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## TELSTRA CORPORATION LIMITED

### Submission in response to ACCC fixed line telecommunications services declaration inquiry – consultation and position paper

Public version

12 October 2018

[CIC begins] = information not to be released without a confidentiality undertaking

[CIC begins] = information not to be released even with a confidentiality undertaking



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## EXECUTIVE SUMMARY

The supply of fixed line services (and the telecommunications industry more broadly) has continued to undergo significant change since the last declaration inquiry in 2013/14.

Most significantly, the NBN rollout is now well advanced, and the build of the network is currently due to complete by June 2020. The NBN represents a fundamental change to the way fixed line services are supplied in Australia, by replacing Telstra's copper network with a structurally separated broadband access network. As a result, there has been a decline in legacy copper services, and this will continue until migration to the NBN is complete. Telstra expects that, by 2023/24, wholesale SIOs on the legacy copper network will be approximately **[CIC begins] [CIC ends]** of 2015/16 levels.<sup>1</sup>

Telstra considers that, during the remaining NBN rollout and migration period, the long term interests of end users are best served by extending the declaration of the six fixed line services (ULLS, LSS, WLR, LCS, FOAS and FTAS) for five years, and retaining the existing service descriptions. The declared services have provided a platform for competition to supply voice and broadband services and, while copper-based services are declining significantly, at present the copper network continues to be a last mile access network to which a large number of end users are directly connected.

Against that background, Telstra considers the current regulatory settings remain appropriate while the NBN rollout and migration completes. Continuing them will promote stability and certainty for the industry during this time of transition, and will allow the industry to focus their efforts on significant migration to the NBN. After the next regulatory period, once the NBN is complete and the competitive landscape for the telecommunications industry is clearer, the need for any ongoing regulation can be further considered.

For the same reasons, Telstra supports expedited declaration and FAD review processes, and a simple approach to determining FAD prices. Telstra considers it is in the long term interests of end users and the industry if price and non-price terms remain unchanged for the upcoming regulatory period. We note that a price rollover adjusting for CPI would result in an increase of 4.24% for the next regulatory period,<sup>2</sup> and only a marginal increase in revenues. It is an option available for consideration by the ACCC.

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<sup>1</sup> Telstra internal data.

<sup>2</sup> Dec 2015 to Jun 2018 CPI All Groups Australia ABS 6401.0.



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## 01 INTRODUCTION

Telstra welcomes the opportunity to respond to the ACCC's *Fixed line telecommunications services declaration inquiry: Consultation and position paper* (**Consultation Paper**). The Consultation Paper relates to the declaration of the following fixed line services provided over Telstra's copper network:

- Unconditioned Local Loop Service (**ULLS**);
- Line Sharing Service (**LSS**);
- Wholesale Line Rental (**WLR**);
- Local Carriage Service (**LCS**);
- Fixed Originating Access Service (**FOAS**); and
- Fixed Terminating Access Service (**FTAS**).

The remainder of this submission is structured as follows:

- **Section 2** describes how the Australian telecommunications landscape has changed since the last declaration process in 2013/14. This provides relevant context for considering the continued declaration of the six fixed line services.
- **Section 3** summarises Telstra's view that the fixed line services should continue to be declared during the transition to the National Broadband Network (**NBN**).
- **Sections 4, 5 and 6** consider the six fixed line services in more detail.
- **Section 7** explains Telstra's view that a five year declaration period is appropriate.
- **Section 8** explains Telstra's view that prices and access terms should remain stable for the upcoming regulatory period.
- **Attachment A** provides Telstra's responses to the specific questions raised by the ACCC in the Consultation Paper.



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## 02 AUSTRALIA'S TELECOMMUNICATIONS LANDSCAPE HAS CONTINUED TO EVOLVE SINCE 2014

### 2.1. Overview

The fixed line services that are the subject of this declaration inquiry were last declared in 2014. Since then, the supply of fixed line services (and the telecommunication industry more broadly) has continued to undergo significant change. In particular:

- the rollout of the NBN is now well advanced, and is currently due to complete by June 2020 (with full migration set to occur at least 18 months after that date);
- there has been a corresponding decline in legacy copper services, and this will continue until the NBN rollout and migration is complete;
- not only is the NBN fundamentally changing competition at the network infrastructure level, it is also impacting competition at the retail level as new retail service providers (**RSPs**) enter the market and consumers assess possible providers as they move to an NBN service;
- there is strong competition in relation to both fixed and mobile services, which has resulted in significant and ongoing price reductions, product differentiation and innovation, as well as competition in relation to service quality; and
- fixed and mobile voice services have continued to converge, and the prevalence and use of Over-the-Top (**OTT**) voice and messaging services has continued to grow.

In addition, there are ongoing policy developments – particularly around reform of the Universal Service Obligation (**USO**) – which may affect the extent to which the legacy copper network is used to supply voice services outside the NBN fixed line footprint.

These issues are discussed in more detail below, as they provide important context for considering the continued declaration of the fixed line services. While there is still a need to declare fixed line services in the short term, the need for any continued declaration beyond this is unclear and must take account of a range of market and policy developments taking place over the next few years.

