



**Australian Government**

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**Department of Communications,  
Information Technology and the Arts**

**Telecommunications Universal Service  
Obligation (USO) Review  
Issues Paper**

**For Public Consultation**

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## **Introduction**

### **0.1 The review**

On 27 June 2007, in a speech at the National Press Club, the Minister for Communications, Information Technology and the Arts, Senator the Hon Helen Coonan announced a review of the telecommunications Universal Service Obligation (USO).

The Minister made it clear that the Australian Government remains fully committed to all Australians having access to basic telecommunications services, and would not be rolling back the essential protections provided by the USO. The review will take account of changes in technology and in the Australian telecommunications marketplace. It will consider how the USO's protections should operate in future, and how telecommunications providers can best share the load of delivering the USO.

The Minister also announced that the Digital Data Service Obligation would be removed. This was announced on the basis that the Australian Broadband Guarantee provides a guaranteed entitlement to a per customer subsidy of up to \$2750 to ensure remote broadband access where an alternative service is not available.

The 2004 *Review of the Operation of the Universal Service Obligation and Customer Service Guarantee* found that, at the time, the USO regime was broadly meeting its legislative objectives. The telecommunications market has continued to evolve since that time, raising new challenges for the USO regulatory framework.

The USO relates to the provision of basic telephone services and payphones. Except in limited circumstances, these services have to date been provided via fixed copper infrastructure. Increasingly these services can now be delivered through other means, including voice over Internet Protocol, or VoIP, mobile communications networks and broadband networks.

This review will consider the provision of voice and payphone services under the universal service regime. It will also consider the most effective and cost efficient way to deliver these services to consumers.

This review has a broad focus, and comment is encouraged on different approaches and models to best deliver the Australian Government's commitment in a rapidly changing environment. Options put forward in this paper are to encourage discussion and should not be taken as proposals from the Australian Government.

### **0.2 Structure of the issues paper**

This issues paper poses questions throughout to assist individuals and organisations to develop submissions. A summary of questions raised is provided at [Attachment A](#).

- **Chapter 1** explores the origins of the USO and highlights the technical, market and policy developments that are increasingly challenging traditional concepts of USO delivery.

- **Chapter 2** examines the nature of basic telephone services delivered under the USO and explores options for how such services may be redefined.
- **Chapter 3** examines the delivery of payphone services under the USO and explores the associated issues.
- **Chapter 4** examines the delivery of USO services to remote Indigenous communities and explores options for achieving more effective outcomes.
- **Chapter 5** looks at USO delivery, funding and costing issues, exploring options to provide for equitable industry contribution.

### **0.3 Making a submission**

The Department of Communications, Information Technology and the Arts (the Department) is seeking written submissions on the issues raised in this paper.

*Questions appear throughout the paper as boxed text.*

*Interested stakeholders are invited to provide written comment in answer to these questions, or provide a more general response on the operation of the USO, as preferred.*

Submissions should identify the name of the party making the submission, the organisation they represent (if relevant), as well as contact details.

Please forward submissions to:

USO Review  
Department of Communications, Information Technology and the Arts

By mail: GPO Box 2154  
CANBERRA ACT 2601

By email: [uso@dcita.gov.au](mailto:uso@dcita.gov.au)

By fax: 02 6271 1850

Those making submissions should be aware that submissions will be made publicly available on the Department's website. The Department reserves the right not to publish any submission, or part of a submission, which in the view of the Department contains potentially defamatory material.

All submissions will be treated as non-confidential information unless specifically requested. Email disclaimers or confidentiality markings will not be considered sufficient confidentiality requests. Note that submissions or comments will generally be subject to freedom of information provisions.

The Department intends that any information lodged, will be able to be made publicly available to facilitate public consultation and debate. The Department recognises, however, the need to protect certain information where public disclosure may harm the legitimate commercial interests of a submitter.

If a submitter considers that information should be kept confidential, it may identify this in its submission together with the reasons. The Department will consider the request for confidentiality, but gives no undertaking that the information will be kept confidential. Any decision to keep the information confidential or make it publicly available is at the Department's discretion.

If the Department decides that particular information for which confidentiality is claimed should be made publicly available, it will advise the relevant submitter and give the submitter the opportunity to consider whether it wishes the information to remain part of its submission and be made public, or to withdraw the information from its submission.

In relation to information that the Department agrees to treat as confidential, submitters should be aware that the Department is subject to the legislative and administrative, accountability and transparency requirements of the Commonwealth, including disclosures to the Parliament and its Committees. Accordingly, submitters are advised that any information (whether confidential or otherwise) contained in or relating to any material submitted to the USO review may be disclosed:

- to responsible Ministers;
- in response to a request by a House or a Committee of the Parliament of the Commonwealth of Australia;
- within the Department, or to another agency, where this serves the Commonwealth's legitimate interests;
- where the information is authorised or required by law to be disclosed, noting that all information lodged with the Australian Government is subject to the *Freedom of Information Act 1982* and its requirements; or
- where the information is in the public domain.

Comments on submissions will not be treated as confidential and will be published on the USO review's website unless the Department considers it inappropriate to do so.

Enquiries about issues raised in this paper may be directed to telephone 02 6271 1132 or by email to [uso@dcita.gov.au](mailto:uso@dcita.gov.au).

The closing date for comments and submissions to the Department is **1 November 2007**.

## **Chapter 1: The USO in a changing telecommunications environment**

### **1.1 Overview**

The USO's stated purpose is to enable all people in Australia, wherever they reside or carry on business, to have reasonable access, on an equitable basis, to:

- standard telephone services;
- payphones; and
- prescribed carriage services (none have been prescribed).

The USO provides for access to standard telephone services and payphones across Australia, including in unprofitable areas of rural and remote Australia.

The universal provision of telephone services can be achieved in two fundamental ways. Firstly, governments can use their legal authority to oblige providers to deliver universal service. Alternatively, providers can be afforded incentives by governments. These incentives include but are not limited to:

- providing subsidies in recognition of costs;
- creating a market for the provision of universal services;
- making special allowances in the competition regulations; and
- providing vouchers to consumers, which can be redeemed against the cost of providing services.

The policy challenge is to choose mechanisms that maximise the benefits to consumers and industry without adversely impacting the competitive market. Examples of approaches used in other jurisdictions are discussed at [Attachment E](#).

### **1.2 Policy Framework**

The USO and its operations should be seen in the context of the Australian Government's policy framework, which aims to provide reasonable and equitable access to telecommunications services for all Australians, wherever they live or carry on business.

