

**Annexure B**

**Department of Broadband, Communications and the Digital Economy  
Universal Service Obligation and Customer Service Guarantee Review 2004 Final  
Report**

**Network Extension and Trenching Costs**



Australian Government  
Department of Broadband,  
Communications and the Digital Economy

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## 11 NETWORK EXTENSION AND TRENCHING COSTS

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### **PART C** **network extension and trenching costsC** **network extension and trenching costs**

## **11 NETWORK EXTENSION AND TRENCHING COSTS**

### **11.1 INTRODUCTION**

The terms of reference require a report on:

Whether network extension and trenching costs are impeding access to USO services for subscribers, and whether such costs should be removed from subscribers, and either borne by Telstra as part of its USO provision, or supported by the Government through subsidies.

This chapter reports on network extension and trenching costs and, in doing so, specifically analyses:

- \* Telstra's present network extension and trenching cost arrangements
- \* the effect that these arrangements have on the number of network extension charges that are levied and the total amount of costs incurred by customers
- \* the costs to consumers of trenching for new connections
- \* whether the current arrangements discourage potential customers from accessing a standard telephone service (STS)
- \* what, if any, policy options for network extension and trenching should be adopted to facilitate access to the USO.

#### **11.1.1 Telstra's current arrangements and the Universal Service Obligation**

The USO places an obligation on Telstra as the primary universal service provider (PUSP) to

provide all Australians with reasonable access on an equitable basis to an STS. However, the Telecommunications (Consumer Protection and Service Standards) Act 1999 (TCPSS Act) does not prescribe these terms and conditions. These are determined by Telstra, subject to the general price control arrangements applying to it, as set out in its standard marketing plan (SMP), and approved by the Australian Communications Authority (ACA). The SMP refers to the schedules contained in the 'Basic telephone service' section of Our customer terms<sup>271</sup> and covers the responsibilities of Telstra and its customers and the fees that are charged for a telephone connection.

## **11.2 THE REGIONAL TELECOMMUNICATIONS INQUIRY EVALUATION OF NETWORK EXTENSION AND TRENCHING ISSUES**

The Regional Telecommunications Inquiry (RTI) expressed concerns that access to telephone services under the USO may be inhibited in a limited number of cases by Telstra's charges for network extension and the responsibility on customers to provide or pay for their own on-property trenching.<sup>272</sup>

In Recommendation 2.6, the RTI recommended that the Government examine and review network extension and trenching costs. It proposed that the responsible minister should examine whether the responsibility for these costs should be removed from consumers and either borne by Telstra under the USO or supported by the Government via a subsidy program.<sup>273</sup>

It is fair to assume that reasonable access in the context of section 8A(a) of the TCPSS Act extends to matters involving network extension and trenching. The section states that:

... all people in Australia, wherever they reside or carry on business, should have reasonable access, on an equitable basis to: (i) standard telephone services.<sup>274</sup>

### **11.2.1 Network extension**

The RTI identified that Telstra levies network extension charges to recover a portion of the additional costs that are incurred in connecting from the boundary of the existing telephony network to the property boundary of particular customers seeking a service.<sup>275</sup> Further, it acknowledged that the network extension charge, which is capped at \$1540, is a relatively small part of the total cost to Telstra in most cases. However, it raised concerns about the rationale for, and practice of, network extension charges.<sup>276</sup>

The RTI thought that it would be more appropriate for Telstra to bear network extension charges as a 'network investment cost'. It also suggested that Telstra needed to clarify its cost recovery mechanism under the USO.<sup>277</sup>

### **11.2.2 Trenching**

The RTI was also concerned about equitable service provision under the USO in situations where regional, rural and remote customers, especially those in particular remote Indigenous communities, might be disadvantaged by the responsibility to pay trenching costs. These communities are more likely to face significant trenching costs, and therefore access barriers, compared with urban customers because of their remoteness, and the often large distances from property boundaries to dwellings.<sup>278</sup>

## **11.3 VIEWS IN SUBMISSIONS**

### **11.3.1 Submissions supporting current arrangements**

Telstra suggests that network extension and trenching charges 'are supported by sound economic principles and should remain in place'. It also indicates that it intends to work

with the Government to develop 'targeted solutions' where it is determined that these charges have negative aspects on certain user groups.

