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MOVE THE USO AWAY FROM TELSTRA TO NBN?



MAKE THE NBN THE USO PROVIDER, SAYS VODAFONE

A report commissioned by Vodafone says that with changing technology the Universal Service Obligation should be moved from Telstra to the NBN.

Vodafone has commissioned a report from respected telecommunications analysts Professor Reg Coutts on Australia's Universal Service Obligation (USO). The USO has been an integral part of Australia's telecom framework for nearly 30 years, ensuring telephone service is accessible to all Australians, no matter where they live.

But Vodafone –through Professor Coutts - argues that the USO is now out of date, because it subsidises Telstra, which as the former government telecommunications monopoly is charged with delivering the USO.

Coutts is chair of industry body TelSoc and was on the initial (Labor) Government's Expert Panel on the NBN. His report (not yet publicly available, but obtained by *CommsWire*) recommends that the obligations under the USO essentially be moved from Telstra to the NBN.

Coutts' recommendations form the basis of Vodafone's submission to the current 2015 Regional Telecommunications Review (www.rtrc.gov.au), which is reviewing the adequacy of telecommunications services in regional and rural Australia.

Optus has also made a submission to the review, making a similar argument. The two carriers believe that Telstra is unfairly advantaged by the existing USO framework, as it essentially being subsidised substantial amounts by the Government to deliver a service that is no longer relevant to increasing numbers of Australians.

Vodafone has long argued that Telstra will receive more than \$3 billion in USO subsidies over the next ten years, which will not deliver any new services or choices.

It says the current situation is wasteful, out of date, and amounts to an 'anti-competitive tax' on other carriers that protects Telstra from competition.

"Unfortunately, public policy on delivering access to the benefits of modern technology outside our major cities is stuck in the past," says Vodafone Australia CEO Iñaki Berroeta

"The NBN gives Australia a unique opportunity to close the digital divide between city and country by massively improving access for voice and broadband data services using new technologies. With the profound changes the NBN will deliver, government funding and policy arrangements need to change."

The USO was created in the early 1990s, argues Coutts, when the Australian telecommunications market was deregulated. The dominant form of communications for Australians was the fixed line home phone, and payphones were considered a necessity.

“Things are very different now, with Internet and mobile services essential and access to fast and reliable broadband very important. The deployment of fast 4G services has resulted in Australians becoming some of the fastest adopters of Internet-enabled smart phones in the world.”

Coutts says the rollout of the NBN will see further changes in the telecommunications market as over time the old copper network will be made redundant by the various technologies being used by the NBN, which can also be used to deliver improved mobile services in regional Australia.

“Despite these enormous changes and the increasing use of data, the USO remains in its original outmoded form as a costly subsidy scheme for fixed line phone services delivered over the copper wire network,” says Coutts’ report.

“Each year, the telecommunications industry and Australian taxpayers spend

approximately \$300 million maintaining ageing copper wire and payphone networks under the complex and opaque USO arrangement.

“The NBN rollout and the increasing consumer preference for mobile services anywhere, anytime means now is the ideal time to have a discussion about how best to reshape the USO for the communications needs of today and the future.”

Coutts says Australia has the opportunity to create a new USO scheme that delivers reliable voice and Internet services for all Australians using a range of technologies through the NBN.

“In addition, some of the current USO funding could be used to improve mobile coverage and choice in regional Australia by co-funding much needed infrastructure in remote areas and by creating incentives for the industry to innovate, further invest in and share mobile networks.”

The report makes five recommendations to replace the current USO scheme with a more transparent and efficient scheme that uses the NBN as a “springboard for change” (see following page).

Graeme Philipson



THE COUTTS RECOMMENDATIONS

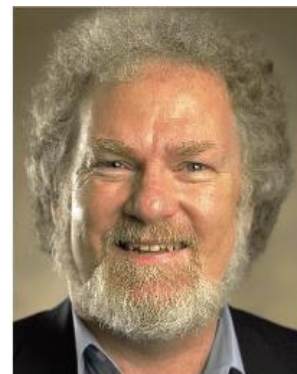
The Reg Coutts 'Better Telecommunications Services for all Australians' report makes five related recommendations.

Recommendation 1: Universal Service Fund

Establish a Universal Service Fund (USF), managed by the Department of Communications, to help fund non-commercial but socially important telecommunications infrastructure. The USF would be funded from contributions via an improved levy scheme that would look to reduce the distortionary impositions of the current arrangements.

