

ATTACHMENT D

A Brief History of the USO

Australia's telecommunications policy, including the Universal Service Obligation (USO), has gone through several stages of development as greater competition and innovation in services have developed in the market.

Before 1991: Monopoly provider

Prior to 1975, telecommunications services were progressively rolled-out across Australia by the Postmaster-General's Department. In 1975, the idea of community service obligations began to enter telecommunications regulation, and the newly established Telecom was required to make its telecommunications services available throughout Australia as far as 'reasonably practicable'.

In 1988, the Government asked the Bureau of Transport and Communications Economics (BTCE) to report on the costs and cross subsidies associated with Telecom's CSOs. The BTCE estimated CSO costs at around \$240 million. The Minister accepted both the final BTCE figures and its costing methodology.

1991–1997: Introduction of competition

Competition was introduced into Australia's telecommunications market in 1991 with the establishment of Optus as the second carrier. With this development, there was a need to further refine the CSO concept, and the 'universal service obligation' was introduced. The 1991 USO required the declared universal service carrier or carriers to provide a standard telephone service (commonly referred to as an 'STS') and payphones to 'all people in Australia on an equitable basis wherever they reside or carry on business'.

Between 1991 and 1997 there was inter-carrier agreement on USO subsidy amounts, under which the subsidy was around \$250 million. It was arranged for carriers to share the financial load of USO costs between them, based on their respective share of the telephone market.

Since 1997: Fully competitive market

Full competition in the Australian telecommunications market was established by the *Telecommunications Act 1997*, and amendments to the *Trade Practices Act 1974*. The changes to the *Trade Practices Act 1974* meant that providers could access each others' networks. As a consequence of these reforms, the number of carriers and Internet service providers rapidly increased.

The *Telecommunications (Universal Service Levy) Act 1997* established arrangements for an industry levy to pay for the cost of the USO subsidy. It was arranged that all carriers would contribute in proportion to their share of total carrier revenue.

The *Telecommunications (Consumer Protection and Service Standards) Act 1999* (TCPSS Act) restated in a single Act the range of safeguards for telecommunications consumers, including the USO and the Customer Service Guarantee (CSG), that were previously contained in the *Telecommunications Act 1997*. The CSG set a number of performance standards in respect of connection and repair times.

USO subsidy levels

Recognising that there had been fundamental changes in the telecommunications marketplace, including the introduction of new competitors, changes in technology, and a more extensive footprint of telecommunications infrastructure, the then Australian Communications Authority (ACA) developed the Net Universal Service Cost (NUSC) model to estimate the net cost of fulfilling the USO.

Using the NUSC model, Telstra applied its own assumptions about network costs, and produced a cost claim for the 1997–98 financial year of \$1.8 billion. This amount was disputed by other carriers, and in 1998 the Parliament passed legislation capping the 1997–98 subsidy amount at \$253.3 million.

Following advice from the ACA, the Minister determined the subsidies for 1998–99 and 1999–2000 to be \$281 million and \$299 million respectively.

In 2000, the Minister was given the authority to set USO subsidies for up to three years in advance. As required by the TCPSS Act, Ministers have since requested the ACA to provide advice on USO subsidies for the financial years running from 2001–02 to 2007–08. In consultation with Telstra and Optus, the ACA has calculated these subsidies using trend analysis based on previous results of the NUSC model. The headline USO subsidies for each of these financial years are as follows:

Table 1: USO subsidies – 2001–02 to 2007–08

Year	2001– 02	2002– 03	2003– 04	2004– 05	2005– 06	2006– 07	2007– 08
Total subsidies (\$ millions)	240.1	234.2	231.7	211.3	171.4	157.7	145.1

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

Contestability arrangements

After the introduction of full competition, a number of providers argued that advances in satellite and mobile phone technologies would allow them to efficiently provide services under the USO. In March 2000, the Government announced its intention to test new arrangements for delivering services under the USO.

Under the trial arrangements, within declared pilot areas approved competing universal service providers could compete with Telstra to provide the STS in fulfilment of the USO. It was intended that these contestability arrangements would allow any approved provider that attracted customers to receive subsidies for the supply of a STS.

The Government's key policy objectives for introducing USO contestability were to:

- increase benefits to consumers in terms of pricing, service innovation and service quality;

- improve infrastructure and regional investment, including employment;
- provide more equitable access to USO subsidies; and
- reduce the underlying costs of delivering of USO services.

The contestability arrangements commenced on 1 July 2001. To date, no provider has been approved by ACMA as a competing universal service provider.