Submission to the 'Better delivery of universal services' discussion paper

Executive Summary

Universal service arrangements have historically been established on the basis that regional and remote telecoms services are not commercially viable, and therefore must be publicly funded or subsidised to ensure their supply.

That historic basis no longer exists: 100% of premises in Australia now have access to at least two broadband providers via NBN and Starlink; 99.5% of Australians also have access to at least one mobile service providing both voice and data,[1] 98.5% to two, and 96% to three.

The overwhelming majority of premises in Australia now have competition and choice when it comes to telecoms services. And every premise, no matter how remote, has access to metro-equivalent voice and high-speed broadband via Low-Earth Orbit (LEO) satellites – with more competitive LEO services due to launch over the next few years.

As a result, the policy foundation for the current universal service framework must be re-assessed.

Given that commercial services are now available to 100% of Australian premises, it is not unreasonable to start with the question – do we need any form of USO at all? For the vast majority of Australians, the market has solved the problem - with multiple commercial networks available, a modern universal services framework should be designed only to address that tiny fraction of premises that lack access to competition and choice from three or more providers.

Just over 60,000 premises out of 12.3 million in total lack mobile coverage[2] - 0.5% of the total. Just 300,000 premises still use a Telstra USO voice service[3] – just 2.4% of the total (with the majority of these likely to also have mobile coverage available). And all of these premises have the ability to make voice calls and access high-speed broadband via Starlink, as well as access broadband via NBN Satellite.

To reflect the reality of this competitive environment, a modern universal service framework should be built on the principles of technology neutrality, contestability, affordability, reliability, and eligibility. It should focus only on premises that are not 'competitively served' – that is, any subsidies should only target premises where competitive, commercial options are not available.

Response to questions

What do you consider are the key outcomes that a modern universal service framework should deliver?

Vocus supports the Government's stated position that "it is essential that a modern universal service framework delivers telecommunications services that are reliable, robust and able to meet the needs and expectations of consumers, particularly for those in regional and remote areas."

Vocus submits that a modern universal service framework should also support increased investment in telecommunications infrastructure and greater competition, which will contribute to achieving the objectives of greater access to reliable, robust communications services. The significant increase in commercial, competitive networks in regional Australia since the

[1] Our Network (telstra.com.au): 4G across 99.5% of the population

[2] Calculated as 0.5% of the total number of Australian premises listed in NBN's latest weekly rollout data

[3] Better delivery of universal services Discussion Paper, p2

commencement of the Telstra Universal Service Obligation Performance Agreement (TUSOPA) has meant that the need for subsidised or publicly funded services has steadily declined – and should continue to decline – if policy settings encourage private investment.

The existing framework requires reform as it currently disincentivises investment by forcing commercial providers to compete for customers against heavily subsidised services – despite these subsidised services being vastly inferior to competitive alternatives.

A modern universal service framework should be built on the principles of:

1. **Technology neutrality:** The copper continuity obligation in the TUSOPA forces consumers onto outdated technologies, even where superior options are available. Future universal service arrangements should not mandate any technology, rather they should focus on outcomes – namely:
    - A reliable voice service (within the ITU's recommended maximum latency of 150ms),
    - A broadband service consistent with the Statutory Infrastructure Provider (SIP) requirement of speeds of the least 25/5Mbps.

    Any technology capable of meeting these minimum service standards (4G/5G mobile, fixed wireless, LEO, etc.) should be considered acceptable for universal service delivery.
2. **Contestability**: Any provider capable of offering the minimum service standards described above should be able to access any subsidies available under a future universal service framework. Ideally, any subsidies would go direct to consumers deemed eligible (a 'voucher' style system), allowing them to use the subsidy towards a service of their choice available at their location (LEO, NBN Sky Muster, mobile, fixed wireless, etc.).
3. **Affordability**: Given that voice and broadband is now commercially available to 100% of premises via LEO and competitive options are available to some 99.5% of premises via mobile, affordability is arguably more important than availability for most consumers in regional areas. A future framework should be mindful of the competitive options available and avoid price 'caps' as a condition of access to subsidies – if subsidies are made available to end-users (e.g., a voucher-style arrangement) rather than service providers, the user can then choose to put that subsidy towards a more affordable service, or choose to pay the 'gap' to purchase a higher-priced service.
4. **Reliability**: As described in the above section on technology neutrality, any future universal service framework should consider minimum reliability standards for voice and broadband services in non-competitive areas. However, in recognition of the fact that competitive services are available to the vast majority of premises, the framework should avoid overreach and not impose standards on services where consumers have the option to switch to alternative providers or technologies. In competitive areas, if a consumer deems a service unreliable, they have the option to switch providers to a superior option – making regulated reliability standards unnecessary.
5. **Eligibility**: Vocus submits that subsidised services should only be available to premises that are not 'competitively served' – meaning they lack access to multiple competitive options for both voice and broadband. For example:
    - If a premise does not have mobile coverage and only has access to NBN Sky Muster and LEOs, it should not be considered as 'competitively served' as it only has one viable voice option available via LEO.
    - If a premise has mobile coverage from only one operator, it could be considered as 'competitively served' as that premise also has access to voice and broadband via LEO (as is the case for 99.5% of premises). However, Vocus notes that previous ACCC decisions on adequate levels of competition typically depend on

the availability of at least three providers (i.e., Domestic Transmission Capacity Service regulation at NBN POIs or Telstra Exchange Serving Areas, where the presence of three providers is the minimum requirement to deregulate that location)[4].