Discussing network extension charges, Telstra claims that:

It is an accepted principle in utilities regulation and local government planning that consumers in undeveloped and unserved areas must pay some or all of the costs of deploying infrastructure and services to those areas.<sup>280</sup>

Telstra also suggests that it:

... routinely subsidises the costs of extending its network to cater for new service requests from customers in areas where it does not have existing network infrastructure.<sup>281</sup>

As noted above, Telstra considers that these charges act as a disincentive for frivolous requests for an STS. It also claims that they reduce the risk of it providing valuable infrastructure that may then lay idle, resulting in an 'inefficient investment'.<sup>282</sup>

Discussing trenching charges, Telstra believes that:

... the current arrangement [for lead-in trenching] is more equitable than the alternative of [Telstra] absorbing trenching costs in higher charges to all other consumers.<sup>283</sup>

and that:

Having a general charge on all consumers is likely to be regressive in that lower income consumers would, on average, be more likely to subsidise the costs of trenching for owners of large and new properties.<sup>284</sup>

The National Farmers' Federation (NFF) believes that the current arrangements are reasonable but it recommends that service providers aim to minimise any trenching in the supply of USO and Digital Data Service Obligation (DDSO) services via the 'use of other technologies'. The NFF also suggests that:

There should be no additional customer charges for the supply of individual USO and DDSO services that do not use trenched technologies.<sup>285</sup>

The Federation then suggests that:

... consideration should be given to amortising or offsetting any additional trenching or extension cost over a minimum service lifetime to avoid any frivolous or short-term new service requests.<sup>286</sup>

### **11.3.2 Submissions proposing Telstra should bear network extension and trenching costs**

Several submissions suggested that both network extension and trenching charges should be borne by Telstra under the USO. The suggestion was made in relation to the effect that the current arrangements have on the ability for members of remote Indigenous communities to access an STS. A range of these opinions is presented below.

The Centre for Appropriate Technology (CAT) suggests:

The requirement to pay the network extension fee and trenching costs represents one of several barriers that impede access to a basic telephone service for many people living in remote Indigenous communities.<sup>287</sup>

Several other organisations, including the Australian Council of Social Services, the Central Land Council, the Indigenous Remote Communities Association, and the Aboriginal and Torres Strait Islander Commission, also recommended that Telstra remove network extension and trenching costs from customers and include them in the USO.

The Western Australian Department of Industry and Resources suggests that these costs be borne by the PUSP. However, it proposed that, where the cost of providing these services is above a prescribed threshold, the provider should be able to claim a subsidy directly from the Australian Government.<sup>288</sup>

The Centre for Appropriate Technology states that the network extension fee is 'a significant hurdle that is preventing some people in remote communities from seeking a telephone service'.<sup>289</sup> It also suggests that:

These charges work against the overall intention of the Universal Service Obligation in that they result in some people who live in remote communities being denied access to services.<sup>290</sup>

PY Media reports that 'trenching completed by individual communities costs approximately \$100 per trench'.<sup>291</sup> When outside contractors are required, this cost can range between \$100 and \$275, plus a mobilisation cost. 'Mobilisation costs associated with engaging contractors in remote areas makes trenching unaffordable for residents.'<sup>292</sup>

## **11.4 NETWORK EXTENSION ISSUES**

### **11.4.1 Telstra's network extension charges**

According to Section 3.10 of Telstra's Our customer terms, the standard fee for connecting a new STS is \$209.<sup>293</sup> However, additional fees might be incurred if the property entry point is more than 500 metres from the nearest part of Telstra's existing network. Network extension is illustrated with reference to the applicable charges in Figure 11.1. The following summarises these fees:<sup>294</sup>

\* Landline connections incur a fee of \$28.60 for each 500 metres route distance between the NETPOP and the property entry point (PEP) or part thereof. This fee is capped to a maximum of \$1540, equivalent to 27.4 kilometres route length.