This objective is achieved through:

1. the development of a competitive market as the primary strategy for delivering improved services and lower prices;
2. a comprehensive set of regulatory safeguards for Australian telecommunications consumers, covering access to basic telephone and payphone services, as well as the timely connection and repair of those services; and
3. targeted funding to support improvements in advanced services, particularly in rural and regional areas, where the market has not been fully effective.

The Australian Government has actively supported the deployment of broadband through a number of programs, including the Broadband Connect program and the Australian Broadband Guarantee. These programs have provided targeted funding for the deployment of broadband infrastructure and services into currently under-served areas at prices comparable to those available in metropolitan areas.

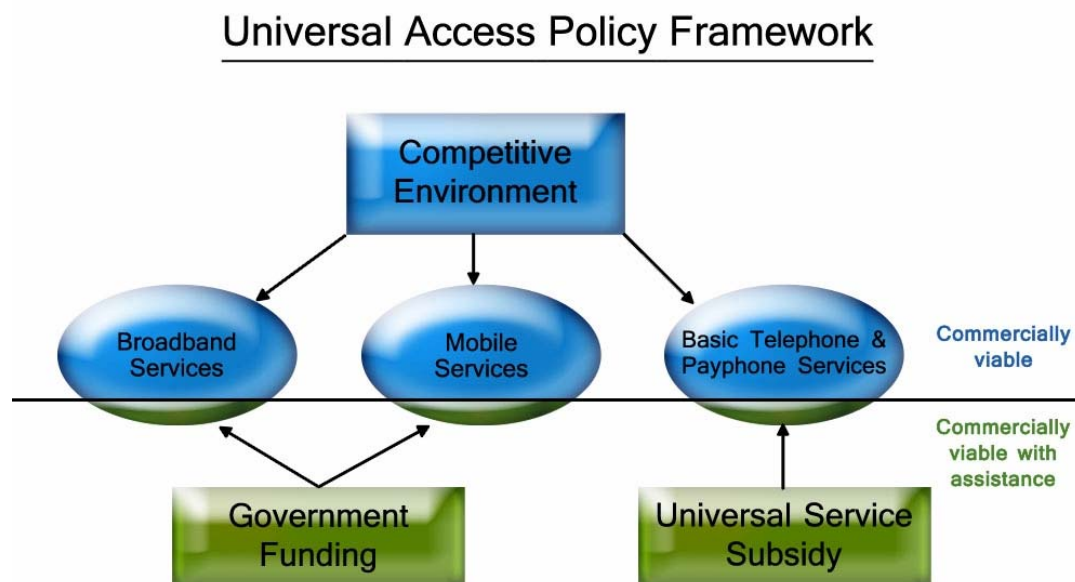
The Australian Government has also funded the roll out of mobile infrastructure in regional Australia through a number of programs. For example, the Mobile Connect program is the latest of a number of government initiatives to provide funding for the deployment of mobile phone infrastructure in areas where it would not have otherwise been commercially viable. An additional program, the Satellite Phone Subsidy Scheme, effectively reduces the price of purchasing a satellite phone for people living in areas where there is little or no terrestrial mobile phone coverage.

To reflect the Australian Government's ongoing commitment to continuing improvements in telecommunications in regional, rural and remote Australia, it established the \$2 billion Communications Fund in September 2005. At the same time, the Australian Government provided for the establishment in legislation of the Regional Telecommunications Independent Review Committee. This committee will undertake regular reviews of the adequacy of telecommunications services in regional, rural and remote Australia. The Communications Fund will provide an ongoing income stream to implement the Australian Government's response to recommendations from these reviews.

On 13 August 2007, the members of the first Regional Telecommunications Independent Review Committee were announced by the Deputy Prime Minister, the Hon Mark Vaile MP, and the Minister for Communications, Information Technology and the Arts, Senator the Hon Helen Coonan.

This approach reflects the key findings and recommendations of the 2002 Regional Telecommunications Inquiry (or Estens Report). The Estens Report recommended the Australian Government use targeted funding, rather than the USO, to improve services such as broadband and mobile telephony in regional, rural and remote Australia. In the context of delivering these advanced services, experience has shown targeted programs to be generally preferable on efficiency, equity and transparency grounds.

The following diagram illustrates the basic framework behind the Australian Government's strategy to provide Australians with access to broadband, mobile telephony, basic telephony and payphones:



### **1.3 Historical context of the USO in Australia**

The USO was designed and implemented in a much different telecommunications environment than we have today. In the early 1990s, competition and the number of service providers in the telecommunications sector were limited. In many rural and remote markets, there was a monopoly infrastructure provider.

Given its market dominance and reach, the Australian Government determined that Telstra would provide its services to all Australians at standardised prices. The delivery of these services was funded through an internal cross-subsidy, whereby profitable customers helped support the delivery of services to high cost areas.

As the competitive environment developed and more providers built infrastructure and offered services in metropolitan areas, two issues emerged. Firstly, the internal cross subsidisation of USO services became more complex as competition forced many prices down, particularly in metropolitan markets. Secondly, price controls were introduced to drive efficiency improvements and ensure that price benefits were passed on to consumers. The price controls effectively prevented the corporatised incumbent from leveraging its market power, particularly in rural markets where it was the monopoly provider for most services.

To ensure that the cost of meeting the USO was shared across industry, the basis of the current USO costing and funding model was introduced. The current model provides an industry funded subsidy to the universal service provider in recognition of any losses associated with USO delivery. Carriers contribute to the USO levy based on their proportion of industry revenue.

**Table 1**                      **Number of carriers and volume of eligible revenue in Australia, 2000 to 2006**

	<b>Carriers</b>	<b>Total eligible revenue (\$ billions)</b>
<b>2000–01</b>	75	22.09
<b>2001–02</b>	94	22.80
<b>2002–03</b>	101	22.94
<b>2003–04</b>	108	23.68
<b>2004–05</b>	139	24.12
<b>2005–06</b>	167	24.66

Since the current open competition framework was introduced in 1997, the number of telecommunications services and platforms has greatly diversified. As technology delivers an ever increasing range of consumer products, the services that customers demand also continues to diversify. A variety of formerly disparate services can now be delivered over any one of several technology platforms. An example of this technological convergence is mobile networks. Previously used to deliver only voice services, many mobile networks are now designed to support text, broadband and video applications.