### 2.2. The NBN rollout continues

The NBN represents a fundamental change to the way fixed line services are supplied in Australia, by:

- replacing Telstra's copper customer access network (**CAN**) with a structurally separated broadband access network;
- progressively replacing circuit-switched PSTN infrastructure with IP technology; and
- introducing a more efficient access structure based on 121 points of interconnect.

According to NBN Co's *Corporate Plan 2019-22*:<sup>3</sup>

- its goal is to have eight million homes and businesses connected by 2020;

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<sup>3</sup> NBN Co, *Corporate Plan 2019-22*, pages 4-6, available at: <https://www.nbnco.com.au/content/dam/nbnco2/2018/documents/media-centre/corporate-plan-report-2019-2022.pdf>.



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- the build of the network is on track for completion by June 2020, with 90% of the fixed line network set to be capable of achieving peak wholesale download data rates (and proportionate upload rates) of at least 50 Mbps; and
  - by the end of 2017/18, the number of premises “Ready For Service” (**RFS**) grew to 8.1 million, the number of premises “Ready To Connect” grew to 7 million, and the number of end user premises activated grew to 4 million.

As a result of the NBN rollout and migration, the relevance of Telstra’s copper CAN is declining, and it will continue to do so until the NBN is complete. For example, between 2015/16 and 2017/18, the total number of Telstra wholesale lines / services in operation (**SIOs**) decreased from approximately [CIC begins] [CIC ends], reflecting migration of end users from legacy services provided over the copper CAN to the NBN.<sup>4</sup> Wholesale SIOs will continue to decline significantly as the NBN rollout and migration completes. Telstra expects that, by 2023/24, wholesale SIOs on the legacy copper network will be approximately [CIC begins] [CIC ends] of 2015/16 levels.<sup>5</sup> This is discussed in further detail in Section 8.

### 2.3. Competition to supply telecommunications services to end users

The structural and technological changes taking place in the telecommunications industry are helping to drive competition and innovation in the supply of voice, broadband, and other services. Recent trends regarding the supply of voice and broadband services are discussed below.

#### 2.3.1 Fixed voice and broadband services

In several recent reports, including the *Communications Sector Market Study Final Report* and *Competition and price changes in telecommunications services in Australia 2016–17*, the ACCC found that prices for fixed services have decreased, while non-price elements have improved. In particular, we note the following findings:

- **In relation to fixed voice:**
  - a. There has been a long-term decline in voice service prices, with average real prices falling by 7.5% in 2015/16. This has been driven by a decline in the price of retail basic access services and fixed-to-mobile calls.<sup>6</sup>
  - b. Increasingly, fixed voice plans have included unlimited call options. This has reduced the importance of individual call tariffs and flagfalls for consumers.<sup>7</sup>
- **In relation to fixed broadband:**
  - a. Real prices fell by 9.4% during 2016/17, largely due to improvements in data allowances. There has been a downward trend in prices since 2013/14, although the decline was stronger in 2016/17 than previously (driven by non-NBN service prices).<sup>8</sup>

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<sup>4</sup> Telstra internal data.

<sup>5</sup> Telstra internal data.

<sup>6</sup> ACCC, *Communications Sector Market Study Final Report*, April 2018, page 30.

<sup>7</sup> ACCC, *Competition and price changes in telecommunications services in Australia 2016–17*, February 2018, page 36.

<sup>8</sup> ACCC, *Competition and price changes in telecommunications services in Australia 2016–17*, February 2018, page 23.



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- b. Data inclusions have increased substantially over recent years. Data quotas for fixed line services increased by approximately 39% in 2016/17, and approximately one quarter of all fixed broadband services included unlimited data.<sup>9</sup>
  - c. There is also competition in relation to other variables including contract length, coverage, network speed, and service quality.<sup>10</sup>
  - d. The market for broadband plans has been relatively dynamic, with service providers constantly introducing new plans and either removing or altering existing plans. Between 2013/14 and 2016/17, on average, less than half the plans available in a given year were also available in the previous year.<sup>11</sup>

### 2.3.2 Mobile services

Similarly, the ACCC has found that the supply of mobile services is competitive. For example:

- for 2016/17, the average price for post-paid mobile services decreased in real terms by 4.4%, while post-paid mobile data inclusions increased by an average of 49%;<sup>12</sup>
- the ACCC's mobile phone services price index has fallen by an average of 4.2% annually since it commenced in 1997/98;<sup>13</sup> and
- there is also competition in relation to other variables including contract length, coverage, network speed, and service quality.<sup>14</sup>

Competition will continue to intensify as mobile network operators prepare to launch 5G. As noted in our recent submission to the ACCC's declaration inquiry into the Domestic Mobile Terminating Access Service, Telstra's rollout of 5G is underpinned by around \$5 billion in mobile network investment over the three years to 30 June 2019, consistent with previous guidance, to enhance the capacity, capability and reach of our network.

### 2.3.3 Convergence of fixed, mobile and OTT services

There is evidence that, at the retail level, fixed and mobile voice services are converging. This is driven by a range of factors, including mobile network improvements and technological advancements which mean mobile networks are capable of delivering comparable services to fixed networks in terms of cost, service quality, speed and reliability.<sup>15</sup>

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<sup>9</sup> ACCC, *Communications Sector Market Study Final Report*, April 2018, page 33.

