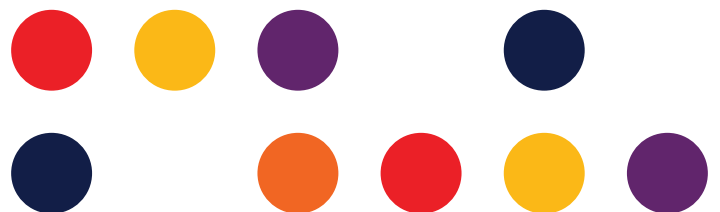




Inquiry into co-investment in multi-carrier regional mobile infrastructure

7 December 2022

Public submission



Submission

TPG Telecom Limited (**TPG Telecom**) appreciates the opportunity to make this supplementary submission to the House of Representatives Standing Committee on Communications and the Arts (**Committee**) inquiry into co-investment in multi-carrier regional mobile infrastructure (**Inquiry**).

The purpose of this submission is to clarify TPG Telecom's position in relation to neutral hosting opportunities in Australia, having regard to:

- comments made by representatives of Indara to the Committee at a public hearing held on 23 November 2022, and
- the Australian Competition and Consumer Commission's (**ACCC**) submission to the Committee dated 14 November 2022.

In our previous submission dated 10 November 2022, TPG Telecom cautioned enthusiasm for neutral host services must be tempered by the reality these types of services face a raft of commercial and technical challenges, which will require a significant amount of capital and time to overcome.

There are challenges associated with establishing a viable neutral host solution across large contiguous parts of Australia in the near term. In particular, a site offered by a neutral host provider has little to no value to operators who do not have contiguous coverage up to that site and therefore, at present based on the network coverage of each of the operators, there is no guarantee any given site would host more than one MNO.

However, the proposed TPG-Telstra network sharing arrangement (**TPG-Telstra Arrangement**) will, if approved, increase the value of neutral host sites to multiple carriers such as to make the establishment of such sites more economic.

Comments made by Indara

TPG Telecom considers comments made by Mr Horley, representing Indara, to the Committee about TPG Telecom's potential position could be misunderstood if not set into the proper factual context.

Mr Horley claimed a neutral host service in regional and rural Australia would have very strong appeal to TPG Telecom:¹

Mr Horley: Locally here, I think one of the key points to consider is that it's such a big difference in the market share in rural and regional areas, particularly remote areas, between Telstra, Optus and TPG. I can see a model like this having very strong appeal to TPG and to Optus, and I understand completely from Telstra's perspective that this is where they see they have their competitive advantage. So I think technically the model works. If the model were deployed at a big enough scale, Telstra would probably prefer to see it happen a different way, but eventually they'd probably have to be part of it if they wanted to continue to provide great service to rural and regional Australians.

¹ Hansard transcript, Standing Committee on Communications and the Arts, *Inquiry into co-investment in multi-carrier regional mobile infrastructure*, Canberra, Wednesday, 23 November 2022.

