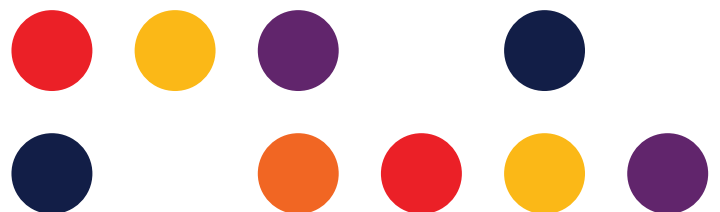


Voice interconnection services access determination inquiry – draft report

ACCC

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Public Submission



Introduction

TPG Telecom (**TPG**) welcomes the opportunity to comment on the ACCC's Voice interconnection services access determination inquiry draft report. We welcome the adjustment to FTAS and FOAS services as better reflecting the efficient costs of providing such services. However, we retain our concerns over aspects of the cost model and structure of the hypothetical efficient operator (**HEO**) for mobile services. TPG also believes an ACCC decision to not include terms and conditions that would enable carriers to better combat scam traffic will be a regrettable missed opportunity.

Our concerns over the HEO in relation to mobile services relate to modelling assumptions. TPG believes the key assumptions are unrealistic, given it achieves a higher market share than the majority of mobile network operators currently in-market despite a smaller network footprint and/or a materially less dense network grid. Such a HEO is unrealistic because it cannot hope to achieve more market share with inferior quality of service. The HEO should have a smaller assumed market share and/or assumed to have a significantly larger and denser network.

TPG welcomes the proposed changes to FTAS and FOAS. It is apparent the regulated FTAS and FOAS price is currently more than 4 times the efficient cost to supply. This distorts the market for fixed telecommunication services to the detriment of end users. We believe the proposed 12-month glide path is unnecessary and perpetuates this market distortion. TPG recommends the ACCC move to introduce the new rate as soon as possible, as per previous changes to regulated prices.

Finally, TPG recommends the ACCC reconsider its draft decision to not include any terms and conditions that would combat scam traffic. At present, it is profitable for some operators to pay little attention to whether scam is transmitted from their network. Allowing terminating network operators to impose non-regulated rates for proven scam traffic changes this calculus and creates economic incentive for operators to prevent scam traffic from originating on their network in the first place. Such an economic signal would be significantly more effective and efficient than regulatory approaches to stopping scam traffic from entering out public telephone networks.

The assumed hypothetical efficient mobile operator is unrealistic

The ACCC's HEO for mobile services could not eventuate in the Australian market given the commercial realities of this market. We note the following:

- The HEO is assumed to have a combined retail and wholesale market share of 35.9% and operates 8,237 mobile base stations. This share is 50% in remote and very remote areas, and 39.1-47.8% in regional areas, with only 2,761 sites assumed in those remote and regional areas.
- The HEO is assumed to have a higher market share than Optus (the second largest Australian MNO) but with fewer sites. Optus has approximately 32.4% combined wholesale and retail market share¹ and 9,201 base stations (12% more than the HEO), and 3,336 sites in regional and remote areas (21% more than the HEO).
- Telstra's market share in regional areas is estimated at 70%.² It is likely significantly higher in remote

¹ TPG Telecom analysis of ACCC RKR data (including MVNOs), Telstra 2024 annual report and TPG 2024 Results Investor Presentation detailing MVNO subscribers.

² Wiggins, Jenny, 'TPG turns on its Optus tie-up, hoping to steal Telstra customers', January 30, 2025,

<https://www.afr.com/companies/telecommunications/tpg-turns-on-its-optus-tie-up-hoping-to-steal-telstra-customers-20250121-p5l638>

areas due to its larger coverage footprint (Telstra has 1280 sites in remote and very remote areas, the Optus/TPG MOCN has 289). This means the combined market share of Optus and TPG is no more than 30% in those areas.

According to the modelled HEO, it has a higher national market share than Optus overall, and significantly more market share than TPG. It is also assumed to have a significantly higher regional and rural market share than the combined market share of Optus and TPG in those areas.

The model assumes the HEO can achieve this with a network service offering that is inferior to both Optus and TPG. The unreasonableness is particularly pronounced in regional/rural areas where the HEO is assumed to have an approximate 50% market share but with a significantly smaller number of sites than Optus/TPG.