\* For radio connections requiring a new network radio tower, new equipment on an existing structure, a repeater section or a non-standard supporting structure on the customer's premises, a network extension fee of \$1540 will be incurred.

### **11.4.2 Fees collected for network extensions**

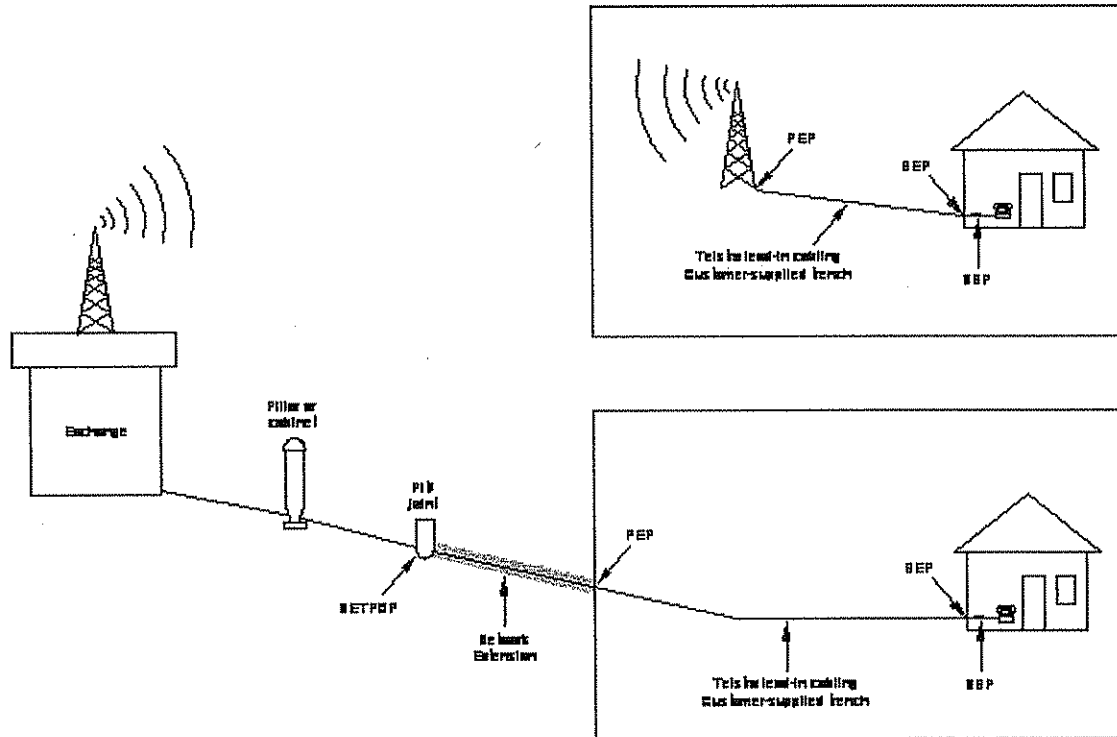
Telstra advised that, for the period 1 July 2001 to 31 January 2002, network extension charges for two wireline and 14 radio extensions were paid to Telstra by customers connecting a new STS. In accordance with Telstra's Our customer terms, the radio customers were charged \$1540 each. One wireline customer was charged \$90 and the other \$1540 for their network extensions.

More recent Telstra information suggests that in the two years since February 2002 no network extension charges were applied to wireline extensions. This suggests that either there were no extensions over 500 metres or that Telstra decided not to charge customers an extension fee, even where the extension was over that distance.

For the financial year 2002-03, Telstra collected a total of \$43 736 in network extension fees where customers required a radio-based network extension and the fee was applied.

