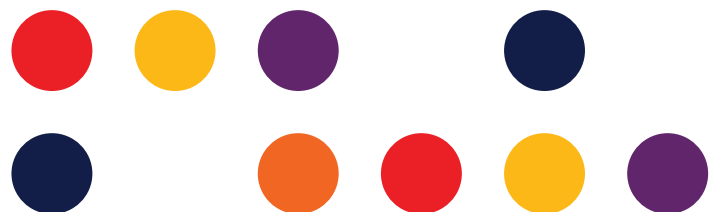


# **Voice interconnection services access determination inquiry – Position and consultation paper**

## ACCC

May 2025

Public Submission



## 1. Introduction and key issues

TPG Telecom welcomes the opportunity to comment on the ACCC's position and consultation paper on developing a cost model for voice interconnection services.

We maintain that developing a cost model is not necessary given the benefits are unlikely to outweigh the costs of doing so. However, noting the ACCC's decision to proceed with development of a cost model, we consider the TSLRIC+/LRAIC model approach to be appropriate in line with our feedback to the prior round of consultation.

We concur with the ACCC's conclusion bill and keep is not appropriate under the current circumstances. Traffic flows between parties are not balanced. Additionally, such an approach risks increasing spam and scam traffic.

Our submission focuses on elements of the proposed Analysys Mason model specification. We believe this model requires refinement to accurately reflect the unique and specific circumstances of the Australian telecommunications market.

## 2. There is a strong rationale for MTAS to remain higher than FTAS

TPG Telecom strongly believes the mobile terminating access service (**MTAS**) should be priced significantly higher than the fixed terminating access service (**FTAS**). There are several potential cost drivers for MTAS that are not applicable when considering FTAS. RAN costs are sensitive to call volumes, whereas the access network costs for a fixed network are not. Mobile networks are subject to increasing spectrum requirements, deployment of 6G and other future capacity upgrade programs, which all directly impact the cost to supply MTAS.

Accordingly, any cost model accurately reflecting the true cost of delivering voice termination will price MTAS higher than FTAS. Accordingly, our feedback regarding the proposed model primarily focuses on aspects relating to MTAS.

## 3. The proposed cost model is likely to understate costs

### 3.1 Concepts concerning the modelled operator

TPG Telecom is concerned the proposed modelling approach may not reflect the costs of providing mobile voice termination on a mobile network in Australia. While we acknowledge the cost model should not account for imprudent investment on the part of mobile network operators (**MNOs**), some investments, which could be considered inefficient in another market, have been incurred for reasons outside the control of MNOs. A cost model that does not reflect this reality would not be just nor efficient in the Australian market.

Some examples of cost impacts outside of TPG Telecom's control include:

- TPG Telecom and Optus incurred substantial costs replacing Huawei equipment due to Government policy. [c-i-c begins] [c-i-c ends] This additional cost was not necessary from an economic perspective. TPG Telecom would not have been required to replace these network elements absent regulatory intervention. Nor could TPG Telecom have reasonably predicted the equipment would be subject to regulatory intervention at the time it was deployed.
- Telstra enjoys substantial legacy benefits from public ownership and various government

programs. Competing MNOs face lower returns on investment and higher unit costs for voice termination due to inferior scale relative to Telstra.

As a result of the regulatory and policy environment Telstra is the only MNO achieving returns in excess of its WACC, while Optus and TPG Telecom are not achieving returns on invested capital above their WACC in recent years and are unlikely to do so in the near future.

This context is important because a 'take the average' approach to selecting model parameters to determine MTAS would likely unfairly disadvantage smaller operators like TPG Telecom.

An example of such a parameter is the market share input into the model. The methodology described in the Analysys Mason paper for determining market share for the hypothetical operator will likely lead to an MTAS rate lower than TPG Telecom's true costs for terminating a call on its mobile network.

Under the proposed approach, the hypothetical mobile operator will have a higher market share than TPG Telecom (and Optus). TPG Telecom's own mobile network covers up to 81.6 per cent of the population (post the MOCN implementation in regional Australia with Optus), and Optus' mobile network covers up to 98.4 per cent.<sup>1</sup> Telstra claims that its mobile network covers up to 99.7 per cent of the population. Per the proposed market share formula, this would deliver a market share input of:

$$(81.6\% \times 3) + (16.8\% \times 2) + (1.3\% \times 0) = 2.78$$

$$\text{Market share} = 1 / 2.78 = 35.9\%$$

This is well in excess of the market share of each of TPG Telecom and Optus. The latest ACCC Internet Activity Report shows Telstra has a 42.4 per cent market share of mobile SIOs, Optus 28.5 per cent, and TPG Telecom 17 per cent.<sup>2</sup> As the ACCC acknowledges, market share is a key parameter in determining per unit costs. A market share that is too high will understate unit costs for smaller providers.

