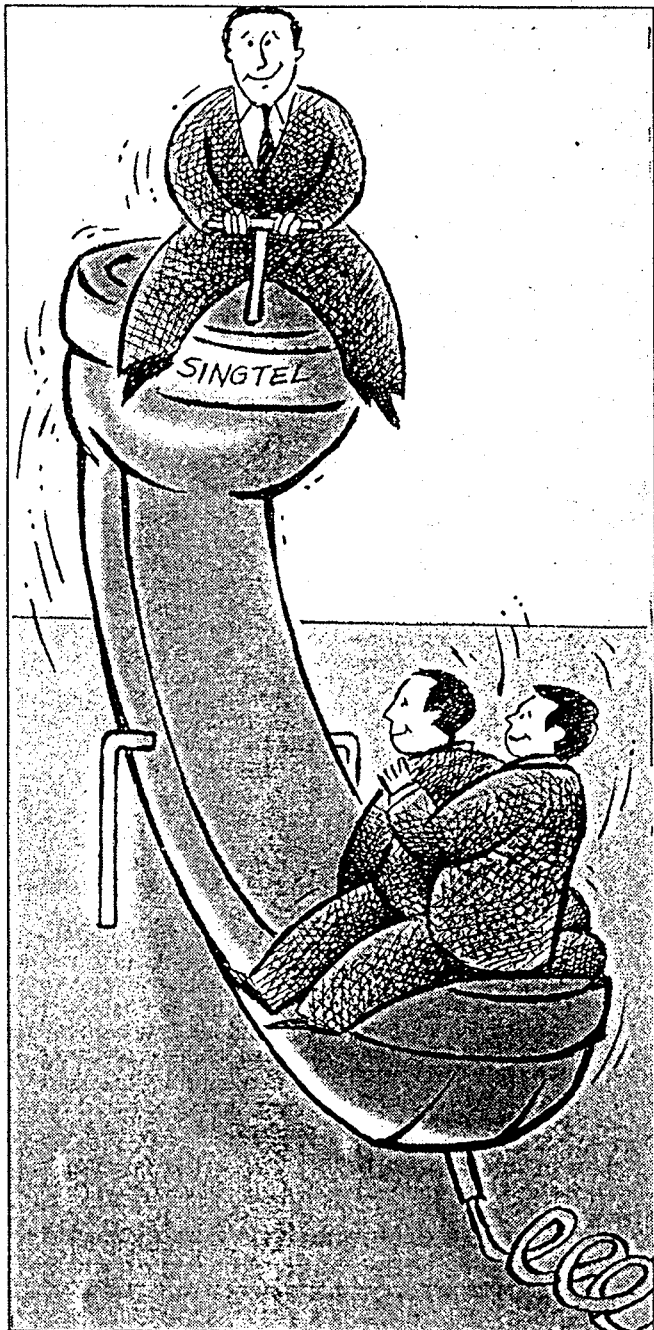


S'pore Power can supply basic telecom services

It is in best position to compete with Singtel



By Ivan Png

BASIC telecommunications services comprise domestic and international voice calls and data transmission services. Singapore Telecom presently holds an exclusive licence to provide basic telecoms.

The Government, however, has committed to opening the market to competition. Industry regulator, the Telecommunication Authority of Singapore (TAS), will license two additional providers to start basic telecoms service by April 2000.

TAS has paid \$1.5 billion to Singapore Telecom in compensation for early termination of its exclusive licence.

There are three ways by which new licensees can compete with Singapore Telecom. One is re-sale of voice and data services. This means buying services in bulk from Singapore Telecom and re-selling them to end-users.

A re-seller can rent a dedicated channel called a "leased circuit" and then re-sell the capacity profitably in smaller units to residential and business callers.

Another means of competition is "call-back", which takes advantage of differences between the prices of inbound and outbound international calls. Suppose that a foreign provider's rate to Singapore is lower than Singapore Telecom's rate to the foreign country.

Then a call-back service can profit by taking outbound traffic from Singapore but routing it as an "incoming" call from the foreign location.

Re-sale and call-back are powerful, low-cost ways to cream off business from Singapore Telecom. They do not require much more than wide marketing and an effective billing system. A third mode of competition requires substantial fixed investment.

A facilities-based competitor would establish its own switched network, consisting of cables or wireless stations, depending on whether it provides fixed-line or wireless connections. Switches are the computers that route telecommunications traffic between caller and receiver.

Communications Minister Mah Bow Tan has stated that, in awarding the new licences, the Government would favour applicants offering facilities-based competition. Indeed, the Government has set the licence fee at the relatively low level of \$10 million once off plus an annual fee of 1 per cent of turnover to encourage bidders to compete on facilities and service.

Among the wide field of potential licensees, one stands out in its ability to provide fa-

ilities-based competition — Singapore Power.

In a highly-urbanised market, securing rights of way to build a network is difficult and expensive. Singapore Power already has the rights of way to reach every residence and business in the country. Moreover, the company has customer data and billing systems to support effective mass marketing.

Singapore Power's participation in basic telecoms, however, raises a tricky regulatory issue. The company has an exclusive franchise over distribution of electric power, subject to regulation by the Public Utilities Board (PUB).

If Singapore Power wins a basic telecoms licence, it will be in the unique position of operating a monopoly in electricity, as well as a competitive business in telecommunications.

Last year, the Government postponed the privatisation of Singapore Power as the company was considered to be insufficiently profitable. Allowing Singapore Power into the basic telecoms business may seem like a good solution to its low profitability. This would be more palatable than the alternative of raising electricity prices.

If, however, Singapore Power also provides basic telecoms, some of its major costs will straddle its two businesses. Such joint costs include the maintenance of rights of way. How will the company allocate such joint costs?

There will be a temptation to shift costs into the electricity business, where the company has a monopoly. Even if Singapore Power establishes a separate company to provide basic telecoms services, there remains the issue of appropriate cost allocation.

With its electricity monopoly, Singapore Power may be able to recoup higher costs through price increases (or slower price reductions). Unless there is an effective mechanism to ensure a transparent allocation of joint costs, the company's entry into basic telecoms may be at the expense of our electricity consumers.

When privatised, Singapore Power is predicted to displace Singapore Telecom as the largest listing on the stock exchange. The clash between these two titans promises significant, long-lasting benefits to telecommunications users.

The Government, however, may need to protect electricity consumers from the fallout.

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