In a preliminary submission to the RTI, Telstra estimated that for the financial year 2001-02 the average cost of installing a radio service where a network extension was required was approximately \$85 000. While the amount of money recovered from customers is small, Telstra claims that the fees imposed discourage frivolous applications for network extensions as well as discouraging connections for a short period of time.<sup>295</sup>

Figure 11.1 Telstra's connection arrangements



Key: BEP - building entry point

PEP - property entry point

NBP - network boundary point

NETPOP - network point of presence

New connection \$209

Network extension charge if applicable

Where the service is supplied by cable and the NIL PEP is located less than 500 metres route distance from the NETPOP

Where the service is to be supplied by cable \$28.60 for each 500 metres and the PEP is located more than 500 metres route distance, or part route distance from the NETPOP thereof, beyond the first 500 metres to a maximum additional charge of \$1540

Where the service is supplied by radio and requires NIL the installation of a standard supporting structure at the customer's premises involving a triad with nine-metre mast and having an extension of up to three metres, or other structure or equivalent or lesser cost

Where service is to be supplied by radio and requires \$1540 the installation of one or more of the following:

\* A non-standard supporting structure at the customer's premises

- \* A new network radio tower
- \* New network radio equipment on an existing network structure
- \* A repeater section.

Property connection charge if applicable

Between the PEP & BEP Where the service is to be supplied by means of a 1. the customer must cable that enters the building: arrange and pay for suitable trenching to house underground cable between the PEP and the BEP, or

2. where it is not feasible to install underground cable, the installation of Telstra supplied poles to support aerial cable between the PEP and BEP

Between the BEP and the NBP Where cabling is required in, on or for the building Fee for service for beyond a radial distance of 20 metres from Telstra's BEP installation of the additional cabling beyond this distance

Key: BEP--building entry point PEP--property entry point NBP--network boundary point  
NETPOP--network point of presence

Source: Telstra communication, 15 December 2003

While the review considers that imposing a maximum fee of \$1540 might act as a deterrent, it might also act as an obstacle. The question is whether the current fees collected for network extensions may unreasonably affect equitable access to the USO.

#### **11.4.3 The effect of network extension charges on customer access to a standard telephone service**

During the 2003 calendar year, approximately 7.8 per cent of radio-based network extension applications were withdrawn when the customer was advised of the network extension charge.

However, Telstra maintains that it is difficult for it to ascertain whether the current network extension arrangements (including costs) are discouraging the connection of STS's. This is because it does not collate customer reasons for withdrawal of a new connection application.<sup>296</sup>

It should also be noted that Telstra did not impose a network extension fee in all circumstances where network extension was requested. The charges collected in 2002-03 related only to network extensions for radio systems.

The evidence above shows that, as a rule, radio customers pay full network extension fees whereas wireline customers pay less than the full fee or nothing. In addition, the withdrawal of 7.8 per cent of radio-based network extension requests indicates that the likely imposition of the full cost of \$1540 might be discouraging access to the STS.

### **11.5 NETWORK EXTENSION POLICY OPTIONS**

#### **11.5.1 Option 1--Current charges and arrangements remain in place**

The first option is to retain the current arrangements and charges that require customers to pay a proportion of the cost of extending Telstra's network.

#### Reasonable access on an equitable basis

The objective of the network extension charge is to provide a price signal for customers, and to prevent frivolous requests for connection. However, equity issues arise when several customers in a given location, for example, a new building estate or apartment block, connect services and there is a need to extend Telstra's network. The first customer to apply for an STS would be charged the standard connection fee of \$209 plus an applicable network extension fee of up to \$1540. Any subsequent customers who apply for an STS in that location would only be charged the \$209 connection fee, as Telstra's network would already have been extended.

These arrangements do not allow the first customer or Telstra to recoup network extension costs from subsequent customers gaining the benefits of the extension.

A similar situation could arise where a network extension charge is imposed on the first customer requesting a service in a remote Indigenous community.

#### Economic efficiency

As noted earlier, and by the RTI,<sup>297</sup> the network extension charge represents a small proportion of the actual cost incurred by Telstra.

As Telstra can be assumed to be a profit maximising company, and the level of revenue received from network extension fees is not significant, this option would result in no change to the efficiencies of its operation. Any inefficiencies of the current system, for example, where the network is extended unnecessarily or where the service is not frequently used, would not be altered if the current arrangements were maintained.

#### Transparency and customer certainty

As noted above, Telstra's current network extension arrangements are set out in its Our customer terms. Section 3.11 states:

Where your new Basic Telephone Service will be supplied by cable and your property entry point is more than 500 metres from the nearest part of our existing network, we can charge you a network extension charge ... [to lay cable from Telstra's existing network to the customer's property entry point]<sup>298</sup>

The evidence above suggests that the charge is not imposed uniformly or predictably. Therefore, customers requiring network extension cannot expect certainty from the current arrangements because they cannot be sure whether a charge will be imposed.