TPG Telecom recommends the following:

- Market share for the hypothetical operator should be set no higher than TPG Telecom's actual market share.
- Clearer definition of 'national-level coverage' and the implications of such coverage for the end outputs of the cost model.
- Where there is a significant conflict between cost levels determined by the bottom-up modelling and top-down verification, the determination should favour the top-down approach. This accounts for inefficiencies due to factors outside MNO control. MNOs are operating in a competitive environment which inherently imposes discipline on investment decisions.

### 3.2 Concepts concerning the modelled technology

TPG Telecom considers the modelled technology is likely to understate the true cost of delivering MTAS. In several aspects, the proposed model specification is overly simplistic or does not account for potential future cost drivers. Accordingly, a cost model developed on this basis, risks understating the

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<sup>2</sup> ACCC, *Internet Activity Report*, December 2024

<sup>2</sup> ACCC, *Optus Mobile Pty Ltd and TPG Telecom Limited proposed network and spectrum sharing*, July 2024, <<https://www.accc.gov.au/public-registers/mergers-registers/public-informal-merger-reviews-register/optus-mobile-pty-ltd-and-tpg-telecom-limited-proposed-network-and-spectrum-sharing>>

costs of termination.

Specific examples of concerns we have with the proposed model include:

- The proposed modelled core network architecture does not capture the full extent of a viable core network.
- Lack of a mechanism to account for future growth in spectrum requirements, and exclusion of the 2300 MHz band despite being in use.
- Provision for cost efficiencies resulting from Open RAN deployment, despite limited evidence of such cost efficiencies, and extremely limited uptake.
- The modified scorched node approach to network deployment not accounting for node deployment done in a certain manner due to reasons outside of MNO control. Such deployment may not be 'efficient' although it was justifiable or unavoidable given the circumstances faced by MNOs at deployment.

TPG Telecom concurs with the ACCC's conclusion that capacity of a mobile access network would need to increase in response to additional traffic volumes.<sup>3</sup> Whilst voice traffic is a declining portion of mobile traffic, it is inescapable that demand for mobile voice traffic will not be zero. Mobile network capacity constraints will necessitate increasing spectrum deployment and/or network densification. This means future cost increases should be accounted for in the calculation of a MTAS rate.

Research conducted by Coleago Consulting confirmed current spectrum allocations are likely to be insufficient by 2030.<sup>4</sup> While voice termination is not the primary driver of this requirement, provision of voice termination is inextricably linked to the provision of all wireless services, and the need for spectrum. Not accounting for future spectrum requirements will likely understate the true cost of MTAS.

TPG Telecom accordingly recommends the following amendments to the modelled technology:

- The core network model should account for the functions and infrastructure to support voice services, including IP switching, routing, load balancing, and firewalling. These cannot be assumed to be negligible.
- Provision should be made for anti-scam systems and teams. A voice network overrun by fraudulent activity is of limited utility to end-users. Controlling such activity imposes a real cost on network operators.
- Include number portability requirements in shared common costs. These are an integral part of mobile services in Australia.
- Account for future growth in spectrum requirements, for example 600 MHz and 6 GHz bands, and include 2300 MHz spectrum in cost modelling.
- Use an actual network or scorched node approach for node deployment to account for node deployment which was rational given the information available at the time of deployment, or done to satisfy factors outside of network control (e.g. regulatory requirements), but nevertheless inefficient in retrospect.
- Open RAN solutions, and any hypothetical efficiency gains should not be included. Analysys Mason has not provided evidence of realised cost savings from Open RAN deployment. This is evidenced by the low and declining uptake of Open RAN. A recent Deloitte report found Open

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<sup>3</sup> ACCC, *Public inquiry on the access determination for the voice interconnection services*, April 2025, page 19

<sup>4</sup> Coleago Consulting, *Estimating the mid-band spectrum needs in the 2025-2030 time frame in Australia*, November 2021

RAN comprises less than 2 per cent global market share, with no new deployments expected.<sup>5</sup> Strand Consult furthermore found the global market share of Open RAN systems declined in 2024.<sup>6</sup> This indicates Open RAN initiatives have failed to deliver the promised efficiency gains.