In this context, there is a risk that the USO delivery model is becoming a blunt instrument that encourages outcomes that are less efficient and effective than desired. The USO delivery model does not recognise or provide incentives for diversified product offerings. Given that the USO regime provides for industry to subsidise the delivery of homogenous ‘vanilla’ services, it may actually be working to limit this diversity by suppressing the competitive delivery of services and thereby limiting choice.

This was recognised by the Estens Report through its recommended strategies to encourage broad access to new and diversified services.

The Australian Government continues to recognise the need for a voice service safety net. The challenge is to find the most effective way to deliver this safety net in the new service environment in a way that meets the key objectives recognised in the current legislation, particularly that:

- the USO should be fulfilled:
  - effectively, efficiently and economically;
  - in ways that are consistent with Australia’s open and competitive telecommunications regime;
  - in ways that are, as far as practicable, responsive to the needs of consumers;
- the fulfilment of the USO should generally be open to competition among carriers and carriage service providers;

- providers of telecommunications services should contribute, in a way that is equitable and reasonable, to the funding of the USO;
- the universal service regime should be flexible and able to deal with rapid changes in technology.

As stated in section 4 of the *Telecommunications Act 1997*, telecommunications should be regulated in a manner that does not impose undue financial and administrative burdens on industry participants.

For further information, a brief history of the USO in Australia is at [Attachment D](#) and a brief summary of overseas experience is at [Attachment E](#).

## **1.4 Nature of the USO**

The USO is currently expressed as an ‘obligation’ on the universal service provider to deliver basic voice telephony. The question arises as to whether this approach remains relevant in the current environment, which has changed substantially from when the USO was introduced. In particular, given the proliferation of voice platforms (wired, wireless and mobile networks) across Australia, and the rapidly emerging trend towards the delivery of voice services over broadband networks, the Australian Government invites comments on whether it remains appropriate to have a single provider solely responsible for providing all Australians with a safety net voice service.

The commitment to the universal provision of broadband services has been a key objective for the Australian Government, through both the Higher Bandwidth Incentive Scheme (HiBIS<sup>1</sup>) and Broadband Connect programs, and most recently through the Broadband Connect Infrastructure program and the Australian Broadband Guarantee. The Australian Broadband Guarantee provides a safety net that ensures Australians living in the most remote or difficult to reach areas can obtain metro-comparable broadband access that would not otherwise be available.. In tandem with the delivery of commercial services it ensures that all consumers can access broadband service at defined price and service levels.

- Q 1.1     Should the USO continue to operate as an obligation on service providers to provide reasonable access to services, or should it be recast as a consumer right or guarantee (in tandem with commercial service delivery)?
- Q 1.2     Is it still appropriate to have a single provider solely responsible for providing all Australians with a safety net voice service?

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<sup>1</sup> The HiBIS program was launched on 8 April 2004. The program encouraged broadband infrastructure development in areas that, at the time, were not commercially viable, by giving an incentive payment to registered broadband service providers. Its objective was to make higher bandwidth services broadly available in regional, rural and remote areas at prices comparable to those in metropolitan areas. The Scheme provided a one-off incentive payment to registered HiBIS Providers for each HiBIS Service provided to an eligible customer at eligible premises.

## **Chapter 2: The nature of basic phone services**

### **2.1 Overview**

This chapter examines the nature of basic telephone services delivered under the universal service regime. It considers the essential requirements for a safety net voice service in an environment of diverse user demand and rapidly developing features and functionality of voice services. It also seeks to identify the expanding range of technology options for providing efficient and effective voice services that meet the basic requirements of the universal service regime.

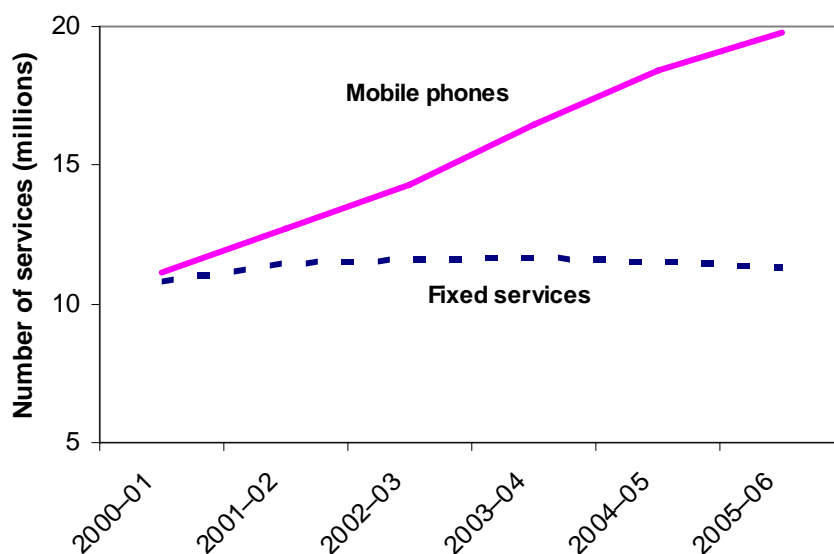
### **2.2 Implications of new technologies**

New communications technologies and networks are now proliferating, offering consumers an increasingly rich and varied range of voice and allied services. A large range of value-add features are entering the market: multimedia messaging services, voice over broadband networks, broadband over voice networks, teleconferencing facilities and so on. Providers and vendors seem to invent new ways of communicating over new networks every few months. For example, 3G mobile networks (now reaching out to 98 per cent of premises across Australia) offer a suite of integrated voice, data and allied services. More and more Australians are attracted to such highly functional and innovative services, with many completely substituting their fixed line services with mobile services.

This trend towards diverse converged networks and services will undoubtedly continue to grow as broadband networks continue to be developed and as Australians demand more mobile services. Service offerings are now very different from the early 1990s. Instead of just having a voice service on your mobile, it is now possible to receive videos and photographs, and access the Internet and short message service. Real estate developers are starting to insist that the telecommunications network installed in new housing estates are based on optic fibre technologies. These new networks will be capable of delivering the variety of services, including voice, that consumers will demand for many years to come.

A significant number of Australians already use VoIP delivered over broadband as their primary voice service, but for many people, a mobile phone is their most important telephone service. Increased mobile phone coverage means that people are becoming less reliant on their landlines by substituting them with mobile phones.