#### **11.5.2 Option 2--Telstra absorbs the network extension charge**

If the network extension fee was removed, then the cost to the customer of connecting to an STS would be \$209 plus trenching. The ongoing cost to Telstra would depend on consumer demand.

#### Reasonable access on an equitable basis

Removing the network extension charge would improve equitable access to the STS. For example, the 7.8 per cent of customers, or a proportion of them, not following through with their radio extensions would potentially be able to access STS's under the USO. In addition, any inequity that exists between radio and wireline customers would be removed.

#### Economic efficiency



This option may lead to inefficiencies as a result of the customer's decision to have an STS connected where they otherwise would not if they had to pay the full cost of extension.

#### Transparency and customer certainty

Removing the network extension charge would improve the levels of transparency and certainty currently experienced by customers. All customers connecting an STS would be required to pay \$209 for connection of their services irrespective of the technology deployed to provide the USO. This would end any uncertainty about whether network extension charges would be imposed.

### **11.5.3 Option 3--Network extension costs are reclaimed via government subsidies**

The RTI suggested that an examination of network extension costs should consider the option of Telstra and/or customers recovering the costs of network extension through the allocation of government subsidies. Full or partial funding, thresholds, or targeted funds for special interest groups are possible ways to approach government-funded network extension.

#### Reasonable access on an equitable basis

By removing some, or all, of the costs from customers, potential access barriers would be reduced or removed. This would allow equitable access to the STS irrespective of geographic location.

#### efficiency

As discussed in Attachment O, government funding has some efficiency features. However, this option would once again remove true price signals. It might possibly result in inefficient customer decisions as outlined above in Section 11.5.2. To counter this inefficiency, a system would have to be developed which examined each claim on a case by case basis.

#### Transparency and customer certainty

Funding network extension through government subsidies, or requiring customers to apply for subsidies, could promote transparency and certainty if the subsidy method was stated clearly and simply. This method would also require Telstra to publish information about customers' rights and responsibilities and to make sure that customers knew where to find, and understand, that information.

#### Administrative burden

Unlike options 1 and 2 discussed above, using government subsidies to cover network extension costs would result in increased administrative costs. Significant funds would be required to develop and publicise a program for collecting and distributing funds. This system would also incur ongoing costs.

### **11.5.4 Option 4--Amortisation of network extension charges**

As suggested by the NFF, one option to reduce the burden of network extension costs on customers is to enable Telstra to amortise the cost over a period of time. In practice, this would involve customers requesting and receiving the network extension, but Telstra would recoup the costs through customers making part payments on their telephone bill.

While this option would reduce the initial cost that a customer pays for an extension to the network, it is not favoured. Financing or deferred payment options in this case could lead to cost penalties for customers such as interest charges or equivalent payments for the cost of

capital.<sup>299</sup> There may also be equity issues where customers who were able to afford the up-front payment would benefit from an overall lower cost in real terms.<sup>300</sup>

The high administrative costs to Telstra in the development and ongoing delivery of such a program would also constitute a disadvantage. It could be argued that the most efficient method for a customer to bear these costs would be through pre-arranged finance (i.e. a loan or mortgage) rather than by incurring a new debt with their phone company. There may also be issues with Telstra becoming a credit provider.

It would also appear that an amortisation method would be inadequate for remote Indigenous communities. As raised in several submissions and discussed in chapter 10, 'post-paid' billing options are not suitable for many Indigenous customers.<sup>301</sup> Therefore, one of the consumer groups most disadvantaged by network extension charges would receive no, or minimal, benefit from such a scheme.

## **11.6 CONCLUSIONS AND FINDINGS (NETWORK EXTENSION)**

It is evident that revenue received by Telstra from network extension charges is not significant, representing a small proportion of the actual cost of such extensions.