<sup>10</sup> ACCC, *Communications Sector Market Study Final Report*, April 2018, pages 33 to 38.

<sup>11</sup> ACCC, *Competition and price changes in telecommunications services in Australia 2016–17*, February 2018, page 19.

<sup>12</sup> ACCC, *Communications Sector Market Study Final Report*, April 2018, page 31.

<sup>13</sup> ACCC, *Communications Sector Market Study Final Report*, April 2018, page 31.

<sup>14</sup> ACCC, *Communications Sector Market Study Final Report*, April 2018, pages 33 to 38.

<sup>15</sup> ACCC, *Communications Sector Market Study Final Report*, April 2018, page 49.



In particular, approximately 95% of adult Australians now own a mobile phone, which means the majority of Australians can choose to substitute a fixed call for a mobile call.<sup>16</sup> Fixed voice services are declining year on year, while mobile voice services are growing at a rapid rate. For example, in 2016/17:<sup>17</sup>

- the number of fixed voice SIOs declined slightly, from 8.9 to 8.8 million, but the number of voice call minutes originating from fixed lines declined by 3 billion, from 19 to 16 billion minutes;
- by contrast, the number of mobile SIOs increased from 25.2 to 25.9 million, and the number of mobile voice minutes increased by 7 billion, from 59 to 66 billion minutes; and
- there were 6.7 million mobile-only users, up from 5.8 million the previous year.

In addition to these changes, there has also been an increase in the prevalence and use of OTT applications for voice calls and messages. OTT app penetration increased from 35% in 2012 to 88% in 2018 for online Australians,<sup>18</sup> and 22% of adult Australians prefer to use OTT services to make voice calls<sup>19</sup> (although OTT voice services have more limited functionality than traditional voice services).

## 2.4. The copper network and the USO

Telstra is responsible for the delivery of the USO under the Telecommunications Universal Service Obligation Performance Agreement (**TUSOPA**). At present, the legacy copper network plays an important role in the delivery of the USO, but reform proposals have the potential to change the way in which USO obligations are met.

### 2.4.1 The USO

The USO comprises two separate obligations which relate to the provision of the Standard Telephone Service (**STS**) and payphones. The STS obligation ensures that every Australian, regardless of their location, can have a voice service provisioned at their residence or place of business on request to an acceptable standard. The payphones obligation aims to ensure payphones are reasonably accessible to all people in Australia on an equitable basis, wherever they are located.

The TUSOPA contains a “copper continuity” obligation (**CCO**) which requires Telstra to maintain services on the legacy copper network to customers outside the NBN fixed line footprint. In addition to copper, Telstra meets the STS USO over satellite, radio CAN, Telstra-owned fibre, and NBN fibre.

### 2.4.2 USO reform

In 2017, the Productivity Commission (**PC**) released a report into the USO.<sup>20</sup> It concluded that, in its current form, the USO is no longer needed. It based its conclusions on a number of points, including:<sup>21</sup>

- For more than 99% of premises, the combination of the NBN and mobile networks is likely to meet or exceed minimum standards for universal service delivery.

<sup>16</sup> ACMA, *Communications Report 2016-17*, November 2017, page 16.

<sup>17</sup> ACCC, *Competition and price changes in telecommunications services in Australia 2016–17*, February 2018, page 6.

<sup>18</sup> Venture Consulting data commissioned by Telstra, 2018.

<sup>19</sup> ACMA, *Communications Report 2016-17*, November 2017, page 17.

<sup>20</sup> Productivity Commission, *Telecommunications Universal Service Obligation*, 28 April 2017.

<sup>21</sup> Productivity Commission, *Telecommunications Universal Service Obligation*, 28 April 2017, page 2.





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- The objective of universal service can be reframed to provide baseline broadband and voice services to all premises in Australia once the NBN rollout is complete, having regard to the accessibility and affordability of these services. Increasingly, broadband will be the main medium for voice services.
  - Current trends and policy settings suggest that any remaining availability, accessibility or affordability gaps are likely to be small and concentrated. The USO can therefore be terminated once the NBN is rolled out, and replaced by targeted policy measures for premises in pockets of the NBN satellite footprint without adequate mobile coverage, and for other users with particular needs.

In December 2017, the government released its response to the PC report.<sup>22</sup> It stated that:

- in line with the PC's report, it would commence work to establish a Universal Service Guarantee (**USG**) to *“provide all Australian premises, regardless of their location, with access to both voice and broadband services delivered on a commercial basis by the market in the first instance, and where this cannot be achieved, options will be developed for targeted Government measures”*; and
- in developing options for implementation of the USG, it would need to consider *“alternative means of providing voice services to premises in NBN Co's satellite footprint, recognising that NBN Co's satellites are designed for broadband not voice services”*.

At present, the extent to which the legacy copper network will continue to be used to provide voice services in NBN's satellite footprint as part of any USG is unclear. For the time being, the USO and the CCO remain in place as outlined above.

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<sup>22</sup> Available at: <https://www.communications.gov.au/documents/australian-government-response-productivity-commissions-inquiry-telecommunications-universal-service>.



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### 03 OVERVIEW OF TELSTRA'S POSITION REGARDING DECLARATION OF FIXED LINE SERVICES

Telstra considers that, during the remaining NBN rollout and migration period, the long term interests of end users (**LTIE**) are best served by extending the declaration of the six fixed line services, and retaining the existing service descriptions for each service.

