

## **Telecommunications Universal Service Obligation**

### **Productivity Commission Issues Paper June 2016**

#### **Response by OptiComm Co Pty Ltd, 21 July 2016**

## 1. Introduction

The Government has asked the Productivity Commission to undertake an inquiry into the future direction of the universal service obligation (**USO**) in a telecommunications market that is evolving both in terms of market structure and technology. OptiComm thanks the Productivity Commission for the opportunity to provide input into the inquiry. This letter is in response to the Productivity Commission's Issues Paper dated June 2016 (**the Issues Paper**)

## 2. Executive Summary

OptiComm considers that:

- the USO remains important but should be updated to include broadband services and delivery by all available technologies;
- the industry contribution to USO funding should be collected from a broad range of carriers and carriage service providers with revenues above a set threshold;
- NBN Co should be primarily responsible for USO provisioning on a wholesale basis, with retail services being open to competition;
- NBN Co should act as a wholesale aggregator using business-to-business interfaces so that USO services can be provided via any networks and/or carriers and not just NBN Co's network; and
- NBN Co should have access to the USO fund for provisioning services in non-commercial areas.

## 3. The current USO

OptiComm does not have insight into or statistics regarding numbers or users of USO STSs and payphones. We consider that the objectives of the USO remain important but that it is time for USO policy to be updated to reflect advances in technology and changing consumer expectations and preferences.

As the primary USO provider, Telstra has received a competitive advantage in regional and remote areas. This has resulted in Telstra having a significant market share in these areas and very high brand recognition through its logo and business operations being ubiquitous in those areas, for example Telstra's brand is on payphones, vans and business premises. We consider it would be preferable for USO services to be provided in a competitive market, however, until relatively recently this has not been a realistic objective given that Telstra is the only carrier with a sufficiently ubiquitous network to fulfil the primary provider role. Improved mobile and satellite networks and the wholesale only NBN changes this situation and provides a means for USO services to be provided by a range of different retail service providers (**RSPs**) on different networks and on a more competitively neutral basis. We consider that this will bring advantages to end-users and that the use of the NBN and other available networks should be encouraged in future USO policy.

We believe that the USO has provided a mechanism for the STS to be 'reasonably accessible' to all people in Australia on an 'equitable basis', however access to fixed line STSs and payphones is no longer sufficient in a modern society. To be fair and to hopefully minimise the digital divide that could increasingly disadvantage people without ready access to modern telecommunications services, the USO should not be limited to voice services but rather, must provide access to both voice and data services. We consider this can be done via whatever technology is most efficient and economical in the particular circumstances, including fixed line, mobile, wireless and satellite broadband. Given its nationwide coverage, the NBN is the obvious platform for the provision of USO services, but if other networks are available then they should also be used to ensure efficiency in USO provisioning.

#### 4. Other current policies and programs

We consider that the Mobile Black Spot Programme, the NBN rollout and each of the Government reviews and reports listed in Box 1 of the Issues Paper are relevant to the current assessment of the USO. Of particular importance are:

- the Bureau of Communications Research current review of National Broadband Network non-commercial services funding options (**BCR 2015**);
- the *2015 Regional Telecommunications Review* (**RTIRC 2015**); and
- the Communications Alliance workshop on B2B interfaces (which is not mentioned in the Issues Paper).

BCR 2015 was tasked with considering options for funding the NBN in non-commercial areas and as such has a similar objective to important aspects of the USO. In its final consultation paper BCR 2015 proposed applying a levy on high-speed fixed line network operators servicing residential and small business customers as a mechanism for NBN Co to recover losses it expected to incur from building and operating satellite and fixed wireless services in non-commercial areas of Australia. OptiComm's submission to BCR 2015<sup>1</sup> had similar views to those expressed by NBN Co in its submission to BCR 2015, that if an industry levy is to be imposed then it should not be limited to a narrowly targeted segment of the industry but rather, should be collected from the broader telecommunications industry. We expressed the view that:

- technological advances in mobile voice and broadband have resulted in it increasingly being viewed by consumers as an alternative to fixed line services, which will negatively affect NBN Co's market share and its ability to cross subsidise from profitable to non-profitable geographic areas; and
- collecting the proposed non-commercial services funding levy from a broad cross section of the telecommunications industry as currently done for the USO is fairer, would result in less market distortion and would provide greater certainty that the Government would be able to collect sufficient funds to pay for the NBN in non-commercial areas.