The objective of the network extension charge is to provide a price signal for customers, and to prevent frivolous requests for connection. Most customers to whom it is applied, however, would also face significant trenching costs to establish a connection. In addition, the application of a network extension charge is inconsistent with Telstra's current approach to the extension of other services, to customers in rural areas. In these circumstances, the review considers that the charge is not warranted for this purpose, given that it is not being uniformly applied.

The network extension charge may act as a perceived or actual barrier to access for some customers unable to afford the capped charge of \$1540. This applies particularly to remote Indigenous communities.

The review findings in relation to network extension charges are set out below.

### **11.1 Network extension charges are potentially impeding access to USO services for some subscribers.**

### **11.2 There is no longer justification for Telstra's practice of imposing a network extension charge on particular customers to extend the Telstra network to the customer's property boundary. Such network extensions should be absorbed by Telstra as part of its network investment costs.**

## **11.7 TRENCHING ISSUES**

### **11.7.1 Telstra's on-property trenching policy**

While Telstra still provides all cabling for its network, since 1991 customers have been responsible for all trenching costs on their own property when a new STS is installed.<sup>302</sup> On some properties the terrain makes it infeasible to access the building entry point (BEP) via an underground cable. In those cases, the customer must pay for the cost of any Telstra-supplied poles that are required to provide the connection. These conditions are outlined in Section 3.13 of Telstra's Our customer terms.<sup>303</sup>

The customer must pay for trenching or any other expenses associated with accessing the boundary of Telstra's network from the BEP. This is illustrated in Figure 11.1. The customer must also pay for any cabling in excess of 20 metres that is required to connect the network boundary to the BEP.<sup>304</sup>

Telstra plays no direct role in the provision of the trenching work and customers are required to arrange a contractor to do the work or arrange for a shared trench with other utilities. On request, Telstra will provide customers with a list of suitable contractors or they can make their own arrangements. Making their own arrangements can include digging the trench themselves, provided it is suitable to accommodate the necessary infrastructure and according to the required specifications.<sup>305</sup>

### **11.7.2 Fees and charges associated with on-property trenching**

Given that a customer must arrange and pay for any on-property trenching costs, it is difficult for Telstra to provide estimates of the costs incurred for conducting this activity. Telstra maintains no records on trenching activities as customers and trenching contractors manage the processes and relevant transactions.

Anecdotal evidence provided to the review and TAPRIC306 suggests that the total cost of installing an STS for some customers can range from \$2300 to \$25 000 (inclusive of network extension fee of up to \$1540) and that one customer was faced with a trenching charge of \$1500 for 700 metres.

Telstra claims that in many cases, especially in new estates in built-up areas, utilities will be provided by a builder and placed in a single trench when the properties are developed, which improves efficiency.<sup>307</sup> If the responsibility of trenching was removed from customers, Telstra suggests that the average cost of trenching would increase because of the risk of requiring a telecommunications trench to be dug after landscaping, driveways and/or paths have been installed. However it can be argued that if Telstra paid the trenching costs, it would also have an incentive to coordinate with builders to reduce costs.

### **11.7.3 The impact of trenching charges on customer access to a standard telephone service**

Whether trenching costs act as a deterrent for customers largely depends on whether the customer is receiving a wireline or a radio installation, as the majority of on-property infrastructure will be located close to the customer's premises. For the former case, the size of the property, the terrain, and the distance from the PEP to the BEP will all affect the overall cost. It is clear that the lead-in lengths in more remote areas of Australia will tend to be much larger than those in urban areas.

The terrain in regional, rural and remote areas may also make trenching more difficult, and therefore more expensive, than in urban areas. Anecdotal evidence collected by the review suggests that some customers consider trenching costs to be high, representing an access barrier. This is especially the case where steep inclines, hard and uneven ground composition, or riverbeds have been encountered in building the trench.

For installations of more than several hundred metres, this trenching cost might deter customers from considering connecting a wireline connection to their property. This is more likely if they are paying for this work in addition to a network extension fee and the connection price.