- If a premise has mobile coverage from two operators, as well as voice and broadband access via LEO, as is the case for 98.5% of premises, it is clearly competitively served and should not be eligible for any form of subsidy.

What safety-net services does a modern universal service framework need to address?

The safety-net services that should be addressed are baseline broadband and voice services. As described above, a modern universal service framework should not mandate any technology as a safety net, rather it should focus on outcomes – namely:

- A reliable voice service (within the ITU's recommended maximum latency of 150ms),
- A broadband service consistent with the Statutory Infrastructure Provider (SIP) requirement of speeds of the least 25/5Mbps.

Any technology capable of meeting these minimum service standards (4G/5G mobile, fixed wireless, LEO, etc.) should be considered acceptable for universal service delivery.

To what extent do you consider mobile services are important to complement fixed services supported under the existing framework?

Vocus recognises that mobile services are more likely to meet the needs and expectations of some consumers than traditional fixed voice services. Not only should mobile services be considered as complementary to fixed services, any premise with mobile coverage from at least two providers should be considered as competitively served and therefore not requiring any subsidised service.

That being said, Vocus submits that there should be a technology-agnostic approach to delivering broadband and voice services under a modern universal service framework. To provide coverage to households without access to adequate voice or broadband services, mobile services and alternative technologies such as LEOs may be appropriate, given both are likely to meet the minimum service standards described in the previous section.

Vocus recognises that there are parts of Australia where delivering and maintaining mobile services is not commercially viable, even with the assistance of Government grants programs like the Mobile Black Spot Program or Regional Connectivity Program. In such areas, LEO satellites play an important role in providing metro-comparable voice and broadband services to premises beyond the reach of terrestrial mobile solutions.

Which existing requirements under the current universal service framework should be retained, or changed?

The existing requirements in relation to Telstra providing fixed voice services and payphones are no longer fit for purpose and should be changed.

The USO requirements for fixed voice services no longer meet community expectations. Through mandatory obligations to provide connectivity (i.e. the SIP regime), NBN Co has

[4] ACCC Public inquiry into the declaration of the domestic transmission capacity service, fixed line services and domestic mobile terminating access service, Draft Report 20 December 2023

delivered practically universal coverage for basic broadband access – which should continue to be supported under a future framework.

There should continue to be a role for Government to subsidise safety-net services to premises which are not competitively served by commercial operators. However, existing requirements should be reformed – rather than a subsidy going towards a single operator (Telstra) to provide services via a specific technology (in most cases, fixed line copper), any subsidies should be provided to end-users directly to allow them to choose their preferred service (noting 100% of premises have access to NBN Sky Muster and LEOs, and 99.5% of premises have access to at least one mobile operator).

This approach would future-proof a universal services framework to evolve with changes in telecommunications technology, and deliver better outcomes for Australians living and working in regional areas.

Vocus submits that there should be a technology-neutral and targeted approach to addressing connectivity gaps and the needs of regional and remote Australia.

A new framework should include a technology-neutral and contestable fund to replace the existing Telecommunications Industry Levy. We understand that sustainable funding arrangements will be the subject of a future consultation paper, and will provide further comments at that stage of the consultation.

What role do you consider payphones should play in a modern universal service framework?

There is no such thing as a 'free' payphone call – only calls that are paid for by someone else.

Telstra receives $40 million p.a. for the supply of payphone services, and maintains around 14,500 payphones nationally (discussion paper p4-5). This equates to an average cost of approx. $2,760 per payphone, per year to provide so-called 'free' calls.

While Telstra advertises payphones as offering 'free' calls and Wi-Fi where available[5], the reality is that these services are paid for by a combination of taxpayers (via the Government's funding portion of the TUSOPA contract) and telecoms operators (via the Telecoms Industry Levy) – the latter being inevitably paid for by consumers as part of their phone or broadband bill.

Telstra not only receives the benefit of a $40m annual payment to operate payphones, it also enjoys the goodwill and branding benefits of being perceived as the provider of 'free' public services – which are actually paid for by taxpayers and the customers of its competitors. On top of this, Telstra often monetises its payphones in other ways, such as by using them for advertising.

While USO funding arrangements are not in scope for this initial discussion paper, it is difficult to consider the role of payphones in a modern universal services framework without a rational assessment of their cost. The discussion paper does not state how many Telstra payphones are located in areas that already have mobile coverage, but given Telstra's mobile network covers a reported 99.5% of the population, it is reasonable to assume that the vast majority – if not all – payphones are in areas where mobile coverage is already available. With pre-paid services costing as little as $35 a month and pre-paid smartphones available for as little as $79 outright[6], the economic case for subsidised payphones in areas with mobile coverage deserves scrutiny.

