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Uniform pricing – who will carry the CAN?

The ACCC’s rejection of Telstra’s ULL Undertaking was expected and is both wrong and short-sighted. Only clearer government direction can make amends.

The Telstra CEO’s response to the rejection of its $30 nationally averaged ULL price was that *"The ACCC's decision is inconsistent with the Government's policy of a national uniform retail price”.* It is.

What is the policy?

The real problem is the conflict between economic and social policy. Competition drives prices towards costs – everywhere. But, social policy dictates that consumers pay the same everywhere. For some years the policy was parity in metro-country local call pricing. In March this was extended to line rentals; at least, some line rentals.

The policy applies only to “basic” line rental, currently defined as Home Line Part and Business Line Part. They are essentially resale products which allow wholesale customers to resell local service without the service being preselected to Telstra for long distance calls. But this does not mean that Telstra is free to de-average its other rental products. For example politics permitting, rasing prices in the country would lead to large-scale resale of the wholesale “part” products. Already over 20 percent lines are resold in Australia.

What about bypass?

In principle, “*if the regulator wishes to preserve the geographically averaged structure of end-user prices, it is essential to geographically average ULL prices*” [1]. In practice, this could encourage inefficient build: “*Where the ACCC would have concerns is where bypass in urban areas* ***only*** *became economically viable as a result of artificially higher averaged ULLS prices.*”

That was certainly my fear when, as part of the pricing community in Telstra, I supported de-averaged ULL pricing. But, in fact there is now a great deal of bypass. According to the last ACCC infrastructure report, thirteen carriers in Melbourne and Sydney have deployed local access networks. It seems a bit late for the ACCC to worry about duplication; and it did nothing to discourage the dual cable roll-out, so why now? Is this just a theoretical fig leaf to deny averaging of ULL?

A simplistic solution to bypass is *“a simple ban on new local loop investment in the natural monopoly areas*” (OECD p134). But, it is an ugly solution.

As the ACCC says, there is a better alternative *“when inefficient bypass is possible, economic efficiency is achieved by setting access prices at efficient costs and using retail* *taxes to ensure the incumbent can meet retail obligations, such as the universal service obligation or uniform pricing".*

But, the ACCC does not have the power to set such retail taxes [2]. In the absence of the ability to set an output tax, the ACCC should have settled for an averaged wholesale price. In my opinion, Telstra has been dudded: now it has neither the average ULL price nor the retail tax to fund the cross-subsidy.

What about politics?
Of course, averaging ULL might abort the current DSLAM based investments: *"It would not be financially viable for Optus and its competitors to roll-out ULLS-based networks to the same extent as it possibly could under de-averaged pricing."*(Optus). But, regulation should focus on the competitive process rather than propping-up competitors' business plans. If they did not invest in DSLAMs they might make more effective use of alternative infrastructure.

The ACCC has not revealed what Band 4 ULL pricing would look like. Its excuse is that "*ULLS is not technically viable for delivering broadband in large parts of rural areas*". But it is customer reach that counts. The broadband plan that Telstra put to the government last August promised 6 Mbps or more to 98 percent of Australians with only 170,000 premises targeted for non-ADSL services. Currently, 5.8m of Telstra's lines are non-metro but competitor coverage averages only 4% compared with 82% in all metro areas (Telstra estimate for Sept 2005). Averaged ULL could do more for country areas.

As the Minister says, we all want a *"world class next generation broadband infrastructure"* but the ACCC's policy on ULL will delay that vision. Currently, there are only about 120,000 ULL services compared with over 2 million resold lines. The longer the DSLAM roll-out continues the bigger the migration issue in future.

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[1] "Access Pricing in Telecommunications" OECD 2004, p134
[2] I did suggest this as an approach to reforming the USO regime over a decade ago in "Universal Service and competition: what counts?" in the Telecommunications Journal of Australia, Vol.45 No. 3, 1995

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