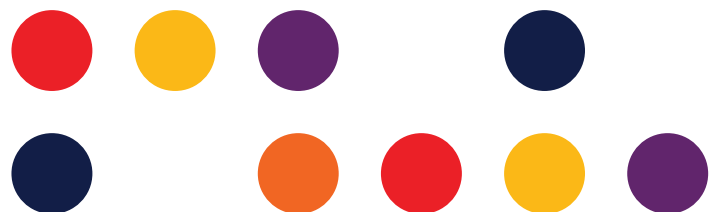


Funding of universal telecommunications services – Discussion Paper

TPG Telecom response to Department of Infrastructure, Transport, Regional Development, Communications and the Arts

May 2024

Public version



Submission

TPG Telecom welcomes the opportunity to respond to the Department's discussion paper on *Funding of universal telecommunications services* (**Discussion Paper**).

In TPG Telecom's response to the Department's earlier consultation regarding *Better delivery of universal services*, we made the following recommendations:

1. Transition away from existing Telstra contractual arrangements. The Universal Service Obligation (**USO**) is no longer required where the Statutory Infrastructure Provider (**SIP**) regime compels wholesale providers to provide a voice service. Any residual concerns regarding consumer safeguards can be dealt with by imposing obligations on NBN Co, as the default SIP.
2. To the extent necessary, the Government should directly fund targeted USO initiatives through competitive tendering.

If the Government considers it appropriate to retain some form of industry levy, we recommended:

1. Payphone arrangements are amended to reflect the industry contributions and ancillary benefits gained by Telstra.
2. The Telecommunications Industry Levy (**TIL**) be expanded to include Over-the-Top (**OTT**) providers.
3. Levies be calculated based on profits rather than eligible revenue for the purposes of the TIL.

As our earlier submission addressed aspects of funding for universal services, we assume it will be taken into account for the purposes of this consultation. This submission expands further on the points raised in the earlier submission where appropriate.

The Regional Broadband Scheme (**RBS**) was intended to provide broadband services to areas where they were unavailable on a commercial basis. Low-earth orbit (**LEO**) satellite services are available nation-wide, offering superior speed, latency and resilience to geostationary systems such as Sky Muster. Given the availability of commercial and competitive services, it is therefore questionable whether there is a continued justification for the RBS.

In this respect, consideration should be given to whether there is a continued need for the RBS. Any access and equity concerns could be addressed by targeted funding to end users. Funding for initiatives to address access and equity concerns should be provided through consolidated revenue, or by a smaller but wider-based levy encompassing OTT providers.

We have included responses to the specific questions in the discussion paper in **Annexure A**.

TPG Telecom's views on key principles and characteristics of a sustainable long-term funding model

TPG Telecom agrees with the key principles and characteristics of a sustainable long-term funding model set out in the discussion paper. We propose the inclusion of a fifth principle of competitive neutrality and make the following additional observations and comments, which primarily relate to implementation or improvements to funding arrangements, consistent with the relevant principles.

Sustainability

Sustainability should be a core element of any long-term funding model and any future funding model must account for the commercial context of the telecommunications industry.

Mobile network operators (**MNO**) are investing billions in rolling out 5G infrastructure. However, consumers have shown limited appetite to pay more for 5G over 4G services. In the medium to long term, MNOs will also need to invest billions to renew spectrum licences and deploy 6G networks. Recently, industry analysts have observed industry returns on invested capital are unsustainably low, with Telstra the only major operator achieving returns above the weighted average cost of capital. NBN Co has also rolled out a fixed network with numerous forms of Government assistance.

The challenges facing the telecommunications industry in Australia are not unique. One report found consolidation is occurring in Europe after limited merger and acquisition activity for much of the previous decade.¹ Weak financial performance, lack of scale, and the necessity of 5G investment were cited as reasons for this. In light of this, TPG Telecom reiterates its feedback to the previous discussion paper regarding levying OTT providers for infrastructure given there are few, if any, examples of other industries which do not finance their distribution channels in some form.

OTT providers reach consumers over infrastructure provisioned under the RBS and other government instruments. Given telecommunications providers and by extension consumers contribute to such schemes, it is difficult to make the argument companies which rely upon this infrastructure to reach these consumers should not. Levying OTT providers broadens the revenue base of any funding, which has the dual advantages of reducing the volatility of funding, and the distortionary impact given the levy per service can be lower.