More specifically, Telstra's position is that:

- Together, the declared fixed line services have provided a platform for increased competition in relation to the supply of services over the copper CAN.
- While copper-based services are declining significantly, and will continue to do so over the next few years, at present the copper CAN continues to be a last mile access network to which a large number of end users are directly connected.
- The current regulatory settings are well understood and remain appropriate while the NBN rollout and migration completes. Continuing them will promote stability and certainty for industry at this time of transition, and will allow industry to focus their efforts on significant migration to the NBN.
- After the next regulatory period, once the NBN is complete, the path for USO reform is more certain, and the competitive landscape for the telecommunications industry is clearer, the need for any ongoing regulation can be further considered.

Telstra's position is expanded upon in Sections 4 to 7 of this submission.



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## 04 ULLS AND LSS

### 4.1. Introduction

ULLS and LSS provide access seekers with the ability to connect their equipment (i.e. Digital Subscriber Line Access Multiplexers (**DSLAMs**)) directly to the copper loop that connects end user premises to the Telstra exchange. In other words, these services provide direct access to Telstra's copper CAN, and allow access seekers to differentiate their voice, broadband and other services for supply to end users.

### 4.2. ULLS and LSS services are decreasing

As a result of the NBN rollout and migration, DSLAM investment has plateaued and ULLS and LSS SIOs have decreased significantly. For example, between June 2014 and June 2018:

- the percentage of Exchange Service Areas with at least one DSLAM-based access seeker remained relatively steady at around 11.8% to 12%,<sup>23</sup> which contrasts with the previous regulatory period when DSLAM-based investment increased; and
- the number of ULLS and LSS SIOs decreased from approximately 2.1 million to approximately 1.4 million.<sup>24</sup>

Furthermore, by 2023/24, Telstra expects ULLS and LSS SIOs to decline to just **[CIC begins]** **[CIC ends]**.<sup>25</sup>

### 4.3. ULLS and LSS should continue to be declared during the transition to the NBN

As the ACCC noted in its Consultation Paper, while legacy services are declining significantly, in the short term the copper network remains relevant to many end users. In particular, it remains relevant to end users prior to their migration to the NBN, and in NBN fixed wireless and satellite areas where legacy services remain available.

Telstra considers that, in the context of ongoing migration to the NBN, ULLS and LSS should continue to be declared. Continued declaration of these services during this period will allow access seekers to continue to offer competitive voice and broadband services over the legacy copper network in areas where NBN migration has not yet occurred or been completed. In turn, this will allow access seekers to maintain / grow their market presence as end users migrate to the NBN, thereby helping to promote competition in the transition to the NBN. Declaration will also ensure the economically efficient use of existing infrastructure – the legacy copper network and existing DSLAM investments made by access seekers in Telstra exchanges – by allowing services to be competitively offered over this infrastructure during the transition to the NBN.

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<sup>23</sup> ACCC, *Quarterly snapshots of ULLS, LSS and DSL*, June 2014, 2015, 2016, 2017 and 2018, available at: <https://www.accc.gov.au/regulated-infrastructure/communications/monitoring-reporting/telecommunications-reports-record-keeping-rules/quarterly-snapshots-of-ulls-lss-and-dsl>.

<sup>24</sup> ACCC, *Quarterly snapshots of ULLS, LSS and DSL*, June 2014 and June 2018, available at: <https://www.accc.gov.au/regulated-infrastructure/communications/monitoring-reporting/telecommunications-reports-record-keeping-rules/quarterly-snapshots-of-ulls-lss-and-dsl>.

<sup>25</sup> Telstra internal data.



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If ULLS and LSS continue to be declared, the existing service descriptions remain appropriate. There is no reason to change service descriptions that have been in place for a number of years, are well understood by industry, and work well. This is particularly so given the declining demand for these services in light of transition to the NBN, and the importance of fostering industry certainty about the scope of regulation of the legacy network at this time.



## 05 WLR, LCS AND FOAS (PRE-SELECT AND OVERRIDE)

### 5.1. Introduction

WLR and LCS give access seekers the ability to provide voice services to end users connected to the PSTN by reselling Telstra's basic access and local calling services. By contrast, FOAS (pre-select and override) allows access seekers to use their own infrastructure for the provision of long distance and other call types, and is purchased as a bundle with WLR and LCS.<sup>26</sup>

Together, WLR, LCS and FOAS (pre-select and override) allow access seekers to provide end users with a full suite of voice services, without the need to invest in their own exchange equipment. While these services do not provide access seekers with the same level of control or ability to differentiate their service offerings as ULLS or LSS, they can be utilised by a wider range of access seekers, with entry possible at a lower scale.