**Figure 1: Respective numbers of mobile phones and fixed phones in Australia, 2000 to 2006**



The standard telephone service and its associated features represent the current baseline for the basic voice telephony service that consumers should be able to receive if they wish, when they have their telephone connected. Generally, a standard telephone service delivered over a fixed line includes:

- Customer Service Guarantee (CSG)
- operator assisted services
- preselection capability
- calling line identification
- the option of untimed local calls
- free emergency services access
- directory assistance services
- itemised billing
- number portability
- suitable equipment for customers with disabilities

Several of these features, such as free emergency service calls and access to untimed local calls are baseline consumer protections in the Australian telecommunications environment and apply to any standard telephone service regardless of whether it is provided under the USO.

In addition, the following features are current requirements on Telstra:

- retail price regulation
- access to alternative and interim services
- priority assistance for customers with life threatening health problems

Q 2.1 Should the defined legislated service linked to the USO, the standard telephone service, continue to be the benchmark service for universal service providers?

Q 2.2 Which features of the current standard telephone service should be provided as part of universal access to basic phone services, and which features could be optional?

Q 2.3 What types of network technologies are suitable for the delivery of basic phone services? For example, is it appropriate for universal service to be delivered by mobile networks or over a broadband data network using VoIP?

Q 2.4 In what ways does the existing regulatory framework constrain technologically feasible options for the delivery of basic phone services?

### **2.3 Service standards**

Basic phone services can be delivered by a wide range of service providers using diverse network technologies. A number of these key consumer protections, including the CSG, are outlined in [Attachment C](#).

The universal service provider, currently Telstra, is legally required to have a Standard Marketing Plan in place that details how it will comply with its USO. The Australia Communications and Media Authority (ACMA) monitors Telstra's overall compliance with the USO.

Telstra, as the universal service provider has an approved Standard Marketing Plan that provides detail on how it will comply with the USO and achieve service standards that are consistent with the CSG, and also lists additional service standards that it will meet in fulfilling the USO (a copy of Telstra's current Standard Marketing Plan and its associated Policy Statement are at [Attachments G](#) and [H](#)).

Service standards can include the time to install and repair services, and interim arrangements for circumstances when those timeframes are not met. For example, as the universal service provider, Telstra must currently offer an interim or alternative service to its customers when it is unable to connect or repair a standard telephone service within timeframes specified in its Standard Marketing Plan. Their competitors are not subject to the same service standards.

An interim service is a voice telephone service that is most commonly provided via mobile or satellite technology and is charged at standard telephone service rates. The core services available will be similar to those provided by Telstra's standard telephone service. An alternative service can take various forms, such as call diversion to a mobile or to a second fixed line telephone service.

As currently drafted, Telstra's Standard Marketing Plan is quite flexible. In some cases, the Standard Marketing Plan commits Telstra to make reasonable endeavours to meet performance standards, gives Telstra discretion in weighing up relevant factors, and provides exceptions for unusual circumstances.

Q 2.5 What service standards should apply to basic phone services delivered by a universal service provider?

- Q 2.6 What interim or alternative arrangements, or associated compensation, should be available to consumers when a universal service provider does not connect or repair their basic phone service on time?
- Q 2.7 What aspects of the current universal service arrangements for basic phone services work well and should be maintained?
- Q 2.8 What aspects should be changed?
- Q 2.9 What would be the ideal approach to providing universal service for basic phone services?
- Q 2.10 Is the level of service standards that applies to Telstra USO services (as set out in the Standard Marketing Plan) reasonable? Is it too flexible and lenient on Telstra? Or is it overly prescriptive in an environment where consumers are choosing other features and functionality as more valuable to them in the new telecommunications environment?
- Q 2.11 Does the concept of an approved Standard Marketing Plan provide an effective regulatory mechanism? What alternatives exist?
- Q 2.12 What if any obligations should apply to all providers?
- Q 2.13 Does the very high take up of mobile services mean that service standards can be altered?

## Chapter 3: Payphones in a changing telecommunications environment

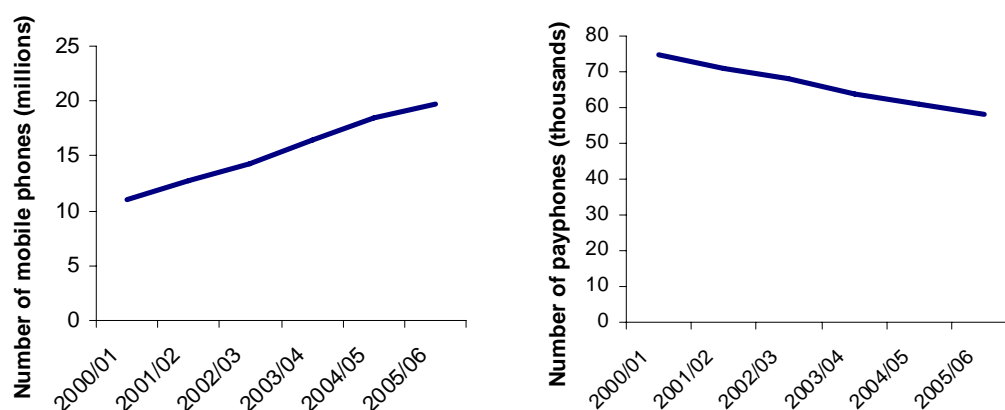
### 3.1 Overview

This chapter examines the role and nature of payphones under the universal service regime in the emerging telecommunications environment. It seeks to identify the most efficient and effective way to provide universal access to payphones.

### 3.2 Payphone provision

There is no doubt that payphones now play a much less significant role for telecommunications users than was the case at the time they were included in the USO. The use of payphones in Australia is falling significantly, mainly because of increased mobile phone usage (see Figures 2 and 3). Payphone revenues are also falling as a result of the increased use of calling cards and other free-to-caller services, which provide minimal or no revenue to the payphone operator. However, some people continue to use payphones, particularly those in areas with limited mobile phone coverage or those on low incomes.

**Figures 2 and 3: Respective numbers of mobile phones and payphones in Australia, 2000 to 2006**



Telstra provides a little over half the number of payphones in Australia. Other payphones are operated by providers like Tritel. A large number of payphones are also provided by independent businesses such as hotels and clubs, which provide the payphone as a service to their customers.

Independently-operated payphones became available in 1963. From 1989, independent businesses were permitted to install payphones regardless of whether they were sourced from companies other than Telstra. All payphone operators in Australia can seek to install payphones in any location. These will generally be in areas where a payphone will make a profit, typically in places such as shopping centres and transport hubs.