Given that the NBN can quite sensibly be the underlying network for servicing the USO and that USO provisioning is predominantly in geographic areas that will be serviced by the NBN's satellite and fixed wireless services (and therefore likely to also be in NBN Co's non-commercial service areas), there is a strong correlation between the objectives of BCR 2015 and the current Issues Paper.

RTIRC 2015 considered that the existing USO funding model is problematic, stating that the STS is rapidly becoming obsolete because:

- Consumers are increasingly switching from making voice calls via the PSTN to using mobiles, VoIP and social media apps as primary communications tools.
- As the NBN rolls out, it will replace Telstra's copper network as the universal fixed access network.
- The STS and USO funding fail to target the areas of greatest need in regional Australia.
- The USO agreement between the Government and Telstra locks onto an STS of declining relevance.
- Carriers are faced with an additional levy for NBN non-commercial services.

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<sup>1</sup> A copy of the public version of OptiComm's submission to BCR 2015 is attached at Annexure A. Commercially sensitive data has been redacted.

- Loss making services in regional Australia and losses associated with safety net services should be dealt with in one scheme.<sup>2</sup>

RITRC 2015 recommended development of a new Consumer Communication Standard for voice and data<sup>3</sup> and replacing the Telecommunications Industry Levy (TIL) with a levy to support loss-making regional infrastructure and services, with scope to include subsidies for the non-commercial NBN services<sup>4</sup>. We agree with RITRC 2015's views and recommendations in this regard and submit that it is a preferable option to the BCR's proposal.

In response to a request by the Minister for Communications, Communications Alliance recently convened a working group of industry representatives to discuss suitable models for business-to-business (B2B) interfaces that would enable RSPs to easily acquire services from all wholesale network providers using the B2B interface and for the wholesale network providers to acquire service off each other that can then be provided to RSPs. A confidential copy of correspondence from Communications Alliance to the Minister is attached at annexure B. Communications Alliance has allowed this letter to be provided to the Productivity Commission for use in its consideration of the USO, but has asked that the letter is not made public. Completion of this B2B process would be an important step in maximising the efficient use of competitive infrastructure and is relevant to the USO as it would broaden the networks that the USO provider can use to meet USO obligations and provides end-users, particularly in new estates, the ability to gain access to as wide a range of RSPs as possible.

We consider that USO policy should encourage competition at the infrastructure and retail levels by supporting the B2B initiative. We believe that the definitive agreement between NBN Co and Telstra restricts Telstra from acquiring access to domestic fixed line networks owned by third party carriers. We consider that this severely disadvantages end-users of telecommunications services as unless they are connected to the NBN, they will not be able to get a fixed line from Australia's largest RSP, Telstra. It may be possible that where NBN Co is acting as a wholesale aggregator, that this limitation on Telstra does not apply. As well as alternative fixed line networks, NBN Co could be a wholesale aggregator of mobile and fixed wireless networks, which could assist in the efficient provision of USO services.

## 5. Rationales and objectives

OptiComm agrees with the USO's underlying policy objectives of ensuring the availability, affordability and accessibility of telecommunications services, however we consider it is no longer appropriate to limit the USO to basic voice services and that the rollout of the NBN must be taken into account in considering how to provision USO services.