Furthermore, there are enduring structural features which will prevent the HEO from achieving the ACCC's draft report assumptions, including:

- Telstra has 2,347 more sites than the HEO (almost double the site count of the HEO) in regional and remote areas and major transport routes. The HEO cannot be reasonably assumed to be able to achieve 40-50% market share with such a scale disadvantage.
- Telstra's enduring competitive advantage in regional and rural areas is structural. The ACCC has acknowledged Telstra's structural advantages were "conferred from its legacy as a former statutory monopoly and period of government ownership", and that it was the "greatest beneficiary" of the Mobile Blackspot Program.³ TPG notes the HEO would not have these advantages, nor would it have access to these public subsidies. This would raise its cost base and prevent it from gaining market share in regional and rural areas.

The above is consistent with actual market developments. For example, Optus has less market share than the mobile HEO, despite being in operation more than 30 years and having greater network scale. TPG has a market share (including MVNOs) of [c-i-c]

[c-i-c ends] The combined Optus and TPG market share in regional and rural areas is less than 30%.

While the HEO does not model any one carrier in market, it should at least represent a plausible scenario where it could enter and operate efficiently in the Australian market. That means the model assumptions must account for the Australian context where there is one dominant carrier (stemming from a legacy of public ownership and subsidy programs), a uniquely challenging geography for deployment of a mobile network, and consumer requirements of ubiquitous coverage where they work, live and play.

The model unreasonably suggests that the HEO does not need to have ubiquitous coverage where consumers work, live and play due to its smaller and less dense network, but still expects that it would be able to 'split the market' with competitors that have significantly larger and denser networks. The market share assumption must be significantly reduced or the network footprint assumption for the HEO must be expanded and densified to match that of Telstra.

Analysys Mason acknowledge excessive market share assumed for the HEO will imply a level of efficiency that cannot be achieved by all operators. It accordingly understates the efficient cost of

³ ACCC, 'Reasons for Determination, Application for merger authorisation lodged by Telstra and TPG', December 2022, Page 42-43

service delivery and unfairly penalises the smaller challenger MNOs.

Relevantly, neither Optus nor TPG are currently achieving returns above CEPA’s estimate of industry WACC, while Telstra’s ROIC (8.5%) is only marginally above CEPA’s estimate of industry WACC. Understating the cost of providing MTAS would contribute to the likelihood of deferred or descaled investments in the future.

TPG performed a sensitivity test using the Analysys Mason cost model using market share assumptions that resembles TPG’s estimated market shares. [c-i-c]

[c-i-c ends] The outputs are produced in Figure 1 below.

Figure 1: MTAS under alternative HEO market share, cents per minute

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
4G	1.3017	1.3178	1.3296	1.3423	1.3378	1.3361	1.3369	1.3402	1.3458	1.3536
5G	1.3065	1.3227	1.3346	1.3474	1.3431	1.3415	1.3425	1.3459	1.3516	1.3596

The HEO with TPG’s estimated market share as inputs would set an MTAS rate 46.5% higher than the ACCC’s draft MTAS rate, all else being equal. This means TPG will not be able to recover its efficient costs for providing MTAS at the ACCC’s draft MTAS rate.

The HEO assumptions must be updated

Given the implausibility of the HEO for mobile services achieving its modelled market share given the scale of its assumed network, its market share and site count assumptions must be revised to ensure the ACCC does not set MTAS rates below the efficient cost of providing the service.

For the mobile HEO, TPG believes the ACCC should update its assumptions to:

- a national market share of between 20-25%;
- a regional market share of less than 30%; and
- an increase in site densification in regional areas of between 10-20%.

These updated assumptions will ensure the mobile HEO is achievable within the commercial realities of the Australian mobiles market.

The alternative approach, if the ACCC preferred to maintain its market share assumptions, is to expand and densify the HEO’s mobile network footprint to mimic Telstra’s retail network footprint.

This is because if the HEO is competing with a network similar to Telstra, it would need to mimic Telstra’s regional and rural footprint to have a chance at achieving a market share of 50% in regional and rural areas. If it were competing with a network with less scale than that of the Optus/TPG MOCN, it would realistically achieve a market share of no more than 30%.

The FTAS and FOAS glide path should be shortened

TPG Telecom supports moves to reduce FTAS and FOAS rates as proposed in the ACCC’s draft report.