## **11.8 TRENCHING POLICY OPTIONS**

### **11.8.1 Option 1--Current arrangements remain in place**

Maintaining the current arrangements would require customers to cover the full cost of the on-property trenching required to deliver an STS to their residence. As discussed in the 1998 review of options for placing facilities underground, the advantage of owners paying for trenching is that it requires the beneficiary of the work to pay for the service.<sup>308</sup>

The user-pays option is distributionally neutral in that costs are not transferred from high to low income customers.<sup>309</sup>

#### Reasonable access on an equitable basis

Current trenching arrangements generally allow for reasonable access on an equitable basis to the STS. However, it has been argued that rural and remote customers, particularly those in remote Indigenous communities, are faced with much higher trenching charges than people in urban areas because of their location and environmental conditions. Where access is complicated by the cost of trenching being borne by the customer, the maintenance of the current arrangements would continue to act as a barrier in certain circumstances.

#### Economic efficiency

In the case of new constructions, the current system promotes efficiency by encouraging customers to share trenching with other utilities.

Environmental conditions, such as rocky terrain, will affect consumers' trenching costs. Where these are expensive it may be cheaper to install a wireless solution rather than use a cable. As Telstra does not pay trenching costs, but is responsible for choosing the technology used, it may make inefficient, and more expensive, technology choices. For example, it might choose long copper runs because the customer pays the trenching cost.

It should be noted that the current costing method used to determine USO subsidies includes costs for trenching on the customer side of the network boundary.<sup>310</sup> Therefore, in net loss areas, it could be claimed that under the current arrangements, where subsidy levels are related to costs resulting from modelling work, Telstra is receiving a subsidy for a cost that it does not incur. This results in further inefficiencies.

#### Transparency and customer certainty

Evidence received by the review suggests that it is difficult to determine the potential cost of trenching due to the varying terrain and environmental conditions. Therefore, costs could be more transparent. Additionally, customers are not provided with information on the likely costs of trenching to Telstra's requirements. Thus the certainty of quotes by third-party contractors cannot be tested.

### **11.8.2 Option 2--Telstra absorbs the full cost of on-property trenching**

#### Reasonable access on an equitable basis

This option would remove a possible access barrier and treat all customers equitably. An STS would be provided at the request of the customer for the basic charge of \$209. However, anecdotal information provided to the review suggests that trenching costs can be up to \$25 000 per customer. In order to accommodate the absorbed costs, charges for other services might increase as a cross subsidy. As a result, access to other services might become compromised from an affordability perspective.

#### Economic efficiency

In support of the argument presented above in Option 1, requiring Telstra to cover the full cost of on-property trenching, this would improve efficiency by encouraging Telstra to provide the lowest cost technology choice.

However, a previous review of placing cables underground, the Department concluded that requiring utilities to pay for these activities would distort consumption patterns on both

upstream and downstream industries.<sup>311</sup> The distortion would be caused by the need to recover the cost burden of supplying these services.<sup>312</sup>

This option would remove the incentive for customers to make the most efficient trenching location, sharing and timing choices. However, it could be argued that this incentive would then pass to Telstra and that the net benefits would remain.

Greater trenching costs are incurred by people applying for a new telephone service to be connected on a large block of land. However, apart from people in remote Indigenous communities, their economic profile could be assumed to be skewed towards higher income groups. If Telstra was forced to absorb these trenching costs, funding would have to come from either Telstra shareholders or other telecommunications users. The Department's report, *Putting cables underground*, addresses this point concluding that requiring utilities, including Telstra, to bear the cost of trenching activities is 'regressive' and will lead to negative impacts on low income households.<sup>313</sup>

#### Transparency and customer certainty

As the \$209 standard connection charge would be the only remaining fee, customers would have a high level of certainty about their connection liabilities. Overall price certainty would decrease, as Telstra would have to find other revenue streams to recover the cost of absorption.

### **11.8.3 Option 3--Trenching costs are supported by government subsidies**

There are several options available in the broader system of government funding. The previous review of underground cabling ranked a taxpayer-funded system, through Commonwealth consolidated revenue, third behind multi-contributor and user-pays options due to the cross-subsidisation of non-telecommunications users.<sup>314</sup>

#### Reasonable access on an equitable basis

With the removal or minimisation of up-front costs, customers would have lower barriers to having the network extended to enable an STS to be provided under the USO. A funding scheme targeted at those facing barriers to access because of additional trenching costs (for example, low income or disadvantaged customers) would increase equity outcomes because higher income subscribers would continue to bear their trenching costs.