Access to telecommunications services is increasingly essential. Australia is a physically large country with its population concentrated in several large cities and an often very sparse population across the rest of the continent. This results in vast differences in provisioning costs and very large geographic areas of the country where it will never be economic to provide a service at a reasonably affordable price without some form of subsidy. It also results in the obvious potential for people in these areas to find it difficult to access telecommunications services, which will result in them being at a significant social and economic disadvantage. It is reasonable and fair that we pursue a policy of ensuring that all Australians have access to affordable telecommunications services of a reasonable quality.

We do not believe that there is any justification for funding two sets of infrastructure, the NBN and the current USO STS, but rather consider that NBN Co should fulfil the role of being the universal wholesale only infrastructure provider of last resort and that it should have access to USO funding. As discussed above in paragraph 4, a uniform B2B interface will facilitate RSP access to all networks. We consider that this will promote competition amongst RSPs and amongst networks, leading to lower prices and less need for access to USO funding.

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<sup>2</sup> Australian Government, *Regional Telecommunications Review 2015*, chapter 4.

<sup>3</sup> Australian Government, *Regional Telecommunications Review 2015*, Recommendation 8

<sup>4</sup> Australian Government, *Regional Telecommunications Review 2015*, Recommendation 9

## **6. Broad policy options**

We consider that policy options should contain sufficient flexibility to allow the USO to be met by whatever technology and network is available, most efficient and suitable in given circumstances. It appears sensible to exploit market trends such as increasing consumer preference for mobile services. It also appears prudent to leverage off the rollout of the NBN.

## **7. Scope and Quality**

We consider that voice services continue to have a place in the USO but that data services are more important. We do not have insight into payphone usage, however we consider that the fixed line STS without data access is rapidly becoming obsolete and should no longer be the main focus of the USO. We consider that the objectives of the USO should be met by whatever technology is most suitable in the particular circumstances, for example: fixed line voice and broadband, mobile voice and broadband, satellite voice and broadband, or wireless voice and broadband.

Unfortunately, it is unrealistic for telecommunications users in regional and remote locations to expect exactly the same service quality and price as those in cities. For example, the cost of providing a fibre service to a remote end-user is prohibitive where there are no economies of scale. We do however consider that remote end-users should have access to a USO service that is of a comparable price to a service in the city, though in terms of the technology available it is unlikely to be of the same quality. This does not mean that remote end-users should have to make do with poor quality telecommunications services as in many respects their need to access voice and internet services is greater than people in cities. For example, the service needs to be of sufficient quality to enable them to easily and readily access all government services, health services, emergency services and education services. Given this, we consider that the USO needs to include minimum service standards that improve with time as technology improves and commercial services in the city improve, so that remote end-users are not left behind.

## **8. Universal service providers**

We consider that NBN Co should be the wholesale access provider of last resort, as it has an obligation to rollout an ubiquitous network and should be able to readily provide services to most people. The ability to perform this role would be enhanced if NBN Co acted as a wholesale aggregator where it used a uniform B2B interface that enabled RSPs to get access to all networks. The relationship between end-user USO recipients can be handled by RSPs using either the NBN or alternative networks.

## **9. Other policy issues**

Technological neutrality could be implemented by providing end-user USO recipients with a choice of any available services/networks that are available in their area, which would allow them to utilise the type of technology that they prefer. Given technological changes, we consider that USO policy should be reviewed every two years.

## **10. Funding**

The existing USO/TIL funding is well established and has worked reasonably well. We consider that it should remain in place. With regards to the industry contribution, it should apply as broadly as possible across the industry and include all carriers and carriage service providers with revenues above a set minimum annual threshold of recurring revenue of telecommunications business, which we believe should remain at \$25 million per year. USO funding should not be restricted to fixed line providers and NBN Co should have access to the funding to assist it in providing services in non-commercial areas.

Yours sincerely

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OptiComm Co Pty Ltd

**Annexure A**  
**OptiComm submission to BCR 2015**  
**(Public version)**

**Annexure B**

**Communications Alliance letter to the Minister for Communications & the Arts regarding the implementation of a wholesale B2B interface**

**(Confidential)**