Following initial deregulation, the government introduced a universal service regime for payphones, requiring a universal service provider to provide reasonable access to

payphones in Australia. Telstra is currently the primary universal service provider of payphones for all of Australia.

In its role as the universal service provider, Telstra will provide payphones in unprofitable locations in some circumstances. Telstra's Standard Marketing Plan describes processes and service standards that apply to Telstra operated payphones in Australia.

Rather than a specific framework for assessing payphone provision, Telstra's current Standard Marketing Plan provides a guide to the sorts of situations in which Telstra may provide a payphone. As currently drafted, this regulatory framework is quite flexible, and commits Telstra to 'all reasonable efforts' to provide a payphone and gives it discretion in weighing up the relevant factors. A copy of Telstra's current Standard Marketing Plan is at [Attachment G](#).

### **3.3 Payphone removal**

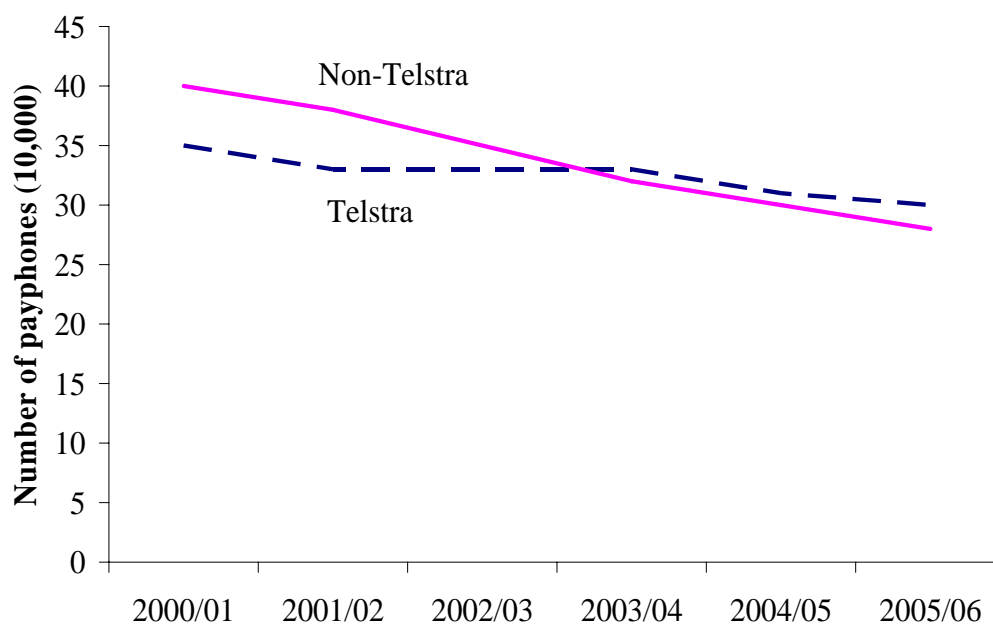
On 21 February 2006, Telstra announced that it intended to remove 5,000 payphones over the following 12 months. This announcement raised public questions about Telstra's payphone obligations. On 8 June 2006, the Minister announced a package of initiatives to improve the accessibility of information about Telstra operated payphones, including Telstra's payphone removal consultation processes.

Currently, if Telstra decides to remove or relocate a Telstra operated payphone in an area then it is required to ensure that the removal or relocation only occurs after providing an opportunity for local consultation. For example, when the payphone is the only one at a public site, consultation must include the posting of a notice on the payphone for at least three months. The notice must indicate the grounds on which Telstra is proposing to remove or relocate a payphone, and must invite comments from interested parties. The removal notice must include an explicit reference to the role of ACMA in monitoring Telstra's compliance with the universal service regime. Telstra must also provide similar information to the local government authority.

Telstra must formally respond to any letter or email complaint it has received with a response providing the grounds for the decision and advising that ACMA can be contacted if the complainant wishes to take the matter further.

Figure 4 illustrates the rate of decline in the number of Telstra-operated payphones and payphones operated by other organisations.

**Figure 4: Number of Telstra and non-Telstra payphones, 2000 to 2006**



### 3.4 Service standards

Payphones can be delivered by a wide range of service providers on a commercial basis. As such, different combinations of features, cost and service standards may be offered to consumers.

For a payphone delivered in fulfilment of the current USO, service standards such as repair timeframes are to be detailed in a provider's Policy Statement and Standard Marketing Plan.

Telstra's Standard Marketing Plan includes performance targets for the time to supply and repair payphones. These performance targets are currently assessed on a 'reasonable endeavours' basis, and provide some flexibility for Telstra to consider a range of variables. For example, the repair performance targets make an exception for payphones that have been damaged by persistent vandalism.

Timely repair of payphone faults is an important component of the universal provision of payphones. In 2004, the *Payphone Policy Review* undertaken by ACMA recommended that Telstra raise fault repair performance to a level where 80 per cent of faults are repaired within the timeframes specified in its Standard Marketing Plan. Telstra has not committed to this performance target, and its remote payphone repair performance has been consistently below this level since the recommendation was made.

- Q 3.1 With the widespread uptake of mobile phones, in what circumstances should there be a requirement to provide a public payphone?
- Q 3.2 What aspects of the current payphone arrangements work well and should be maintained?

- |       |   |
|-------|---|
| Q 3.3 | From a community perspective, what should be changed?                       |
| Q 3.4 | From an industry perspective, what should be changed?                       |
| Q 3.5 | What would be the best approach to providing universal access to payphones? |

## **Chapter 4: Services for remote Indigenous communities**

### **4.1 Overview**

This chapter examines the provision of basic telecommunications services under the USO in remote Indigenous communities. It seeks to identify the most appropriate and effective services for these communities, and the most efficient way to deliver them.

### **4.2 Appropriate services**

Access to appropriate communications services facilitates participation in economic, social and cultural activity, and is particularly important for Australia's Indigenous people living in remote communities.

The provision of services to remote Indigenous communities is influenced by a complex set of logistical, technical, cultural and social factors. These factors mean that the ongoing development of appropriately designed solutions is necessary to address the needs of these communities.

A number of options for the delivery of appropriate services to remote Indigenous communities have been examined and trialled. For example, under the Telecommunications Action Plan for Remote Indigenous Communities (TAPRIC), an Australian Government program, a trial program installing 216 community phones in 124 remote Indigenous communities was conducted. Community phones are designed to resist environmental extremes and potential vandalism, and operate using prepaid cards only. An evaluation of the trial conducted by an independent consultant, Allan Horsley, that was finalised in March 2007 found that community phones have been well supported.