### 5.2. WLR, LCS and FOAS (pre-select and override) services are decreasing

WLR, LCS and FOAS (pre-select and override) services are decreasing significantly as the NBN rollout and migration continues. For example:

- Telstra estimates that, in 2015/16, the number of WLR SIOs was approximately [CIC begins] [CIC ends], but by 2017/18, this had fallen to approximately [CIC begins] [CIC ends]. Over the same period, LCS calls fell from approximately [CIC begins] [CIC ends].<sup>27</sup>
- By 2023/24, Telstra expects WLR SIOs to decline to approximately [CIC begins] [CIC ends], and LCS calls to decline to just [CIC begins] [CIC ends].<sup>28</sup>
- The same trend can be observed with respect of FOAS (pre-select and override). Telstra estimates that its supply of this service decreased from approximately [CIC begins] [CIC ends] in July 2013 to approximately [CIC begins] [CIC ends] in July 2018.<sup>29</sup>

### 5.3. WLR, LCS and FOAS (pre-select and override) should continue to be declared during the transition to the NBN

As the ACCC noted in its Consultation Paper, while legacy services are declining significantly, in the short term the copper network remains relevant to many end users. In particular, it remains relevant to end users prior to their migration to the NBN, and also in NBN fixed wireless and satellite areas where legacy services remain available.

Telstra considers that, in the context of ongoing migration to the NBN, WLR, LCS and FOAS (pre-select and override) should continue to be declared. Continued declaration of these services during this period will allow access seekers to continue to offer competitive voice services over the legacy copper network in areas where NBN migration has not yet occurred or been completed, particularly in areas where it has not been commercially feasible for access seekers to invest in their own exchange

<sup>26</sup> FOAS (pre-select and override) is no longer relevant as a standalone service. For example, at the time of the last declaration inquiry, less than [CIC begins] [CIC ends] of Telstra retail end users pre-selected a different long distance provider.

<sup>27</sup> Telstra internal data.

<sup>28</sup> Telstra internal data.

<sup>29</sup> Telstra internal data.



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equipment. In turn, this will allow access seekers to maintain / grow their market presence as end users migrate to the NBN, thereby helping to promote competition in the transition to the NBN. Declaration will also ensure the economically efficient use of the existing copper network, by allowing services to be competitively offered over this infrastructure during the transition to the NBN.

If WLR, LCS and FOAS (pre-select and override) continue to be declared, the existing service descriptions remain appropriate. There is no reason to change service descriptions that have been in place for a number of years, are well understood by industry, and work well. This is particularly so given the declining demand for these services in light of transition to the NBN, and the importance of fostering industry certainty about the scope of regulation of the legacy network at this time.<sup>30</sup>

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<sup>30</sup> In relation to FOAS (pre-select and override), Telstra notes that, as discussed in detail during the last declaration inquiry, IMS-based networks (which facilitate the supply of IP-based voice services) do not support pre-select and override functionality. This is reflected in the current service description for FOAS (pre-select and override), which was amended during the last declaration inquiry to exclude services being provided over NBN infrastructure.



## 06 FIXED VOICE INTERCONNECTION

### 6.1. Introduction

Fixed voice interconnection is the process by which call traffic is transferred between different network operators. It allows network operators to exchange call traffic between their networks via the provision of:

- **FOAS (special numbers)**, which allows a retail business customer (a “B-party”) to receive 13/1300/1800 calls from end users directly connected to fixed networks other than the network of the B-party’s service provider; and
- **FTAS**, which enables an access seeker to terminate calls to end users connected to the access provider’s fixed network.

### 6.2. Fixed voice interconnection services supplied by Telstra

Currently, [CIC begins] [CIC ends] entities acquire FOAS (special numbers) and FTAS from Telstra. They are:

- [CIC begins] [CIC ends]

Since the last declaration inquiry, call volumes for both of these fixed voice interconnection services supplied by Telstra [CIC begins] [CIC ends] (see Figure 1 below). Telstra expects several factors may underpin this trend, including increasing fixed-to-mobile substitution (discussed in Section 2 above).

**Figure 1: FOAS and FTAS minutes (total Telstra), July 2013 to August 2018<sup>31</sup>**

[CIC begins]

[CIC ends]

### 6.3. Fixed voice interconnection should continue to be declared during the transition to the NBN

While there is an ongoing trend of fixed-to-mobile substitution, it is possible there may be some circumstances where end users are more reliant on fixed voice calling. For example, some businesses may not be contactable via a mobile phone number, relying instead on fixed networks and/or geographic numbers.

In these circumstances, continued declaration of fixed voice interconnection services will facilitate:

- end-users communicating with each other, whether or not they are connected to the same network, thereby helping to achieve any-to-any connectivity; and
- the promotion of competition in retail markets, and the economically efficient use of the remaining copper network infrastructure, by ensuring service providers are able to

<sup>31</sup> This data relates to FOAS (special numbers) and FTAS supplied by Telstra. Telstra also acquires FOAS (special numbers) and FTAS from other fixed network operators. In relation to FOAS (special numbers), Telstra acquires origination in respect of its 13/1300/1800 numbers, and also its 1900 numbers. Calls to its 1900 numbers represent [CIC begins] [CIC ends] of total call minutes to its special numbers (over the period 2014 to 2018).



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interconnect with larger fixed networks including Telstra's PSTN on reasonable terms and offer competing services to end-users.