However, it can be argued that a government subsidy funded by all taxpayers has inequitable elements. The inequity is that those members of the public who do not use telephone services, or use only mobile telephony, are paying trenching costs for disadvantaged fixed-telephony customers.

#### Economic efficiency

Government subsidisation of trenching costs would be the least economically distorting policy in terms of its impact on industry and the relative costs of telecommunications services.

As discussed earlier, where the trenching costs are not borne by Telstra, there is the possibility that inefficient technology choices could be made. Providing a copper-based STS may be the cheapest option for Telstra but it may also be the most economically inefficient option overall.

#### Transparency and customer certainty

A well-targeted and promoted government support program would result in a high level of

transparency and certainty for customers connecting an STS. To promote the highest levels of transparency and certainty, a system that determined subsidies on a pre-connection basis would be required.

#### Administrative burden

A disadvantage of this option could be high administrative costs associated with developing and delivering the subsidisation program. Communication and cooperation between customers, Telstra, sub-contractors and the Government would need to be ensured. This would require implementing a well-maintained and governed system to avoid connection delays, authorisation of work completion and money transfers.

#### **11.8.4 Option 4--Amortisation of trenching charges**

Section 11.5.4 discussed the implications of an amortisation scheme. These are also attributable in respect to trenching charges.

### **11.9 CONCLUSIONS AND FINDINGS (TRENCHING)**

The management and cost of trenching from the customer's property boundary to the premises boundary is currently entirely the responsibility of the customer. Apart from referring customers to preferred Telstra contractors, Telstra plays no role in the provision of trenching for this purpose.

The overall cost of trenching per year is high, with individual customers incurring a cost of up to \$25 000 for trenching on their property. However, requiring Telstra to absorb this significant cost under the USO would be regressive, with costs likely to be passed on to low-income customers.

Nevertheless, the requirement to arrange and pay for on-property trenching may be a barrier preventing particular low income customers from accessing USO services, especially those in remote Indigenous communities. The review considers that, if the Government wishes to support such customers to alleviate trenching costs, it should do so through a transparent, targeted government program, rather than through the broad-brush regulatory mechanism of the USO.

review findings in relation to trenching are set out below.

**11.3 Current trenching arrangements, where the customer is required to arrange and pay for all on-property trenching, should remain in place.**

**11.4 Any undue burden of trenching needs on particular disadvantaged customers could be more effectively supported through transparent and targeted funding arrangements.**

#### **11.10 RESTORATION OF CUSTOMER SERVICES INVOLVING LEAD-IN CABLES**

While unrelated to the effect of network extension and trenching charges on the initial provision of an STS, the NFF raised a further issue about the rectification of faults to lead-in cables. The NFF suggests that:

The PUSP should be responsible for the restoration of services to the customer's first socket including all costs involved with the supply, installation and trenching for lead in cabling, irrespective of length.<sup>315</sup>

The NFF claims that this issue has 'highlighted' the problems that arise from the varying terminology for network boundaries used by the ACA, Telstra and that included in the

Telecommunications Act 1997. It suggests that:

The Telecommunications Act 1997 and the T-CPSS Act should be amended to better reflect the responsibility of the PUSP and other providers and to ensure standardised terminology used by regulators and providers.<sup>316</sup>

### **11.11 CONCLUSIONS AND FINDINGS (RESTORATION OF LEAD-IN CABLES)**

A particular issue related to on-property cabling and raised in submissions was the perceived discrepancy between the TCPSS Act and Telstra documentation and work practices in relation to the restoration and maintenance of lead-in cables. Telstra's consumer documentation is contained in its standard marketing plan and the document Our customer terms.

The review finding in relation to on-property cabling is set out below.

**11.5 To improve transparency and customer certainty, Telstra should amend its USO consumer documents--the standard marketing plan and Our customer terms--to clarify its responsibilities and commitments to restore and maintain lead-in cables.**

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