As part of the TAPRIC program, Telstra also provided pre-paid Country Calling Line residential services to remote Indigenous customers. Under the trial, 33 services were installed, with customers paying a monthly rental fee debited from their Centrelink income. For outgoing calls, Country Calling Line services are operated using pre-paid cards (other than for free emergency calls).

The evaluation of this trial found that these services helped address credit management issues. However, some technical and administrative issues would need to be addressed before the service could be made more widely available. These issues include managing the collection of monthly debits via Centrelink payments.

Under the current universal service regime, a universal service provider has the opportunity to offer an alternative telephone service in place of a standard telephone service in fulfillment of its universal service obligations. This provides considerable flexibility in the current legislation, but has not been utilised to date. The *2004 Review of the USO and CSG* concluded that the alternative telephone service arrangements have potential practical application in the supply of services to remote Indigenous communities. For example, a basic telephone service could be defined in such a way that it met the needs of remote Indigenous communities while limiting the burden on the universal service provider.

### **4.3 Service delivery**

The delivery of basic telecommunications services to remote Indigenous communities poses a number of challenges for service providers.

Currently Telstra, as the primary universal service provider, has obligations to provide basic phone services and payphones in remote Indigenous communities as part of its USO. However, under the existing USO, some remote Indigenous communities have only limited access to basic phone services. This occurs for a variety of reasons, including the high cost of service delivery in some locations or customer credit management problems. For example, communities with fewer than 50 members are more likely to have limited access to telecommunications services.

As primary universal service provider, Telstra's Standard Marketing Plan details situations where it will supply a payphone to small remote communities, including Indigenous outstations. As a general rule, Telstra will provide a payphone where there is a permanent population of more than 20 adults or more than 50 people in total. Currently, there is no obligation to provide services to communities that do not meet these minimum criteria. In terms of service standards, Telstra's payphone fault repair performance in remote areas has been consistently below the 80 per cent target set by the 2004 *Payphone Policy Review* (see the discussion in section 3.4).

In addition to the obligations of the universal service regime, the Australian Government has provided public funding for the installation of telecommunications infrastructure in remote Indigenous communities. Examples include TAPRIC and the \$36.6 million telecommunications component of the Backing Indigenous Ability program.

Some of these Australian Government funded programs have trialled innovative delivery options. For example, the contract with Telstra for community phones provided for Australian Government funding of the installation of the phones, with Telstra maintaining the phone line and communities maintaining the handset. This trial arrangement was designed to reduce ongoing maintenance costs in view of the expenses associated with servicing phones in remote areas.

The program evaluation found that the concept of communities taking direct responsibility for maintaining community phones is unlikely to be sustainable in the long term (for example, because trained community members move on). Other options for providing ongoing maintenance may include Australian Government funding of contracts to maintain the phones (with contractors being able to engage communities as they considered appropriate) and incorporating maintenance of the phones as part of the universal service regime.

Q 4.1 What parts of the current universal service arrangements work well for remote Indigenous communities and should be maintained?

Q 4.2 From a community perspective, what should be changed?

Q 4.3 From an industry perspective, what should be changed?

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|-------|--|
| Q 4.4 | What would be the best approach to providing universal service in remote Indigenous communities? Should universal service providers offer customised payphone services on request in Indigenous communities, along the lines of the community phone model? |
| Q 4.5 | What is the best way to ensure the ongoing maintenance of community phones in remote Indigenous communities?   |

## **Chapter 5: Delivery of services under the universal service regime**

### **5.1 Overview**

This chapter explores the best way to deliver universal services. It asks what regulatory arrangements should be put in place so that universal services are delivered in the most cost effective and efficient manner possible, and can be effectively monitored and enforced. This chapter also examines the cost of providing universal access to telephone services, and discusses possible mechanisms for identifying, quantifying and addressing these costs.

As outlined in Chapter 1, the current universal service regime has been established by obliging a provider to supply basic phone services on request, with an industry-funded subsidy paid to the USO provider. Alternatively, the Australian Government could provide incentives, financial or otherwise, to attract providers to voluntarily enter into supply arrangements where adequate commercial services are not available.

### **5.2 Major new regional and rural networks**

In recent years, the telecommunications industry has been transformed by greater competition and the roll-out of significant network infrastructure, including in regional areas. For example, Telstra has announced the roll out of its Next G network and that it covers 98 per cent of the Australian population. OPEL, a joint venture between Optus and rural group Elders, has been awarded \$600 million under the *Broadband Connect Infrastructure Program* to roll out a new, state-of-the-art broadband network into under-served areas, plus an additional funding component of \$358 million to go even further. OPEL has committed to match this investment with its own commercial contribution of over \$900 million. This network will use a mix of ADSL2+ and wireless broadband platforms to provide fast, affordable broadband services to currently under-served premises in rural and regional areas, complementing already established networks and services and extending broadband coverage to 99 per cent of Australian premises. These networks, and the emergence of other providers and services, raise questions about Telstra's current role as primary universal service provider for the whole of Australia.

Q 5.1	How should universal service be provided in areas with several competing telecommunications networks?
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### **5.3 New networks in new housing estates**

Property developers are increasingly seeking to have optical fibre or other high capacity telecommunications networks installed in new housing estates to deliver high speed broadband, telephone services and pay television. Often installation of at least some of these networks is put to competitive tender by the developer.

There are questions about the operation of the universal service regime in these circumstances. For example, Telstra has questioned whether a universal service provider should be required to provide services where another provider has already rolled out commercial infrastructure and is providing comparable services. This raises

broader questions about the role of the universal service regime in areas serviced by competing telecommunications infrastructure that is provided on a commercial basis.

Q 5.2 How should universal service be provided in new housing estates?

Q 5.3 What obligations, if any, should apply to a provider who rolls out telecommunications infrastructure in a new housing estate?

#### **5.4 Different delivery models**

There are many potential mechanisms for facilitating the delivery of universal services, including several provided for in the existing universal service regime. Options include, but are not limited to:

- using a competitive process such as a tender to allow the market to compete for service provision in designated areas and/or for designated services;
- expanding the government's contestability trials which operated between 2001 and 2004. These trials allowed competing universal service providers to offer services in specified universal service areas, and to access universal service subsidies on a per service basis;
- using an approach similar to the Australian Broadband Guarantee, where providers are paid a subsidy for service provision to customers that would not have otherwise received a phone connection on a commercial basis;
- providing a rebate to consumers—using an approach similar to the Australian Government's Low Pressure Gas Vehicle Scheme;
- varying the existing process so that one, or potentially several providers, are declared as universal service providers for designated areas and/or services in Australia; or
- a general obligation on carriers to provide services of a minimum standard on request in areas where they have network infrastructure.

