



28 March 2017

Mr Paul Lindwall  
Productivity Commission  
4 National Circuit  
Barton ACT 2600, Australia  
By email: paul.lindwall@pc.gov.au

Dear Paul,

### Telecommunications USO Inquiry – Treatment of USO cost implications

**nbn** has further considered the Commission's Draft Report and wishes to provide an additional response on the issue of how the cost implications of any changes to the TUSO should be dealt with.

As outlined in section 3 of **nbn**'s response to the Commission's Draft Report, it is important that all relevant costs that arise from any proposed policy changes are appropriately accounted for and funded. This is consistent with the Commission's framework for this Inquiry, as illustrated in Figure 1.1 of their Draft Report<sup>1</sup>, which clearly identifies that "transparency in costings" is an important element in assessing the extent to which markets or the **nbn**<sup>TM</sup> network can deliver on universal service objectives.

**nbn** is concerned that to date, the Commission has not appropriately acknowledged the additional costs that **nbn** will face if the Commission's draft recommendations were to be implemented. If this lack of recognition is related to **nbn** not providing quantification of these potential costs, this would be unfortunate, as it is not possible for **nbn** to meaningfully undertake such an exercise at this time, in the absence of information that it needs to quantify the costs. That is, **nbn** is not unwilling to provide these costs, but rather is not in a position to do so.

To accurately quantify the cost implications of the Commission's draft recommendations, **nbn** would need to at least know:

- The circumstances in which **nbn** would be expected to deliver services beyond our current planning assumptions;
- The specifications of the baseline voice and data service;
- The number of current "USO" services being supplied by Telstra, and where these services are;
- The timeframe over which policy changes would be implemented.

Even with this information, **nbn** faces a challenging modelling task to accurately quantify the cost impacts, with some of the key issues articulated in section 3.2 of our response to the Draft Report. Without the information

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<sup>1</sup> Draft Report, page 32.



listed above, it is difficult to justify the cost and resources required to develop such modelling, as the outcomes of it would not necessarily be meaningful.

As the Commission has acknowledged:

*Determining the level of funding to be directed to a universal service program can be fraught.<sup>2</sup>*

Which is reflected in their Draft Finding 3.1:

*There is a dearth of data on the number of premises covered by the telecommunications universal service obligation (TUSO). Telstra (the universal service provider) is not required to, and has advised that it does not collect information on the number of non-commercial telephone services, or on the costs of any telephone service it supplies under the TUSO. As such, the evidence base for assessing whether the TUSO is providing value for money is inadequate.*

In the absence of the information noted above, any estimates by **nbn** would be indicative at best. However, the fact that these costs have not yet been modelled does not mean that they do not exist. Rather, the relevant point to take from this is that the quantification of the costs arising from any changes proposed by the Commission must be an intrinsic part of the formulation of the actual policy that is implemented. The fact that this is a difficult task (as evidenced by at least two decades of arguments about the costs that Telstra should be compensated for) is beside the point. The Commission has neatly summarised the issue:

*It is only following a comparison of all the costs and benefits and a finding that there are net community-wide benefits, that a policy should be implemented. Further, the policy that maximises net benefits to the Australian community is generally the most economically efficient option.<sup>3</sup>*

Thus, any final recommendations the Commission makes need to expressly recognise that:

- there will be cost implications for **nbn** and other parties;
- that arrangements need to be made for a robust and independent assessment of these costs; and
- that the costs should be appropriately funded.

Without these steps, costs will be imposed on parties without compensation, compensation could be provided to parties which is not cost-reflective, and the likelihood of implementing the most cost-effective solution for the Australian community will be significantly reduced. **nbn** is willing to assist with any such cost assessment, to ensure that all relevant costs are appropriately factored into the policy development process.

Yours sincerely

Caroline Lovell  
Chief Regulatory Officer

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<sup>2</sup> Draft Report, pg 15.

<sup>3</sup> Draft Report, page 151.