#### 6.4. The service descriptions should remain the same, as current fixed voice interconnection arrangements are operating effectively

Current fixed voice interconnection arrangements involve long-established industry standards and agreement on:

- **Network technology** used for the carriage and handover of traffic between different networks. Telstra's PSTN uses time division multiplexing (**TDM**), a key feature of which is providing capacity by 2.048 Mbit/s switchports which operate in accordance with ITU recommendations G.703, G.704 and G.732.
- **Technical standards** which govern signalling between networks. Interconnection with the PSTN uses a modified form of ITU's Common Channel Signalling 7 standard (**CCS7**), which is defined by the Australian Communications Industry Forum specification ACIF G500.
- **Specified interworking arrangements and processes** which govern technical, billing, number portability and other relationships between carriers.

The FOAS and FTAS service descriptions currently refer to interconnection based on conventional circuit-switched standards (i.e. TDM). TDM interconnection functionality continues to efficiently and effectively enable voice interconnection between Telstra's PSTN (and other fixed) networks with other operators' networks (including their IP networks).

Over the next three to five years, Telstra expects that TDM interconnection will be replaced by carrier IP-based interconnection – reflecting that, increasingly, IP core and access networks will no longer need to traverse the PSTN and TDM technology will no longer be widely deployed (and will eventually be exited). Agreement on new standards for IP-based voice interconnection will need to be developed in the coming years, before wide-scale migration occurs to a new platform. As such, Telstra considers that, for the time being, TDM / CCS7 will continue to be the primary means by which voice traffic is transferred between fixed line service providers, including those providing services over the NBN.

Accordingly, Telstra considers that the FOAS and FTAS service descriptions should remain the same, and should continue to refer to the TDM / CCS7 interconnection methodology, which remains robust, reliable, and effective in facilitating the interconnection of both IP and TDM-based voice traffic between carriers.





## 07 THE DECLARATION SHOULD BE EXTENDED FOR FIVE YEARS

Telstra considers it is appropriate to declare the six fixed line services for a further five years. There will be several significant developments over this period, including:

- the NBN rollout and migration will complete, and the competitive landscape post-NBN rollout and migration will be clearer;
- the nature of any USO reforms, and the extent of the legacy copper footprint, will also be clearer; and
- there will be other significant developments across the telecommunications industry, including the introduction of 5G mobile services, which may strengthen even further the existing trend of fixed-to-mobile substitution for voice calls.

Telstra believes it is most appropriate to allow these developments to unfold and to consider the need to reduce or expand regulation of fixed line services when the telecommunications landscape, including the nature and impact of any USO reforms, is more certain.

At this stage, we would make the following points about the need for regulation beyond the **next** regulatory period:

- **Inside the NBN fixed line footprint:**
  - a. The copper network will be replaced by the NBN, and the need for regulation of ULLS, LSS, WLR, LCS and FOAS (pre-select and override) will no longer exist.
- **Outside the NBN fixed line footprint:**
  - a. ULLS and LSS will no longer need to be regulated, as NBN fixed wireless and satellite services will provide infrastructure-based competition for broadband services.
  - b. To the extent that Telstra's copper network may still be used to supply fixed voice services in NBN satellite and fixed wireless areas, the ACCC has suggested that "*an appropriate level of regulation will need to continue*".<sup>32</sup> We assume this is referring to the possible need for ongoing declaration of resale services on the copper network (WLR, LCS and FOAS (pre-select and override)). Telstra's view is that, in deciding this issue beyond the next regulatory period, it will be important to consider a number of factors including the state of infrastructure-based competition from alternative last mile access networks, including non-NBN fixed line networks, the degree of substitutability between fixed line, mobile and OTT voice services, and the impact of any USO reforms.
- **FOAS (special numbers) and FTAS:**
  - a. The ACCC stated in the *Communications Sector Market Study Final Report* that, even once the NBN is complete, there will be a "*need to regulate originating and terminating access services as they are independent of the underlying network technology*".<sup>33</sup>

<sup>32</sup> ACCC, *Communications Sector Market Study Final Report*, April 2018, page 42.

<sup>33</sup> ACCC, *Communications Sector Market Study Final Report*, April 2018, page 42. Also see the ACCC's Consultation Paper, page 15.



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While Telstra accepts that origination and termination services are technology neutral (in terms of the types of fixed networks that are interconnected), the need to declare these services beyond the next regulatory period must take account of a range of factors including:

- developments in the supply of voice services, including ongoing changes in fixed and mobile calling patterns, and the competitive impact of OTT VoIP services;
- specifically in relation to FOAS (special numbers), the availability and use of web-based methods to contact businesses (e.g. apps, online web-forms, and online requests for a call back); and
- specifically in relation to FOAS (pre-select and override), the fact that this functionality is not being built as part of next generation IMS-based networks and is a legacy PSTN service type only.



## 08 INITIAL VIEWS ON PRICING AND ACCESS TERMS

Over the course of the next regulatory period, the NBN rollout will be completed and Telstra will be structurally separated. This significant change in market structure supports expedited declaration and final access determination (**FAD**) review processes, including a simple approach to determining FAD prices. Telstra considers that it is in the long term interests of end users and industry if the current price and non-price terms remain stable for the upcoming regulatory period.

This is for the following reasons:

1. rollout of the NBN is significantly progressed and dependence on legacy fixed line services is rapidly diminishing;
2. a simple rollover of prices will avoid price shocks for consumers and encourage migration to the NBN;
3. equivalence metrics favour wholesale customers; and
4. a simple rollover of prices provides industry certainty and allows industry to focus on more important issues.