Different delivery arrangements could apply in different parts of Australia and/or for different service obligations.

As an example of arrangements that could be implemented under the existing legislative regime, the Minister could determine that different carriers were responsible for providing universal access to basic phone services in different states. The Minister could also determine that one carrier was responsible for providing universal access to payphones in one state and that another carrier was responsible for providing universal access to basic phone services in the same state.

Alternatively, universal access to basic phone services in Australia could be delivered through an expanded version of the contestability pilots while universal access to payphones could be put to competitive tender.

Q 5.4 What should be the role of a universal service regime in a competitive environment?

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| Q 5.5 | What would be the best approach to providing universal access to basic phone services?  |
| Q 5.6 | What would be the best approach to providing universal access to payphones?   |
| Q 5.7 | What should be the role of a universal service provider? For example, should a universal service provider be required to deliver a service to any customer who requests a phone connection, or should this requirement only come into effect if the customer cannot otherwise get a connection on a commercial basis? |
| Q 5.8 | What would make competitive delivery of the universal service regime attractive to service providers?   |
| Q 5.9 | What information would need to be available to interested providers to make competitive delivery of universal service feasible?   |

### **5.5 The cost of providing universal services**

There are a number of possible ways to calculate the net cost of providing universal service. Similarly, there are a variety of ways to raise and distribute funds to address these costs.

There is a long history of debate relating to USO costing arrangements. In Australia, the net cost of providing universal service has been based on cost modelling. Attachment D contains a brief discussion of the history of costing the USO.

The subsidy levels for 2008–09 and beyond need to be set pending the outcome of this review.

#### **5.5.1 Rural deficit**

Telstra claims that it is insufficiently funded for the delivery of services under the USO in rural and remote areas, and that it makes up this shortfall through internal cross-subsidies from metropolitan areas and other business units. Telstra further claims that this situation would need to be addressed in providing access to a new fibre-to-the-node infrastructure in metropolitan areas, particularly in an increasingly competitive market. Telstra claims that failure to do so would act as a disincentive to such a roll-out. Competitors have disputed the level of losses claimed by Telstra.

There have been considerable changes in recent years. Greater competition has reduced Telstra's ability to cross subsidise. However, there have also been changes to price cap regulations which have enabled rebalancing between line rental costs and line call costs, with the average cost of basic access paid by residential consumers increasing by around 33 per cent between years 2000–01 and 2005–06<sup>2</sup>. As discussed previously, the telecommunications market has changed in recent years, with a decline in fixed line services and considerable growth in mobile and broadband services.

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<sup>2</sup> Australian Competition and Consumer Commission, *ACCC telecommunications reports: 2005–06*, p.86

For 2004–05, Telstra’s annual financial statements<sup>3</sup> notes that Telstra CountryWide (the business unit responsible for providing telecommunications services to customers in outer metropolitan, regional, rural and remote parts of Australia) had earnings (before interest and tax) of \$4.9 billion out of total Telstra group earnings (before interest, tax, depreciation and amortisation) of \$10.7 billion.

Q 5.10 Is there a rural deficit?

Q 5.11 How can there be an assurance that services will be provided to metropolitan, rural and remote customers on an equitable basis?

### **5.5.2 Cost modelling**

The 2004 *Review of the operation of the Universal Service Obligation and Customer Service Guarantee* (the 2004 Review) found a number of difficulties associated with previous cost modelling approaches to setting USO subsidies. The 2004 Review also found that the problems and costs associated with developing a new model might outweigh the potential benefits, and concluded that:

*The history to date suggests any new attempts to cost the USO in the Australian context would be difficult, controversial, costly and, on ACA estimates, would take a minimum of two years. Even then, any subsidy based on modelling results would risk being contested by one or more of the affected carriers, given the range of factors and the nature of the methodological issues involved.*

Consistent with the different methodologies for providing universal service outlined above, there are several possible approaches to costing and funding the USO, and these are necessarily linked to the way that USO services are delivered. Examples of such approaches include:

- allowing an independent body such as ACMA or the ACCC to set subsidies based on an objective calculation of the cost of meeting the USO—this would be based on a cost model, which may have the problems described above;
- setting the subsidy equal to a fixed percentage of telecommunications industry revenue—currently, total revenue is approximately \$25 billion;
- compensating a single universal service provider for any losses incurred in the delivery of USO services on a per service basis—this would need to look at actual expenditure and ensure that the only costs counted are those associated with providing non-profitable connections;
- calculating the cost of providing the USO with the same model used by the ACCC to calculate wholesale access charges, with the option of including these costs in access prices;
- requiring the universal service provider to absorb the cost through an internal cross-subsidy—in other jurisdictions it is recognised that the brand equity of being

<sup>3</sup> Telstra, *Annual report 2004–05*, p.275 and p.228. No subsequent financial details for Telstra CountryWide are available.

the ultimate reliable carrier responsible for the USO and other intangible benefits described in [Attachment F](#) have a market value;

- using a competitive process to allow the market to decide the adequate level of compensation for delivering the USO—this could be achieved in a number of ways, but prominent examples include:
  - a reverse auction where each applicant bids for the lowest recompense for the greatest coverage;
  - a government request for providers to submit the terms under which they would supply universal access to services to be considered on their merits; and
  - using contestability arrangements similar to those already provided for in the current legislation (for more details see the description in [Attachment D](#)).
- using an Australian Broadband Guarantee approach—where commercially provided services are not available, providing an incentive to ensure the delivery of services.

Q 5.12	What approaches to costing the USO could be adopted to overcome the inherent problems of costing models?
Q 5.13	When considering the cost of providing universal services, what elements should be factored in?
Q 5.14	What arguments are there for subsidising the cost of delivering the USO through a cross subsidy?

## **5.6 Funding sources**

An object of the current legislation is that providers of telecommunications services should contribute, in a way that is equitable and reasonable, to the funding of the USO.

ACMA is responsible for the assessment, collection, recovery and distribution of the USO levy. Currently, all licensed carriers contribute to the fund but there are a number of alternatives. For example, the number of contributors could be reduced so that only larger carriers contribute, or alternatively the number of contributors could be increased by including carriage service providers.