The Productivity Commission's 2017 report into the USO found future gaps in service availability are likely to be smaller than present. Given this smaller scale, it questioned whether the administrative costs and design challenges of a levy are justifiable. Telstra has noted there remain only approximately 285,000 telephone services provided over the copper network in regional and remote areas.²

Against this context, TPG Telecom recommends future funding programs are funded from general government revenue where possible. This provides a sustainable source of funding, without impact on the competitive landscape of the telecommunications industry. The benefits of funding via

¹ Copenhagen Economics, '4-to-3 – back to 4? A time of reckoning for the EU telecoms industry' <<https://copenhageneconomics.com/publication/4-to-3-back-to-4/>>

² Telstra, *Submission to the Department's discussion paper on Better delivery of universal services*, March 2024, page 4.

consolidated revenue are clear: (a) simpler to administer, (b) satisfies the sustainability requirements of funding given it is not subject to market cycles of the telecommunications industry, and (c) supports the sustainability of the industry and a more level playing field.

If further funding is deemed necessary, the charge base should be expanded to OTT providers. A cautionary tale is the USA's universal service fund, which is funded by telephone and voice over internet protocol providers. The revenue of these services has declined from approximately US\$80 billion per annum in the 2000s to less than US\$30 billion per annum today. This has led to the percentage charge on services increasing from 6 per cent in 2001 to approximately 30 per cent in 2022.³ Future funding agreements should be broader based to avoid such a large impost on individual services.

Transparency

TPG Telecom welcomes the inclusion of transparency as a principle of future funding arrangements. As a principle, those who contribute to a scheme should have visibility over the allocation of their funds. It is unacceptable for Telstra to receive a fixed subsidy for the provision of USO services without the requirement to show accurate details of how these funds are used for the provision of universal services.

While some data has been released by the Department in the NBN Co and Telstra USO Service Data Map, the accuracy of this information requires closer inspection. For example, it shows Telstra is delivering copper services in urban areas, such as in the Sydney metropolitan area, where NBN services should be available.

In comparison, the RBS is more transparent than the USO arrangements. TPG Telecom would support amendments to the USO arrangements to foster greater transparency and accountability.

Certainty

Certainty of the amount of the levy, along with the underlying funding arrangements, is important for payees of the levy.

The amount TPG Telecom contributes to the TIL can significantly fluctuate each year, with variances in the millions. This creates significant uncertainty and unpredictability, which impacts TPG's budgeting processes. We are hopeful modernisation of the universal service arrangements will mitigate these issues.

While indexation of the RBS levy to the consumer price index provides a degree of predictability, there remains some uncertainty due to changes in the consumer price index, as evident in recent periods. Accordingly, if the RBS continues to be charged, TPG Telecom recommends a cap of 3% per year be

³ US Federal Communications Commission, *Statement of Commissioner Brendan Carr, Re: Report on the Future of the Universal Service Fund*, August 2022, <<https://docs.fcc.gov/public/attachments/FCC-22-67A2.pdf>>.

applied to the RBS levy. This would support greater certainty to network operators of the maximum levy amount payable.

Flexibility

Any review of the RBS and other universal service arrangements should, as a starting point, address identified issues with existing arrangements.

TPG Telecom supports a framework which can adapt to changes in technology and user requirements, and not one predicated on a single technology or supplier. The RBS is currently supporting the Sky Muster network, which is being challenged by LEO satellite operators. It runs the risk of supporting an outmoded technology in the same manner as the copper continuity obligation.

LEO satellite technology is a potential solution for a wide range of communications issues in regional, rural and remote areas. 5G wireless networks continue to be rolled out, with 6G likely to emerge within the next decade. A technologically neutral universal service arrangement would allow LEO satellite, 5G and 6G technology to be integrated to enable their uptake to the greatest extent.

Competitive neutrality

TPG Telecom believes competitive neutrality should be added as a core principle of future arrangements. Telecommunications policy has deprioritised promoting competition in regional, rural and remote areas in favour of expanding coverage, which in effect means subsidising Telstra's network. There are real costs to consumers of such policies.

Telstra's enduring competitive advantage in regional areas reduces other MNOs' incentives to invest in regional networks. As such, while schemes such as the Mobile Black Spot Program deliver coverage in the short term, in the long term they lock in suboptimal outcomes for consumers.

