

International Telecommunications Market Regulation Inquiry

Telstra response to follow-up questions by the Inquiry arising from the Telstra submission of 6 May and faxed letter of 28 April (Ref: e-mail to Telstra on 12 May 1999, Jim Roberts/John Costa)

1. Clarification sought on Telstra's faxed letter of 28 April

Telstra appears to be offering to provide information about trends in the accounting rates between Australia and selected overseas markets.

This would usefully augment data available from the FCC, Oftel and the ITU.

However, decline in accounting rates in themselves do not unequivocally establish a benefit. The extent of benefit, if any, depends on the balance of traffic.

*Would Telstra consider making publicly available, for selected markets, information about changes in accounting rates **and** about changes in traffic volume?*

As we have indicated, Telstra would be pleased to provide information about changes in accounting rates. With respect to information on changes in our traffic volume we consider that an overall Australian position would be more useful in terms of the object of the Inquiry since, for example, partial data may reflect changes in carriers' respective market shares rather than overall trends in the domestic international services market. We would therefore look forward to providing information about changes in traffic volume in conjunction with other relevant carrier/operators.

You may be aware of useful relevant information contained in a recent Ovum report "The Rise of Cost-based Interconnect and the Collapse of International Accounting Rates". Amongst other things it shows cost trends over time for liberalised to liberalised, liberalised to un-liberalised and un-liberalised to un-liberalised markets.

2. Clarifications sought on Telstra's submission of 6 May

Relating to the material on the Internet from pages 13 to 15:

Would Telstra please provide some additional explanation about port charges paid in the US. For instance, are these simply interconnect charges, or do they include some other service? What is the basis of such charges: by capacity, throughput, other?

Port charges paid in the USA provide the connection of a client network into an Internet provider's network. Technically, this entails the advertisement of the client's routes (IP addressees within the client's network) by the supplier to all of the networks to which the supplier is connected (whether on a peering or other basis), thus effecting a two way transit service. An access Port is therefore IP connectivity and is distinct from transmission or other telecommunications services entailed in connecting to the point of access. Port charges are defined in speed rates (kbit/s, Mbit/s) and are provided on either flat rate (fixed charge regardless of utilisation up to the maximum capacity) or some form of utilisation charge based on measured usage.

For example, the following are the published tariffs of UUNet in the USA:

Uunet US Transit List Port Pricing:

	Installation	Monthly
Speed64k	\$ 2000	\$ 800
128k	\$ 3000	\$ 1200
192k	\$ 3000	\$ 1350
256k	\$ 3000	\$ 1600
384k	\$ 3000	\$ 2000
512k	\$ 3000	\$ 2250
768k	\$ 3000	\$ 2500
1024k	\$ 3000	\$ 2500
T1 Flat rated	\$ 5000	\$ 2500
E1 Flat rated	\$ 5000	\$ 4950
T1 Burstable	\$ 5000 usage	

Tiered T-3

Cost: Startup charge for all T3 services is \$6,000. Monthly prices are as follows:

Port Speed	Monthly Price
3 Mbps	\$6,000
6 Mbps	\$8,000
9 Mbps	\$10,000
12 Mbps	\$12,000
15 Mbps	\$14,000
18 Mbps	\$17,000
21 Mbps	\$19,000
24 Mbps	\$22,000
27 Mbps	\$26,000
30 Mbps	\$29,000
33 Mbps	\$32,000
36 Mbps	\$37,000
39 Mbps	\$43,000
45 Mbps	\$54,000

Access circuits and Equipment are not included in these prices.

Burstable T-3

Service Type (sustained usage)	Monthly Rate
0 Mbps - 6 Mbps	\$12,000
6.01 Mbps - 7.5 Mbps	\$14,000
7.51 Mbps - 9 Mbps	\$17,000
9.01 Mbps - 10.5 Mbps	\$19,000
10.51 Mbps - 12 Mbps	\$22,000
12.01 Mbps - 13.5 Mbps	\$26,000
13.51 Mbps - 15 Mbps	\$29,000
15.01 Mbps - 16.5 Mbps	\$32,000
16.51 Mbps - 18.01 Mbps	\$37,000
18.01 Mbps - 19.5 Mbps	\$43,000
19.51 Mbps - 21 Mbps	\$48,000
21.01 Mbps - 45 Mbps	\$55,000

With Burstable T-3 service, the customer receives full DS-3¹ access to UUNET and can burst to the full 45 Mbps at any time. Monthly billing is based on sustained usage. Sustained usage is measured by samples taken every five minutes. The level under which 95% of the samples fall is the sustained usage.

When Non-USA Internet operators buy Internet connectivity to the USA, there is a range of options:

- the USA international half circuit lease and the Internet port charge are bundled together into a single monthly tariff, usually on a flat rate/utilisation independent basis. Such bundling can be easily done by USA telecommunications carriers who own both international half circuit capacity to Australia and Internet backbones;
- the half circuit lease and the port charge are tariffed and billed separately by the same provider;
- the half circuit lease, domestic tail lease and the port charge are procured and paid to separate operators;
- the non-USA operators acquire fully owned capacity to the USA, lease domestic tail circuits, establish their own Internet Point of Presence in the USA and pay for port charges as required to one or more Internet operators.
- the non USA client connects to a local POP of the USA operator (eg Uunet in Sydney) and pays a port charge.

The Commission would like to estimate the total additional cost to Australian Internet users as a result of the current charging policy of US providers. Thus, would Telstra please clarify the data at the end of this section. Can we derive the total additional cost by multiplying 20-30% by 75-80% by \$300 million to give about \$70 million? Would this figure be just for Telstra, or a total for all providers? Would Telstra be able to provide estimates of the additional costs for future years (in other words, how fast is this cost expected to grow)?

Yes we can derive an estimate of the total additional costs by multiplying 20-30% by 75-80% by \$300 million to give a range of \$45-72 million per annum. This is an estimate for all Australian Internet providers. In terms of estimating the additional costs for future years, a conservative growth estimate for traffic/bandwidth would be 100% per annum. The growth in this additional

¹ DS-3 (or T-3) is the third level of the US digital transmission hierarchy, operating at 45 Mbit/s (nominally). T-1 and T-2 are the first and second levels, operating (nominally) at 1.54 Mbit/s and 6.3 Mbit/s respectively.

cost can be calculated accordingly, although allowance must be made for reduction in units costs/prices of international bandwidth due to new higher capacity submarine cable systems and also competition between USA backbone providers.

Priority countries, page 18

Telstra has not nominated countries like Singapore, Hong Kong, Indonesia and China in the list of priority countries. Is this because the accounting rates are in line with cost, or there is a net inflow from those countries, or for some other reason?

The reason Telstra did not include the above countries in our list of priority countries is not because we consider international voice termination arrangements with these countries to be satisfactory, we don't, but simply because their national operators are currently mostly traditional monopolies in environments within which current arrangements are unlikely to change significantly at this time. We therefore believe it would be less productive focussing attention on these countries at this stage than on the priority countries we listed.