Q 5.15	What would be the best approach to funding universal service subsidies?
Q 5.16	How could the existing arrangements for the assessment, levying, collection and distribution of universal service contributions be improved?

### **5.6.1 Carriers**

Currently, all carriers must contribute to the USO levy in proportion to their share of total industry ‘eligible revenue’. Eligible revenue is defined as a carrier’s total telecommunications revenues less certain deductions.

As a result of increasing competition, there has been a significant change in market structure in recent years, including significant growth in the number of licensed carriers. The number of licensed carriers has grown from 45 in 1999–2000 to 139 in 2004–05, 167 in 2005–06 and 182 in 2006–07. This growth has increased the burden upon ACMA in administering the USO levy process. As ACMA’s costs are recovered through carrier licence fees, these costs are imposed on industry. The USO levy process also imposes a potentially significant compliance burden on carriers, particularly for smaller businesses.

A large number of licensed carriers account for a minimal proportion of the total industry eligible revenue. For the 2005–06 financial year 167 carriers were required to submit eligible revenue returns. The largest five carriers accounted for more than 94 per cent of the total industry eligible revenue of approximately \$24 billion, and the largest 25 carriers accounted for 99 per cent.

An eligible revenue threshold would exempt carriers from submitting eligible revenue assessments and contributing to the USO subsidy if their revenue was below the threshold. An example of an eligible revenue threshold being used is in relation to the determination of carriers’ annual carrier licensing charges and contributions to the funding of the National Relay Service (NRS). The NRS is an Australia-wide telephone access service available to people with hearing or speech impairment. An eligible revenue threshold of \$10 million for the NRS was introduced for the 2005–06 financial year.

The following table indicates the impact of alternative eligible revenue thresholds using ACMA’s 2004–05 assessment, and shows the hypothetical impact this would have had on the redistribution of the 2005–06 USO levies (the most recent completed USO levy assessment).

**Table 2: The impact of various eligible revenue thresholds**

Eligible Revenue Threshold	Number / % of carriers excluded (total carriers = 139)		USO levy redistributed to remaining carriers
\$100,000	53	38%	\$6,306
\$1,000,000	78	56%	\$68,951
\$10,000,000	110	79%	\$1,097,228
\$50,000,000	126	91%	\$3,269,436

**Q 5.17** For the purposes of the USO, what threshold level, if any, should be applied to eligible revenue? What impact would this have on administrative costs for ACMA and small carriers? What financial impact would this have on the remaining eligible carriers?

## **5.6.2 Carriage service providers**

In 2000, provision was made for the Minister for Communications, Information Technology and the Arts to determine that carriage service providers should contribute directly to USO subsidies. To date, no such determination has been made.

At 30 June 2006, the TIO public register listed 1,170 carriage service providers, an increase of 3 per cent on 30 June 2005.

Q 5.18 On what basis should carriage service providers be required to directly contribute to USO subsidies?

## **5.7 USO oversight and compliance**

A number of organisations participate in the oversight of the universal service regime, including the Australian Communications and Media Authority (ACMA), the Telecommunications Industry Ombudsman (TIO) and Communications Alliance.

### **5.7.1 The Australian Communications and Media Authority**

ACMA is the regulator of the Australian communications industry, and is responsible for numerous telecommunications issues of relevance to the universal service regime, including:

- monitoring delivery of the USO, including the supply of the standard telephone service and payphones;
- approving the Standard Marketing Plan and Policy Statement of a universal service provider;
- providing advice to the Minister on USO subsidy levels;
- reporting of provider performance with reference to consumer satisfaction, consumer benefits and quality of service;
- the establishment of industry standards, including for standard telephone handsets and facilities to be made available for people with disabilities;
- registering industry codes; and
- ensuring appropriate membership or exemption from the TIO Scheme.

For delivery of the standard telephone service and payphones, ACMA has direct jurisdiction over carriers and carriage service providers. ACMA may not have jurisdiction over other businesses or community groups operating a payphone if they are neither carriers nor carriage service providers<sup>4</sup>.

Consistent with the legislative emphasis on maximising reliance on industry self-regulation, ACMA's compliance strategy is directed at education of industry and

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<sup>4</sup> Independent payphone operators are subject to the normal laws affecting businesses, including fair trading laws and the *Disability Discrimination Act 1992*. In general, state, territory and local government has primary jurisdiction over independent operators (and therefore over the majority of payphones in Australia).

consumers and regular monitoring and reporting of industry performance. ACMA's approach to enforcement is graduated, proportionate and responsive to complaints.

### **5.7.2 The Telecommunications Industry Ombudsman**

The Telecommunications Industry Ombudsman (TIO) manages an independent scheme for the investigation and resolution of complaints about carriers and carriage service providers by residential and small business customers. The TIO has jurisdiction to investigate complaints relating to the delivery of the standard telephone service and payphones.

The TIO has the authority to make decisions that are legally binding on a telecommunications company (up to the value of \$10,000), recommendations (up to the value of \$50,000) and findings of fact (for amounts in excess of \$50,000). The TIO may refer systemic problems, identified through complaint statistics, to ACMA, the Australian Competition and Consumer Commission, the Office of the Federal Privacy Commissioner or other appropriate bodies.

### **5.7.3 Communications Alliance**

Communications Alliance is the peak communications industry body. It is a non-government body, comprised of industry representatives and consumer groups.

Under telecommunications legislation, industry self-regulation is encouraged in all areas, including development of technical standards, interconnection standards, and consumer service standards. Communications Alliance has primary responsibility for developing technical, operational and consumer industry Codes of Practice.

The TIO assists Communications Alliance in developing Codes by providing information and other feedback on complaints received by the TIO.

Government regulators have powers to intervene if industry self-regulation is not working effectively in specific instances.

While ACMA regulates customer equipment and cabling connected to networks and facilities, it may delegate much of the responsibility for standards-setting, compliance testing, labelling and the issuing of cabling licences to another body such as Communications Alliance.

- Q 5.19 What is the most efficient and effective way to monitor and ensure compliance with the universal service regime?
- Q 5.20 How could the administrative burden associated with the universal service regime be streamlined or reduced, while still maintaining adequate oversight and compliance?
- Q 5.21 How can consumers be made more aware of the respective roles of organisations involved in oversight and compliance of the universal service regime?

**Q 5.22** In what ways could the respective functions of regulatory organisations be improved and/or clarified?