[5] Making payphones and Telstra Air free for all, and mobile emergency websites free for our customers - Telstra Exchange

[6] Pre-Paid Phones on Pre-Paid Mobile Plans from Telstra

How should affordability be considered?

As described earlier in this submission, a future framework should be mindful of the competitive options available and avoid price 'caps' (or similar standardised pricing mechanisms) on providers as a condition of access to subsidies. Rather, if subsidies are made available to end-users rather than service providers (i.e., a voucher-style arrangement), the user can then choose to put that subsidy towards a more affordable service, or choose to pay the 'gap' to purchase a higher-priced service. The widespread availability of NBN Sky Muster, LEOs, and mobile services at a variety of price points makes this a viable option – and better for consumers than a one-size-fits-all service, as per the current universal service arrangements.

For example, a user that only desires a basic voice service and has mobile coverage at their premise could put their subsidy towards a mobile service, and potentially incur no out-of-pocket expenses, depending on the level of subsidy provided. A user seeking a high-speed broadband service with generous data allowances could use their subsidy towards a LEO service and pay any 'gap' in monthly costs.

The principles of affordability and eligibly are interrelated. Premises with coverage from at least two mobile networks, as well as LEO and NBN Sky Muster, can be considered 'competitively served' as they have a range of commercial pricing options available from a range of providers. But for premises with coverage from only one mobile operator (as well as LEO and NBN Sky Muster), the presence of only two viable voice services should allow for end-users to receive a subsidy to ensure they can obtain a minimum-standard level of service at an affordable price. For users that wish to purchase a premium service (i.e. data allowances or speeds above a minimum standard), a voucher-style subsidy scheme directly available to the end-user would allow for this, without imposing unnecessary price cap requirements on providers.

A voucher-style subsidy provided directly to end-users – as opposed to providers – has similarities with the Telephone Allowance provided by Services Australia, currently provided quarterly at a basic rate of $35.60 (indexed annually to the Consumer Price Index) and a full rate of $52.40. This equates to a monthly allowance of $11.80/$17.46. Notably the Telephone Allowance is simply provided as a monetary payment to recipients and is not required to be spent on telecommunications services.

How can a modern universal service framework deliver better outcomes and meet digital inclusion needs of First Nations Australians?

A modern universal framework should provide a targeted policy responses to addressing issues of universal access and digital inclusion. The approach should also include funding for community-based solutions and addressing affordability.

Vocus submits that LEO satellites services allow for a step-change in voice and broadband availability for remote First Nations communities. LEO dishes are relatively low-cost and easy to deploy compared to fixed line, mobile, or traditional satellite communications, and could be utilised to deploy community Wi-Fi solutions with both data and voice.

The First Nations Digital Inclusion Advisory Group's initial report has recommended specific measures to improve communications access, affordability, and ability in First Nations communities. The report noted that while grants programs like the Regional Connectivity Program (RCP) and Mobile Black Spot Program (MBSP) now have updated guidelines to prioritise funding to First Nations initiatives, more needs to be done to address the specific requirements of First Nations communities.

Vocus agrees with the Advisory Group's recommendation, noting that the current design of the RCP and MBSP makes these programs unlikely to attract bids from competitive providers offering LEO services in First Nations communities.

Under RCP rounds 1 and 2, 133 of the 224 total projects were upgrades to Telstra's commercial mobile network, and the average project cost more than $1 million. In contrast, a residential Starlink antenna costs less than $1,000, and an enterprise-grade Starlink antenna costs around $4,000 – less than 1% of the average cost of a project funded under the RCP.

The RCP requires a minimum operational period of 7 years – a period that is incompatible with the LEO market where contracts are offered on 1 to 3-year terms. The LEO market will change dramatically over the next 7 years - today there is only 1 operator, Starlink, and there is likely to be 2, 3, or 4 (Amazon Kuiper, OneWeb, TeleSat) in the next few years. Services delivered via LEOs are also improving at pace, for example Starlink is already transitioning its network to second-generation satellites and ground infrastructure. The entry of new competitors and technologies in this market will inevitably lead to improved speeds, capacity, and pricing - meaning that any LEO solutions delivered in 2024 will be outpaced by market developments well ahead of 2030.

Vocus strongly supports the Advisory Group's proposal to establish a dedicated LEO satellite trial for First Nations communities. Vocus believes that a LEO trial program should consider various network topologies and use-cases, as there is no 'one size fits all' solution to Closing the Gap. A Commonwealth-led trial program could work collaboratively with State and Territory Governments to assess the specific requirements of First Nations communities.

LEO satellites provide the technical breakthrough required to close the gap across the three measures of digital inclusion: access, affordability, and ability – the trial could be tailored to investigate how each of these measures could be improved.

Vocus' view is that First Nations communities have distinct characteristics which require bespoke solutions to improve connectivity, therefore it is appropriate to have separate Government programs to address these requirements outside of, and complementary to, universal service arrangements.