people	Within 26 weeks of customer request
Less than 200 people	Within 12 months of customer request