



16 February 2018

Committee Secretary  
Joint Committee of Public Accounts and Audit  
Parliament House  
Canberra  
ACT 2600

Dear Committee Secretary

**Re: ANAO Report No. 12 (2017-18), Management of the Contract for Telephone Universal Service Obligations**

Telstra acknowledges the findings of the Australian National Audit Office (ANAO) inquiry into the management by the Department of Communications and the Arts (DOCA) of the Telecommunications Universal Service Performance Agreement (TUSOPA). The TUSOPA is a contract between the Commonwealth and Telstra, governing how Telstra meets its regulated Universal Service Obligation (USO) and is compensated for doing so.

As noted by representatives of the DOCA to this committee, the TUSOPA cannot be reasonably reviewed without reference to the broader context. This includes that the USO policy underpinning the TUSOPA is itself under review following the Government's announced intention to transition to a Universal Service Guarantee policy, and that the TUSOPA was made as part of the broader agreements between Telstra and the Government for the establishment of the National Broadband Network (NBN).

Telstra is disappointed that Vodafone's submission to this committee, dated 25 January 2018, contains a number of untruths that are asserted as facts without justification or explanation, presumably in the hope that they will be taken at face value and generally accepted. In light of those assertions, Telstra asks the Committee to take into account the following important facts:

- Telstra has not shut down half its copper network in regional areas, and therefore is not 'saving' half the cost of discharging its obligations under the USO. In fact, the TUSOPA includes a requirement for Telstra to maintain copper network connections that were in place as at 1 July 2012 (subject to minor exceptions) and Telstra is compliant with this obligation.
- It is not correct that Telstra receives almost \$300 million every year under the contract, equating to \$814,000 per day or \$6 billion over the 20 year term of the contract. In fact, Telstra receives \$270 million per year, but contributes more than half of that amount itself. In net terms, Telstra actually receives \$134 million per annum, equating to about \$370,000 per day.

Telstra's regional copper network

As set out above, the TUSOPA includes a Copper Continuity Obligation (CCO) which requires Telstra to maintain the copper network in regional areas (outside the NBN Fixed Line Footprint) as it was when the contract was made in 2012 (subject to minor exceptions). It follows that Telstra cannot have shut down half of its copper network in regional areas. Indeed, the ANAO refers extensively to this obligation in its report.<sup>1</sup>

<sup>1</sup> ANAO Report, section 2.17, pp. 26-27.



Further, internal Telstra data shows that there has been a small increase in copper pair kilometres nationally since 2005, and a slightly larger increase in copper pair kilometres in the copper network Exchange Service Areas that are entirely outside the NBN Fixed Line Footprint (i.e. in 'regional' areas).

Yet, Vodafone has stated (in several forums) that half of Telstra's regional copper network has been shut down over the last decade. This is simply incorrect, and no substantiation has ever been provided in support of the statement. If any specific source or reference is ever provided, Telstra will be pleased to examine and respond to it.

#### Value of the USO payments to Telstra

Telstra receives \$270 million per annum to discharge its standard telephone service (STS) and payphones USO. Telstra's notional receipt of \$297 million per annum includes the GST Telstra is obliged to charge but then pays back to the Government. Of the \$270 million per annum that Telstra keeps, Telstra itself contributes a prorated \$136 million through the Telecommunications Industry Levy (TIL) for a net payment of \$134 million – far less than half of the \$300 million often stated.

	<i>Misconception</i>	<i>Reality</i>
Annual USO Telephone and Payphones receipts	Almost \$300 million	\$270 million
Annual Telstra TIL contribution (FY17) <sup>2</sup>		\$136 million
<b>Net payment to Telstra (FY17)</b>		<b>\$134 million</b>
Nominal total receipts over life of contract	\$6 billion	\$2.7 billion

The Government entered the USO contract with Telstra in 2012 on the basis of an economic study of the cost of providing universal voice services and payphones that was commissioned by the Government.

The current payments made under the TUSOPA are based on careful Government analysis of the costs of maintaining the network as at 2012. Since that time the extent of the network has actually increased and, if anything, unit costs have also risen as network equipment ages.

This view of costs reflects the fact that the USO is national in scope, meaning Telstra's obligation applies to premises in every part of the country, no matter how remote and technically and physically challenging to serve. It has always been recognised that a substantial subsidy is required to enable this guarantee.

Please do not hesitate to contact me if you have any questions.

Your sincerely,

James Shaw  
Director Government Relations  
Legal & Corporate Affairs

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<sup>2</sup> The \$136 million Telstra pays towards the Telephone and Payphones USO via the TIL is a pro-rated proportion of Telstra's total \$149 million TIL payment.