The ACCC noted in its Regional Mobile Infrastructure Inquiry how network infrastructure competition in urban areas serves to pressure MNOs into improving their networks.⁴ Unfortunately, this will not be achieved in regional areas under the current investment and approvals model.

What services should be funded?

TPG Telecom believes there is limited justification for funding of service provision beyond the SIP provisions. Equity concerns are best addressed by targeted programs to end-users. The USA implemented a scheme called the Affordable Connectivity Program, which provided up to US\$30 a month to some low-income households to purchase their choice of participating broadband service.⁵ This method satisfies the principles of technological and competitive neutrality given it is not tied to a specific technology or provider.

⁴ ACCC, *Regional Mobile Infrastructure Inquiry 2022-23*, page 77.

⁵ US Federal Communications Commission, *Affordable Connectivity Program*, <<https://www.fcc.gov/acp>>.

TPG Telecom does not support direct funding of LEO satellite technology. These services are available on a commercial basis and it is not apparent there is a market failure which needs to be solved. TPG Telecom believes a multi-provider mix where the Government avoids ‘picking winners’ and allows for a competitive market is likely to deliver the best outcome for consumers.

Current telecommunications levies and funding schemes

Regional Broadband Scheme

The intention of the RBS was to establish a transparent cross-subsidisation mechanism to fund NBN Co’s non-commercial networks. The policy justification was to ensure all Australian households have adequate opportunity to access high speed broadband, even households located in areas where a commercial operator may deem it uneconomic to supply such a service.

The market environment has fundamentally changed with the rapid commercialisation of LEO satellite services which are able to provide high speed broadband to all Australian households on an unsubsidised commercial basis, no matter where they are.

Australian households have rapidly taken up these services. For example, TPG Telecom understands Starlink has more than 200,000 subscribers in Australia after only two years of retail operations. In comparison, there are less than 90,000 NBN Co satellite services in operation, and this number is expected to continue to decline. TPG Telecom also understands the quality of service provided on Starlink services is superior to that being provided by NBN Co satellite services and is comparable to broadband services delivered over fixed line networks.

Given commercial services are now available to all Australian households, the policy justification for the RBS must be reviewed. TPG Telecom believes the RBS should be discontinued in its current form and NBN Co be subjected to market forces.

To the extent the Government forms the view some support is necessary on equitable considerations, direct consumer subsidies, such as coupons or credits for low-income households is preferable over payments to network operators.

This is more flexible and transparent than the RBS given end users can choose the best service for their needs. This would likely be narrower in scope than supporting Sky Muster services, potentially making funding from general government revenue viable. If further funding is necessary, any levy should be extended to OTT providers, broadening the revenue base.

Wireless services

If the Government decides to extend the RBS in its current form, TPG Telecom does not support extending the RBS levy to fixed wireless. NBN Co’s recent wholesale price changes have made entry-level plans unviable, with ACCC Commissioner Anna Brakey noting some providers had increased prices or stopped selling entry level plans.⁶ Extending the levy to fixed wireless services

⁶ Speech, ACCC’s latest work in the telecommunications sector - speech to the Comms Day Summit, 30 April 2024.

would crowd out the provision of one of the only alternatives to increasingly expensive NBN services during a cost-of-living crisis.

Levying fixed wireless services sets a worrying precedent for future alternatives to the NBN, be it fixed wireless, LEO satellite or other technologies arising. Any provider competing with NBN Co faces the barriers of accessing funding through commercial funding channels more expensive than those available to NBN Co, along with the impost of the RBS levy. As the discussion paper noted, the RBS was intended to apply to NBN-comparable networks. TPG Telecom does not believe wireless services are comparable to the NBN fixed line network.

Learnings from the Telecommunications Industry Levy

The discussion paper states carriers should not receive double recovery – funds for a non-commercial service from more than one source. TPG Telecom agrees with this principle. Telstra received up to \$165 million over 10 years to migrate voice customers onto the NBN network. It subsequently shifted some customers onto its 4G network once the voice module expired in 2022. It has received the vast bulk of MBSP funding, potentially funding mobile infrastructure it migrated these voice customers onto. Telstra could have received ‘triple recovery’ in some instances – via funding to migrate customers from its copper network to the NBN, and then onto its 4G network sites funded via the MBSP, whilst receiving USO funding via the TIL to provide voice services. Future arrangements should account for and prevent such a scenario from occurring again.