Recommendation 2: NBN as the Universal Infrastructure Provider

Consistent with NBN's current remit, formally designate NBN as the Universal Infrastructure Provider to connect all premises in Australia. This would mean that all Retail Service Providers on the NBN would be able to provide voice and broadband services to all premises in Australia.



Reg Coutts

Recommendation 3: NBN as the Standard Communications Service Provider

Plan the phase-out of Telstra's current USO obligation, to maintain its copper network to provide a Standard Telephone Service, and provide funds to NBN to deliver a modern Standard Communications Service delivering voice and broadband capability to all premises.

Recommendation 4: Mobile coverage and choice

The Universal Service Fund should also consider the provision of funding for other essential services such as improving mobile coverage and choice in regional Australia via an expanded Mobile Black Spot Program. The NBN should also develop a project plan to assist the industry expand competitive mobile services in regional Australia by providing access to NBN backhaul and by upgrading its fixed wireless towers to deliver a wholesale 4G regional mobile network

Recommendation 5: Broader range of telecommunications solutions

As an alternate to traditional payphone subsidies, consider broadening the remit of the Universal Service Fund to deliver a broader range of telecommunications solutions for regional communities and other consumers, such as public open access Wi-Fi. Consideration should also be given to providing funds for small-scale community-led communication projects to enable broadband services to all Australians.

MOBILES AND THE UNIVERSAL SERVICE OBLIGATION

This week's report by Reg Coutts on rethinking the USO does not go far enough.

Reg Coutts (see previous article) has made a worthwhile contribution to the emerging debate on the future of the universal service obligation (USO) in a paper released this week by Vodafone Hutchison Australia. But he stops short of its logical conclusion.

Reform of the USO is very topical. The [Shiff](#) Regional Telecommunications Review is asking “Do we need to continue guaranteeing the standard telephone service (STS) for all (or only some) consumers, and if so to what extent?” (Q11). And consumer group ACCAN will hold a major [conference](#) on affordability in September.

In my opinion, the Bureau of Communications Research (BCR) is not going to help much. It is about limiting the damage to the internal funding of NBN's universal pricing caused by cream-skimming. It is not about the USO. It is looking only at funding the losses on NBN's fixed wireless and satellite services. See the critique of the BCR's first consultation paper in [Economuse](#) last month.

The USO is essentially about providing all Australians with access to an affordable telephone service. The context for this worthy objective has changed a lot:

- As Coutts says, the assumption that telephony would be delivered over a fixed line is clearly no longer true. The ACMA [reports](#) that in December 2014 “nearly one-third (29%) of adult Australians were mobile-only phone users—with a mobile phone but no fixed-line telephone at home. The incidence of mobile-only phone use has increased substantially over a four-year period from 2.2 million at December 2010 to 5.2 million at December 2014”.
- The policy focus has shifted from voice to broadband. The NBN itself is a universal broadband service project. With the Coalition Government's Digital First Strategy, all government services and public interactions are to be available digitally by 2017.
- Telstra is no longer the vertically integrated supplier of the USO. Coutts says the NBN should be deemed as the ‘Universal Infrastructure Provider’. Really? Who are you going to call? The obligation to serve falls first on the retail provider.
- Copper will no longer be the transport medium for voice once the NBN is completed. As a result, many aspects of the STS are now broken concepts (e.g. preselection and local call areas).
- Circuit switched telephony is dying. Soon voice will be data on both fixed and mobile networks. In the UK BT has [asked](#) Ofcom to review its OpenReach obligations in its strategic review starting this month.

Coutts (or Vodafone?) thinks the current USO levy “is essentially an anti-competition tax on industry to benefit the already dominant telecommunications provider,” Really?

But it may be possible to argue that the reasons why Telstra is getting \$253 million per year until 2032 to maintain some copper services have been overtaken by mobile investments. The May 2010 NBN Implementation Study found that “99.75% of all premises are capable of receiving voice over Telstra’s copper network, with low latency and high availability providing a high quality of service” (p319). But “A number of premises that today receive copper-based voice services will, however, be unable to receive mobile voice services” (p321).

Although there have been significant investments by all the mobile operators since 2010, the Broadband Availability and Quality [Report](#) found that while about 8.8 and 6.4 million premises had access to 3G and 4G mobile broadband services respectively at October 2013, over a million of the most poorly served fixed service customers (categories D and E) did not have access to either 3G or 4G.

Will this month’s [announcement](#) of the nearly \$400 million Mobile Regional Blackspots program (with more to come) and another \$500 million from Telstra over the next two years will bring mobiles to the last million? I doubt it.