### 3.3 Concepts concerning the modelled services

TPG Telecom considers the modelled service set is an accurate reflection of the market for termination services. However, we believe an integrated approach to retail costs should be adopted. Retail service provision is deeply intertwined with voice termination. Much backend infrastructure (e.g. billing systems) is utilised for both retail and wholesale services, hence an integrated approach captures the true cost of delivering voice termination.

We have the following recommendations regarding modelled services:

- Ensure a wholistic approach to modelling common costs to network and retail activities (including corporate overheads). These should include items such as IT provisioning, and billing systems necessary for provision of voice termination services.

### 3.4 Concepts concerning the modelling implementation

TPG Telecom supports the TSLRIC+/LRAIC+ approach given the inclusion of common costs, in line with our feedback to the Discussion Paper. However, we query the extension of the modelling period to 2070. This is well beyond the useful lifespan of any relevant infrastructure. To assist with our understanding of the modelling approach, it would be helpful if the ACCC could confirm:

- How are asset lifetime values proposed to be modelled?
- What assumptions will be made regarding future generations of mobile infrastructure, and the rollout of upgrades?

Generations of mobile infrastructure have followed an approximate 10-year life cycle to date. We are unsure how this is accounted for in the model.

We note the ACCC intends to consult on the development of WACC methodologies. We believe the estimate provided by Frontier Economics to the ACMA's expiring spectrum licence process of 8.49 per cent would be appropriate.<sup>7</sup> This is a long-term, post-tax nominal WACC. The ACCC does not need to duplicate this work given its recency. In addition, it would be useful for regulatory decisions to align on common inputs such as the WACC.

## 4. Pricing should be used to deter scam and spam traffic

TPG Telecom previously submitted the ACCC should consider describing circumstances under which an access seeker does not have the right to terminate voice traffic on another network to combat scam and spam activity. It remains the case charging termination fees (rather than a bill-and-keep approach) acts as a speedbump to originating scam and/or spam traffic.

Scam and spam traffic is often characterised by distinctive features, such as those in the *Reducing*

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<sup>5</sup> Deloitte, *TMT Predictions 2025 (Australia)*, April 2025, page 17

<sup>6</sup> Strand Consult, *2025 Predictions and 2024 Global Mobile Telecom Industry Review*, December 2024, accessed 28/04/2025, <<https://strandconsult.dk/2025-predictions-and-2024-global-mobile-telecom-industry-review-from-strand-consult/>>

<sup>7</sup> ACMA, *Expiring spectrum licences stage 3 Preliminary views paper 4: Pricing for ESLs*, April 2025, page 46

Scam Calls and Scam SMS industry code (**Scam Code**).<sup>8</sup> Examples include:

- A high volume of calls from a particular CLI or range of CLIs,
- Short duration of calls,
- Abnormally high volumes of traffic from a provider that does not usually generate that volume of traffic,
- Customer complaints.

[c-i-c begins] [c-i-c ends]

To address this, we propose two potential mitigations for this issue:

- Allow terminating providers to bill originating carriers a termination rate in excess of standard rates where they identify traffic meeting a sufficient number of characteristics of the Scam Code to indicate it is illegitimate traffic.
- Permit a flagfall fee to be charged to providers found to be originating an undue volume of traffic characteristic of scam or spam calling. This should be set at a rate to deter illegitimate calls, while having little impact on longer legitimate calls.

[c-i-c begins] [c-i-c ends]

Benefits of the proposed mitigations beyond a decrease in spam and scam traffic and ensuing consumer harm include:

- Promoting efficient use of infrastructure through disincentivising low-value and actively harmful activity
- Incentivising providers to proactively police origination of spam and scam traffic on their networks
- Mitigating free-riding on infrastructure provisioned by telecommunications networks
- Enable networks to recover costs stemming from anti scam and spam activity.

TPG Telecom believes the cost of fighting scam/spam traffic should not be spread-out across all calls. They should be concentrated and levied against operators that are found to be continuously and frequently sending scam/spam traffic into our networks. To that end, we believe this regulation could be more flexible. We would welcome continuing engagement with the ACCC and other policy makers on this important issue.

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<sup>8</sup> Communications Alliance, Reducing scam calls and scam SMS Industry Code, 2022, page 11