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Peri-Urban Mobile Program

The Peri-Urban Mobile Program focussed on the fringes of urban and major regional centres. This enabled MNOs to deliver mobile infrastructure where it may otherwise have been uneconomic, and in an area where it is integrated with existing network infrastructure. Improving coverage at the margins of networks benefits both existing consumers who have greater coverage at the edge of the existing network, and consumers who have a new choice of MNO. Placing ‘coverage islands’ with no contiguous coverage from the existing network is of little utility to consumers in that location.⁷ Importantly from a competitive perspective, the Peri-Urban Mobile Program provided equal opportunity for all MNOs to participate. TPG Telecom recommends future funding schemes be similarly crafted to promote competition.

⁷ Consumers will still effectively be confined to the incumbent carrier with coverage in the wider area, while existing customers are unlikely to benefit from coverage some distance from their location.

Annexure A: Responses to questions

1. What characteristics would ensure adequate certainty to providers delivering funded services?

Please see body of submission under heading 'Certainty'.

Any funding regime should have a longer term (5 year plus) focus, given the nature of network investment cycles. Infrastructure has a long lifespan with generations of mobile telephony lasting approximately 10 years. Networks require planning – they are constructed in a manner whereby new infrastructure is integrated with existing infrastructure, and not based on individual sites.

2. What characteristics would provide adequate certainty to those parties from whom funds would be collected?

Please see body of submission under heading 'Certainty'.

TPG Telecom recommends general Government revenue as the preferable source of funds for the provision of universal services at the margin for reasons of administrative simplicity and lessening the distortionary impact on the telecommunications market. If it is deemed a levy is still necessary, we recommend it operate on a net profit model, and is extended to OTT providers.

3. How can the funding arrangements best support provision of non-commercial services but also support flexibility in adapting to market changes and the types of services supported?

Please see body of submission under heading 'What services should be funded?' and 'Flexibility'.

4. How should arrangements ensure affordable services will be available across Australia but not crowd out investment by commercial operations?

Please see body of submission under heading 'What services should be funded?'.

5. What are the characteristics of services that should be receiving subsidies? How should these be determined on an ongoing basis?

TPG Telecom questions the need for continued wide-scale subsidy of particular services. LEO satellite services such as Starlink are already available commercially and can provide high speed and low latency coverage across Australia. Technological advances have ensured high-quality services are available to the majority of Australians on a commercial basis.

6. Is it appropriate to still consider entire networks when determining funding support or should the evaluation of commerciality occur at a more granular level?

Given the increased availability of LEO satellite technologies, the SIP obligations imposed on the NBN Co, and the 5G rollout, TPG Telecom considers country-wide schemes are no longer as necessary. Instead, we support a more granular approach with targeted programs to address gaps in coverage, access and availability where they may arise.

7. There is ongoing interest in network resilience particularly in relation to service availability

after natural disasters. Is this something that should be supported through funding for non-commercial services or should all network providers be equally required to provide a specified level of resilience in their own networks?

The most common cause of network outages during natural disaster is power outage. Efforts would be more efficiently spent in coordinating with state governments to improve power reliability, and communications with power companies. These include but are not limited to increasing provision of underground power supply (as opposed to overhead lines) and allowing all MNOs into emergency disaster rooms (either in person or remotely) so they have the real-time information necessary to coordinate recovery efforts most efficiently.

TPG Telecom welcomes the recently announced Government funding for hybrid backup power solutions across Queensland, NSW, Victoria, Tasmania, and South Australia.

8. Which elements of the telecommunications industry should be contributing to non-commercial services? This can include commentary on those entities that should be considered part of the telecommunications industry.

TPG Telecom submits OTT providers should contribute to the funding of any universal service arrangement, as detailed in the body of the submission.

9. Should funding for non-commercial services provided to individuals be collected from different contributors than should provide funding for other types of public interest services such as Emergency Calls?

See body of the submission.

10. Are there any particular competition issues that need to be considered? How can the design of funding arrangements promote competition and contestability?

The expansion of the NBN fixed line footprint, commercial fixed 5G services, and the emergence of LEO satellite services have rendered the NBN fixed wireless and Sky Muster networks increasingly irrelevant. Where gaps remain in the service, these should be addressed via competitive tendering and a technologically neutral approach to ensure the most cost-efficient and effective solution.