FTAS and FOAS have remained relatively stable over the past 15 years, falling from 1 cent per minute in 2010 to 0.86 cents per minute in 2016, a rate which was rolled over in 2019 to the present. This rate is significantly higher than the efficient cost to supply, which was confirmed by the cost model’s draft

output of 0.21 cents per minute. A price more than 4 times that of efficient costs will inevitably create distortions in the market for services and would not promote the long-term interests of end-users.

However, we believe the proposed 12-month glide path is unreasonably long, and out of step with prior precedent. For example, the ACCC previously implemented a large 52.8% reduction in the MTAS rate (from 3.6 cents per minute to 1.7) during the 2015 MTAS FAD, released in August 2015 and effective 1 January 2016.

In the current case, a glide path no longer than the 5 months previously applied would be appropriate. Furthermore, if a glide path is adopted, it should equally be applied to any reductions to the MTAS rate. In the alternative, TPG supports the immediate implementation of new MTAS and FTAS/FOAS rates following a specified start date.

ACCC should use all tools to target scam traffic

TPG disagrees with the ACCC's draft position that 'do nothing but wait and see' would best promote the long-term interest of end-users.

The issue is the ACCC has a real opportunity to take decisive action to radically change the incentives of a limited number of industry participants that originate a disproportionate amount of scam traffic into our public telephone networks. Taking decisive action, would not preclude the use of other instruments such as the Telecommunication Scams Code.

Doing nothing is arguably a failure on the part of the ACCC to discharge its duties appropriately as it is assuming some future event (i.e. the ongoing development of the Scams Prevention Framework) in its considerations prior to the satisfactory conclusion of that future event. Put differently, what are the ACCC's plans if the Scams Prevention Framework does not resolve in a satisfactory manner?

All available tools should be used in the fight against scam activity due to its prevalence and potential to cause harm. According to the ACCC's Targeting Scams Report (2024), phone calls represented the top contact method to scam victims by overall loss. Former ACCC deputy chair Delia Rickard claimed she did not answer calls from unknown numbers and had not answered her landline in almost 3 years because of the deluge of scam traffic.⁴

This is indicative of the current reality where the utility of voice calling is significantly diminished due to widespread scam activity. A telecommunications network where users will not pick up a call due to the risk of being exposed to scam traffic is not useful. This is clearly not what end-users want, and the ACCC's draft position of 'do nothing but wait and see' does not promote the long-term interests of the end-users.

TPG believes the ACCC should allow terminating networks to charge originating networks a non-regulated rate for call traffic that is demonstrated to be scam traffic, ex post. We believe a price signal such as this would be the most effective method to curtail such activity, as originating carriers would quickly act to terminate the accounts of their customers that generating such traffic, and be more diligent to prevent onboarding of new customers likely to originate scam traffic in the first instance.

This appropriately satisfies the legitimate rights of access seekers as an access seeker is not subject to any ex-ante blocking and is only subject to penalties for proven scam traffic. We do not propose a

⁴ Nally, Alicia, 'ACCC says scam calls are increasing. Here's what you can do to avoid them', ABC News, 21 February 2022, <https://www.abc.net.au/news/2022-02-21/accc-scams-calls-are-increasing-how-to-avoid/100847224>

right to block or charge a non-regulated rate to traffic purely based on traffic characteristics, only where a call is conclusively shown to be scam traffic. This can only occur after manual verification and engagement with an access seeker to confirm the traffic is scam traffic.

There is zero incentive for the terminating network to abuse such a mechanism because the overall amounts likely to be charged under this mechanism would be small and decrease over time as originating networks become more rigorous in filtering out illegitimate traffic.

Furthermore, the risk of capturing legitimate traffic is zero. This is because the pricing mechanism is only activated after traffic is demonstrated to be scam traffic after the fact – there is no ex ante blocking involved. These validation process by internal anti-scam/anti-fraud teams are manual and resource intensive. An access seeker can always challenge an access provider's claim that specific traffic is scam traffic.

Regarding the risk of telemarketing traffic being targeted, TPG notes our price-based mechanism does not involve ex ante blocking. We also note the ACCC recently commenced a review into unsolicited selling practices, including via telemarketing, and the potential for significant financial harm such practices cause.⁵ The line between legitimate and illegitimate 'telemarketing' traffic is often blurry. Certain operators use this as an excuse to not do more to stop scam traffic from originating from their network.

⁵ 'ACCC to examine unsolicited selling and lead generation practices', 17 June 2025, <<https://www.accc.gov.au/media-release/accc-to-examine-unsolicited-selling-and-lead-generation-practices>>