The Universal Service Fund proposed by Reg Coutts has merit. He intends that the levies collected do not go to Telstra but to filling-in mobile blackspots and funding other universal service programs. That means that it is a logical extension of his argument that the USO should extend from the fixed to the mobile network. This has a number of attractions:

- First, the USO obligation attaches to retail service providers (now you know who you are going to call)
- Second, there is a natural default provider (Telstra)
- Third, it is contestable.

This is only one of a number of options I am exploring. It is a very complex area and there many facets of USO policy that are interrelated.

But the deeper I get, the more it seems to me that too much attention is given to the supply side of the USO question – the coverage and technology. More attention needs to be given to the demand side – what do the customers we seek to protect with USO policy need and how do pricing and the existing support programmes affect them?

I do not think Coutts has helped redress this imbalance.

John de Ridder is an independent telecommunications consultant

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THE ATO IS LISTENING TO THE SOUND OF YOUR VOICE

The Australian Taxation Office is the first organisation in Australia to deploy voice biometrics as a means of authenticating customers by the sound of their voice.

The ATO has now completed the two-phase deployment of Nuance Communications' voice biometrics solutions in its call centre in an effort to build stronger customer relationships with taxpayers and enhance authentication by replacing intrusive security questioning.



The ATO receives approximately nine million calls per year from the community, with around 75% of these calls requiring an ATO agent to verify the caller's identity and, in addition, it expects to receive more than half (4.3) million of these calls within its four-month peak tax period between July and October.

And, prior to the deployment of voice biometrics, when a customer called to conduct a transaction with the ATO, the authentication process involved several steps, putting pressure not only on customers to provide personal details or have the correct documentation in front of them, but also on the ATO's call centre agents, who collectively spent approximately 75,000 hours each year just trying to verify customers over the phone.

To solve the problem, the ATO chose to deploy Nuance's voice biometrics solutions, in partnership with Optus, an existing managed network services provider.

The ATO completed its first installation of Nuance's VocalPassword solution in September last year, allowing customers to speak a simple passphrase to verify their account.

Then, in April this year the ATO completed the second-phase of deployment with the implementation of Nuance's FreeSpeech solution, a first of its kind deployment in Australia that verifies customers during inbound and outbound calls, without intrusive questioning, providing a seamless experience for customers.

Robert Weideman, executive vice president and general manager for the Enterprise Division of Nuance said that, combined, the new VocalPassword and FreeSpeech voice biometrics solutions provide an added layer of security for ATO customers, helping to prevent and detect identity theft.

The ATO says the deployment of Nance has boosted call completion rates.

“No one wants to be on a call to the ATO longer than they need to, but we must ensure that convenience and ease of access are effectively balanced with our mutual need for security” said John Dardo, acting Deputy Commissioner, ATO.

“With Nuance’s voice biometrics solutions, we have introduced a secure, fast and easy way to verify a customer’s identity, providing a greatly improved experience for our customers and for our staff. The streamlined authentication has allowed the ATO to quickly boost call completion rates, whilst also improving customer security. Customer and staff feedback has been very positive and they see this as another example of us delivering contemporary client experiences.”

According to Naunce’s Weideman all organisations are competing to provide new and engaging customer service experiences that are “simple and secure.”

“The customer experience is at the core of Nuance’s voice biometrics technology, a premise which aligns perfectly with the ATO’s organisational goals. Using Nuance’s voice biometrics solutions, the ATO has been able to greatly improve its customer service experience, while reducing costs and delivering an authentication process that eases the burden on both customers and service agents.”

Weideman said organisations around the globe are recognising the growing consumer frustration with PINs, passwords, and security questions and are addressing it head-on to make customer authentication more convenient, and more secure than knowledge-based authentication. Nuance’s voice biometrics solutions have been adopted globally by other large organisations.

According to [new data from Opus Research](#), the voice biometrics authentication market is poised to grow from \$200 million (2013) to \$750 million globally in 2017.

Peter Dinham



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MEGAPORT EXPANDING INTO THE US MARKET

Network virtualisation provider, Megaport, is investing \$10 million to build an on-the-ground presence in the North American market as part of its global expansion.

The company, founded by telco entrepreneur Bevan Slattery, who also founded NextDC, says it will spend the \$10 million over the next 12 months establishing a US headquarters in San Francisco, with further expansion into other the markets including Seattle, Los Angeles, New York, Bay Area, Ashburn, Chicago and Dallas.



The first market, Seattle, is slated to come online in September, and the company says it will recover operating expenses for its US operation within the first twelve months.