11. Should there be any threshold on the requirement to make contributions and if so what kind of methodology would be suitable for determining the threshold?

See body of the submission.

12. Are there any characteristics that would provide additional efficiency or ease of administration for the contributors and the administrators of universal service funding?

See body of the submission.

13. Do you agree with the positions set out above with respect to key principles and characteristics of future funding arrangements?

TPG Telecom broadly agrees with the principles identified by the Department.

14. Are there any principles or characteristics that should be added to the above list?

TPG Telecom recommends the inclusion of the principle of competitive neutrality, as detailed in the body of the submission.

15. Are there are other issues or considerations the Government should take account of in considering the effectiveness of funding arrangements for universal telecommunications services?

There needs to be a holistic approach to assessing the impact of funding arrangements. Programs such as the Mobile Blackspot Program have prioritised short-term improvements in coverage without regard to the overall competitive impact. This has led to a cycle where other MNOs do not participate as they are unable to launch a competitive bid for tenders in remote locations. Telstra wins the tender, expands its network, and then ensures it is able to expand its coverage further, essentially ensuring other MNOs will be unable to compete. This locks regional and remote users into Telstra and removes the possibility they will have the benefits stemming from a competitive outcome.

16. Are there any particular funding models you think the Government should consider?

Move towards funding targeted programs (tailored to the needs of the cohort of users specified) from general government revenue. If insufficient, expand levies to cover OTT providers.

17. Based on current market conditions, which participants in the telecommunications industry should be contributing towards the net losses of NBN Co's non-commercial fixed wireless and satellite services?

If support from telecommunications providers is ongoing, OTT providers should form part of the levy base. NBN Co's loss-making services deliver a wider customer base to OTT providers. OTT providers gain revenue from customers accessing their services over loss-making NBN network infrastructure, so by extension it is reasonable they should play some part in covering the cost of infrastructure.

18. What is the most appropriate charge base unit for the RBS?

Given the declining relevance of Sky Muster satellite services (with SIOs decreasing from 110,000 in December 2021 to 89,000 in December 2023⁸), TPG Telecom questions the need for the RBS to continue in its current form. TPG Telecom would advocate for the levy to be repealed entirely. If this is not adopted, the charge base should be extended to OTT providers given they draw revenue from customers accessing their services on infrastructure provisioned under the RBS.

19. Is the 2,000 chargeable premises per month concession appropriate for small networks? Is there a case for variation of this exemption, for example by aligning it with the current

⁸ Based on ACCC wholesale market indicators report, <<https://www.accc.gov.au/by-industry/telecommunications-and-internet/national-broadband-network-nbn-access-regulation/nbn-wholesale-market-indicators-report/december-quarter-2023-report>>.

12,000 premises exemption from the structural separation requirements in Part 8 of the Tel Act?

TPG Telecom does not have a view on the appropriate concession for small networks.

20. The transitional concessions were put in place to support carriers as the RBS began operation. Are there any lessons or observations related to the transitional concessions that the Government should consider?

TPG Telecom's view is the RBS is likely to be rendered largely unnecessary by provision of commercial services, and future arrangements will be more limited in scope. This negates the need for any transitional concessions.

21. Are there any lessons or observations related to the transparency or administration arrangements for the RBS that the Government should consider?

Please see response under heading 'Transparency' in main body of submission.

22. Stakeholders are invited to provide views on the following matters:

- a) The operation of Part 3 of the TCPSS Act
- b) The operation of the remaining provisions of the TCPSS Act to the extent to which they relate to Part 3 of the TCPSS Act
- c) The operation of the Tel Act to the extent to which that Act relates to Part 3 of the TCPSS Act
- d) The operation of the Charge Act
- e) Whether Part 3 of the TCPSS Act should be amended
- f) Whether the remaining provisions of the TCPSS Act, to the extent to which they relate to Part 3 of the TCPSS Act, should be amended
- g) Whether the Tel Act, to the extent to which that Act relates to Part 3 of the TCPSS Act, should be amended
- h) Whether the Charge Act should be amended

Amendments to the various legislation underpinning the TIL and RBS may be required depending on the outcome of the Government's reviews. TPG Telecom welcomes further consultation on any drafting amendments at a later stage.

23. Are there any lessons or observations from the operation and administration of the TIL that would be useful for the Government to understand in considering long-term funding arrangements?

See body of the submission.

Confidential Annexure B: [C-I-C]