### 8.1. Rollout of the NBN is significantly progressed and dependence on legacy fixed line services is rapidly diminishing

At the time of the last inquiry the rollout of the NBN was yet to hit significant scale. As at June 2015, less than 10% of the network had been rolled out and there were only 500,000 SIOs. Correspondingly, there was a significant reliance on legacy services, with approximately [CIC begins] [CIC ends] wholesale SIOs still on Telstra's copper network (see Figure 2 below).

As discussed elsewhere in this submission, since the last inquiry the rollout of the NBN has advanced significantly. Three-quarters of the network is now RFS with 4.1 million SIOs migrated as at June 2018. Over the course of the next regulatory period, the number of SIOs on the copper network is forecast to fall significantly. Telstra forecasts that, in the first year (2019/20) of the next regulatory period, only approximately [CIC begins] [CIC ends] wholesale access SIOs will be in operation. This will fall to approximately [CIC begins] [CIC ends] SIOs in 2023/24 (see Figure 2 below).

This significant shift away from Telstra's legacy services supports an expedited FAD process; both providers and consumers will benefit through increased certainty, and providers will be able to focus on more relevant issues, particularly in the out years where these services become increasingly irrelevant.

#### Figure 2: Wholesale lines / SIOs

[CIC begins]

[CIC ends]



## 8.2. A simple rollover of prices will avoid price shocks for consumers and encourage migration to the NBN

A simple rollover of prices is in the LTIE as it will prevent price shocks from occurring. In particular, it will prevent price shocks for those customers who are not required to migrate to the NBN (i.e. those outside the NBN fixed line footprint).

While Telstra strongly favours a simple price rollover, we have nonetheless undertaken a preliminary update of the Fixed Line Services Model (**FLSM**). This analysis suggests that, if the FLSM were applied in the same way as the last FAD, including the NBN-related adjustments, prices would rise by over **[CIC begins] [CIC ends]**.

A simple rollover of prices will also encourage migration to the NBN. If a lengthy and detailed price review were, for some reason, to result in a price reduction under the next FAD, this may have the perverse incentive of delaying NBN migration. For example, most RSPs price their NBN plans at parity with legacy plans (see Table 1 below), which encourages transition to the NBN. Reductions in copper pricing will distort this transition and may create a disincentive for customers to move from copper fixed line services to the NBN in a timely manner (particularly in circumstances where Telstra's current average wholesale access prices are already below NBN access pricing, as shown in Figure 3 below). A lengthy FAD review would also divert industry attention away from NBN migration.

**Table 1: Prices for legacy ADSL vs NBN**

Operator	Price	Plan Legacy ADSL	Plan NBN
Telstra <sup>34</sup>	\$89.00	Unlimited ADSL	Unlimited NBN 50
iinet <sup>35</sup>	\$69.99	Liimitless ADSL	Liimitless NBN 12
TPG <sup>36</sup>	\$59.99	Unlimited ADSL	Unlimited NBN 12
Dodo <sup>37</sup>	\$60.00	Unlimited ADSL	Unlimited NBN 12

**Figure 3: NBN and copper CAN wholesale access prices**

**[CIC begins]**

**[CIC ends]**

## 8.3. Equivalence metrics favour wholesale customers

Wholesale pricing for Telstra's fixed line services favours access seekers over Telstra's retail business. This, coupled with the significant migration of services to the NBN, supports a simplified pricing approach for the next FAD.

Quarterly Telstra Economic Model (**TEM**) reporting provided to the ACCC shows that Telstra's External Wholesale Price (**EWP**, the price paid by access seekers) is less than Telstra's Internal Wholesale Price (**IWP**, the price paid by Telstra's retail business) (see Figure 4 below). The divergence between the EWP and IWP has been widening over the last year, a trend which will continue as NBN migration

<sup>34</sup> Source [www.telstra.com.au](http://www.telstra.com.au) (on 24 September 2018).

<sup>35</sup> Source [www.iinet.net.au](http://www.iinet.net.au) (on 24 September 2018).

<sup>36</sup> Source [www.tpg.com.au](http://www.tpg.com.au) (on 24 September 2018).

<sup>37</sup> Source [www.dodo.com](http://www.dodo.com) (on 24 September 2018).



accelerates. Given these equivalence metrics favour wholesale customers, we see little value in a lengthy and detailed FAD process.

#### Figure 4: Telstra's TEM reporting: internal and external wholesale prices

[CIC begins]

[CIC ends]

#### 8.4. A simple rollover of prices will provide industry certainty and allow industry to focus on more important issues

The industry is going through significant change with migration of services to the NBN and new technology advances which are changing the way consumers engage with traditional telecommunications services and their applications. At this important time for industry and consumers, an expedited FAD process and simple pricing approach makes sense for the following reasons:

- **Certainty:** a quick resolution to FAD pricing would allow Telstra and its wholesale customers to recontract on a more timely basis. With no or minimal real changes to existing legacy prices, contract renegotiations would be relatively straightforward and would allow the industry to focus on more important issues, including migrating to the NBN and continuing to deliver positive outcomes for customers (discussed below).
- **A focus on NBN migration:** while Telstra will continue to provide services for those customers that remain on its legacy network (e.g. customers outside the NBN fixed line footprint who are not required to migrate to the NBN), we, the rest of industry, government and regulators should have our attention focussed on migration of services to the NBN and other issues related to the NBN (e.g. pricing and service quality). Given the rapid decline in legacy services over the next few years, it makes sense to streamline regulatory processes applying to fixed line services so industry can focus on NBN-related issues.
- **A focus on competition and innovation:** as discussed above, the ACCC's annual report on competition in the telecommunications sector illustrates the high level of competition and innovation in the market. Consumers are benefitting from lower prices, more inclusions and greater value for money from their telecommunications spend. Further, traditional service providers are facing increasing competition from OTT players and are preparing for the next wave of investment and competition relating to 5G networks. Industry attention is best focussed on continuing to deliver positive outcomes for consumers through innovation and service quality, rather than a lengthy FAD process.
- **Avoids a drawn out process:** the last FAD inquiry took over 24 months. If a simple pricing approach were not adopted for the next FAD, this will necessarily involve a complex and detailed debate of costs used as key inputs into the ACCC's regulatory model. It is difficult to see this as in the LTIE.

#### 8.5. What is a simple rollover of prices?

As noted above, Telstra favours a simple and expedited pricing approach for the next FAD, with a "rollover" of prices. This raises the question as to what is a "rollover" of prices. In particular, should existing prices continue to apply in the next FAD, or should they be adjusted, for example by CPI.



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Telstra's costs of maintaining the network are not falling at the same rate as customers are migrating to the NBN, and the remaining areas which will not be served by NBN's fixed line technologies are in higher cost rural and remote areas. This provides some justification for a rollover adjusted for CPI. However, as highlighted in Figure 5 below, regardless of whether prices are adjusted by CPI, Telstra has forecast that there will be an under recovery of cost (i.e. under recovery of our allowable revenue requirement under the FLSM).

While adjusting prices by CPI will result in a small improvement in cost recovery, and is an option available for consideration by the ACCC, for all the reasons set out above, Telstra prefers an expedited process. If any adjustment such as CPI means an expedited process is not possible, then Telstra would prefer and consider a nominal rollover of prices to be in the best interests of customers and industry.

**Figure 5: Wholesale cost (revenue requirement) vs forecast revenue**

**[CIC begins]**

**[CIC ends]**



## ATTACHMENT A: Responses to questions in Consultation Paper

No.	Question	Telstra response
1	Do you agree that the service descriptions remain current and appropriate?	Yes. The current regulatory settings are appropriate and well understood by industry. See Sections 3 to 6 of the submission.
2	Do you consider that continued declaration of network access services will promote competition and the economically efficient use of infrastructure? Please explain the reasons for your view.	Yes. Continued declaration will allow access seekers to continue to offer voice and broadband services over the legacy copper network in areas where the NBN rollout and migration has not yet occurred or completed, which will promote competition in the transition to the NBN. Continued declaration will also promote the economically efficient use of existing infrastructure – the copper network and existing DSLAM investments – by allowing services to be competitively offered over this infrastructure during the transition to the NBN. See Section 4 of the submission.
3	Do you consider that continued declaration of resale services will promote competition and the economically efficient use of infrastructure? Please explain the reasons for your view.	Yes. Continued declaration will allow access seekers to continue to offer voice services over the legacy copper network in areas where the NBN rollout and migration has not yet occurred or completed, particularly in areas where it has not been commercially feasible for access seekers to invest in their own exchange equipment. This will promote competition in the transition to the NBN. Continued declaration will also promote economically efficient use of the existing copper network, by allowing services to be competitively offered over this infrastructure during the transition to the NBN. See Section 5 of the submission.
4	Do you consider that continued declaration of voice interconnection services will achieve any-to-any connectivity, promote competition and maintain economically efficient use of existing infrastructure? Please explain the reasons for your view.	Yes. Continued declaration of fixed voice interconnection services will facilitate end-users communicating with each other, whether or not they are connected to the same network, thereby helping to achieve any-to-any connectivity. It will also promote competition in retail markets, and the economically efficient use of remaining copper network infrastructure, by ensuring service providers are able to interconnect with Telstra's PSTN and offer competing services to end users. See Section 6 of the submission.
5	Do you support the extension of the six fixed line declarations?	Yes. See the responses to questions 1 to 4 above.
6	Is the extension of the declaration for five years until 30 June 2024 an appropriate timeframe, or should a shorter period be considered?	An extension of the declaration for five years is appropriate. This will allow sufficient time for the NBN to complete, and a range of other developments relevant to the legacy copper network to unfold, after which time the need for any further regulation can be considered. See Section 7 of the submission.
7	If the six services are declared by the ACCC, are there any issues or views you would like to flag with respect to price and non-price terms for access to the potentially declared services at this stage?	Over the next regulatory period, the NBN rollout will complete and Telstra will be structurally separated. This significant change in market structure supports expedited declaration and FAD processes, and a simple approach to determining prices. Telstra considers it is in the long term interests of end users and industry if price and non-price terms remain stable for the next regulatory period. We note a price rollover adjusted for CPI would result in an increase of 4.24%, and a marginal increase in revenues. It is an option available for consideration by the ACCC. However, Telstra's overall preference is for an expedited process over a small price increase that would delay the FAD process. See Section 8 of the submission.