Brynn Maddux, EVP of Americas & Europe for Megaport, said the company's global expansion was part of its plans to meet the growing demand for scalable cloud interconnectivity services, global partnerships and accelerated success in Asia.

"Enterprise customers are demanding a better model for accessing cloud computing through network services and are looking for solutions that adapt and evolve with their business," Maddux said.

"The Megaport platform gives customers greater flexibility through better commercial terms and instant provisioning capabilities into the cloud, along with access to new data centers and services globally as we continue our expansion. Ultimately we help our customers optimise their network and data center investment through our global services interconnection fabric."

Shortly after launching in Australia, Megaport expanded market coverage into New Zealand, Singapore and Hong Kong due to what it says was high demand through global partnerships and a requirement for change to the connectivity landscape.

Maddux, who before joining Megaport executed strategy and deployments globally for Microsoft, says Megaport has leveraged the global relationships and success they have formed in the Asia Pacific region for the US launch, with major cloud and content players joining the fabric in every mutual market.

Peter Dinham

TELSTRA EQUITY DEAL SEALS PARTNERSHIP WITH ENEPATH

Telstra has invested in Singapore-based enepath, a global specialist in trader voice technology for financial services, particularly traders in both buy and sell side institutions.

The equity deal will see Telstra become a new global partner with enepath which uses its Adaptive Media Platform (AMP), with fully distributed architecture, to deliver critical trader voice solutions and applications to trading rooms around the world.

Matthew Lempriere, Telstra's Global Head of Financial Services Market Segment, said Telstra would become enepath's new global partner and through its equity investment, will help enepath accelerate product development, expand its capabilities into new geographies and capitalise on emerging market opportunities, outside the financial services industry.

"enepath's fully virtualised voice trading platform is an industry leading solution that delivers all the scalability, reliability and security that one would expect of a fully distributed system, but with a much smaller footprint, faster installation and lower maintenance costs.

"Through our new global partnership, utilising enepath's IP trading platform – in conjunction with Telstra's world-class integrated network, cloud data centres and suite of financial solutions – we will help our customers mitigate risk and quickly address compliance concerns, while focusing on what's most important to them – driving revenue and sustainable business growth."

According to Lempriere, Telstra is expanding its financial services portfolio "at pace" and will continue to build on its domestic and global capabilities over the coming months.

"We see great synergy between Telstra and enepath and look forward to working in partnership with them to deliver leading trader voice solutions that meet the evolving needs of our customers in Australia and around the world."

Enepath CEO Stephen Phillips said Telstra's investment was a "critical milestone" in the company's growth and a pivotal partnership for its future success.

"In today's highly competitive capital marketplace financial services organisations face many challenges, including the need to comply with increasing regulatory requirements, together with greater volatility and increased pressure on margins.

"As a result, demand for our IP technology among global traders is increasing and this investment will help us scale quickly while accelerating some exciting product developments, including new desktop solutions and applications."

Peter Dinham

iiNET SECURES TASMANIAN PUBLIC SECTOR CONTRACT

iiNet has been contracted by the Tasmanian Government to deploy Internet access services across the state's public sector.

Under the contract iiNet will provide Internet services for all Tasmanian Government departments except for the Department of Education, and another 36 non-crown customers such as local councils that leverage the government's buying power to obtain competitive Internet access rates.

iiNet won the contract, which includes optional one-year extensions, through TMD, a division of Tasmania's Department of Premier and Cabinet.

iiNet's is required, under the contract, to build additional fibre optic links to connect up its Hobart data centre with the Tasmanian Government's core network.

Once complete, it will provide Internet services to a central location, with the Tasmanian Government using its own network to reticulate Internet access to various agencies.

iiNet says the Tasmanian contract extends its public sector presence which includes contracts with the ACT and South Australian governments and Victoria's Department of Education.

The Tasmanian Minister for Information Technology and Innovation, Michael Ferguson, said that under the contract, the Government will be able to increase capacity while still making substantial savings.

"This is the first purchase to be made through the Networking Tasmania III project to deliver and support the Tasmanian Cloud."

The Tasmanian Cloud is a Tasmanian Government initiative to better serve the needs of the Tasmanian community, as well as support the local ICT industry, by moving the majority of Government data to secure, outsourced on-island data centre services.

iiNet's State Manager for Tasmania and Victoria, Ryan Mistry, who is also a board member of TasICT, said iiNet had won the contract by offering better value-for-money.

"iiNet has a long-standing presence in Tasmania, so it's great to grow our existing relationship with the State Government," Mistry said.

Peter Dinham

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