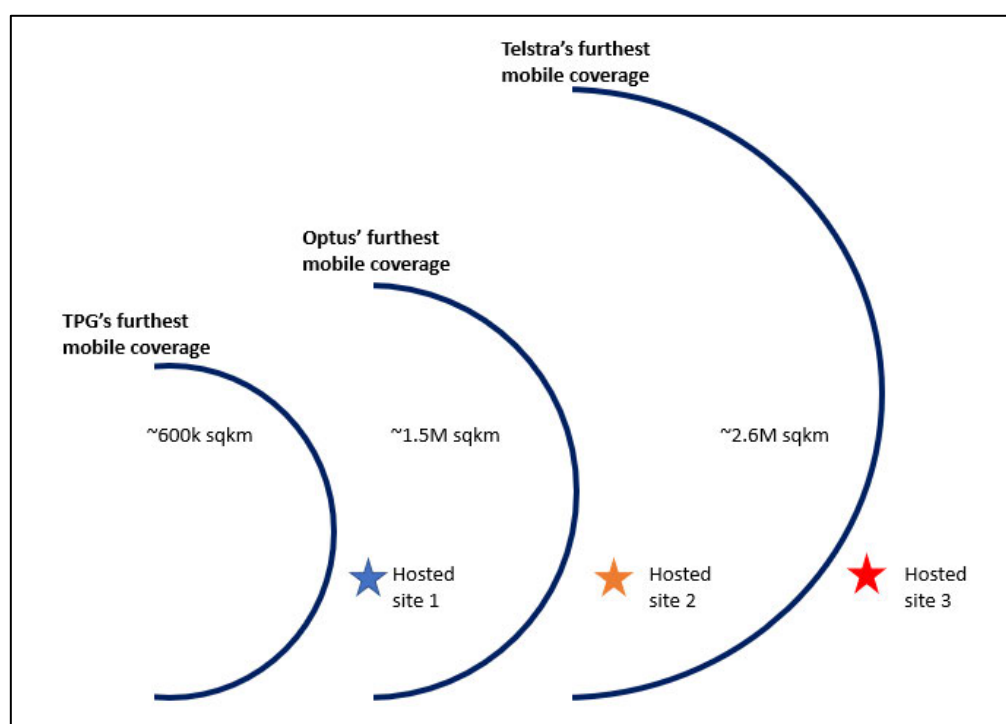
This statement appears innocuous, but once put into the proper factual context, the significant commercial challenges of a neutral host service in regional Australia become clear.

TPG Telecom, Telstra and Optus currently have very different mobile coverage reach:

- Telstra has approximately **2.6 million square kilometres (sqkm)** of mobile coverage;²
- Optus has approximately **1.5 million sqkm** of mobile coverage;³ and
- TPG Telecom has approximately **600 thousand sqkm** of mobile coverage.

The significantly different mobile network coverage means it would be extremely difficult to identify enough sites where multiple MNOs would have incentives to rent network services from a neutral host. The graphics below demonstrates this point.

Scenario 1: MNOs pursuing new coverage



The above graphic is a stylised depiction of each of the three MNO's mobile network reach represented by the semi-circles. The three coloured stars each represents a new neutral host site co-funded by the Government. In this scenario, assuming alternatives to the neutral host sites were unavailable:

- TPG Telecom would have incentives to rent network services on hosted site 1 because it expands TPG Telecom's network coverage. However, TPG Telecom would have no interest in hosted sites 2 or 3. This is because hosted sites 2 and 3 are too far away from TPG Telecom's mobile network and would not provide contiguous coverage for TPG Telecom customers. Hosted sites 2 and 3 would be essentially 'coverage islands'

² See: <https://www.telstra.com.au/coverage-networks/our-network>.

³ TPG Telecom estimation based on publicly available information. Optus does not claim a sqkm coverage on its website. Optus claims a population coverage of 98.5%.

with very limited utility from TPG Telecom's perspective.

- In the same vein, Optus would likely have an incentive to rent network services on hosted site 2 because it would extend its mobile coverage. However, Optus would have very limited incentives to rent network services on hosted site 3 because it would be a coverage island of limited utility to its customers. Optus would also have very limited incentives to rent network services on hosted site 1 because it already has coverage there.
- In this scenario, Telstra would have incentive to rent network service on hosted site 3 because it would extend its mobile network coverage. However, it would have very limited incentive to rent network services on hosted sites 1 and 2 because it already has mobile coverage at those locations.

This logic should not be contentious, and in fact, is supported by findings from the ACCC. As mentioned in our previous submission, the ACCC found only 8 per cent of all active mobile sites funded under the Mobile Black Spot Program are occupied by more than one MNO as of January 2021.⁴ The low co-location rate is largely due to the dynamic outlined above, which applies equally between a 'neutral host' situation or a more traditional carrier co-location scenario.

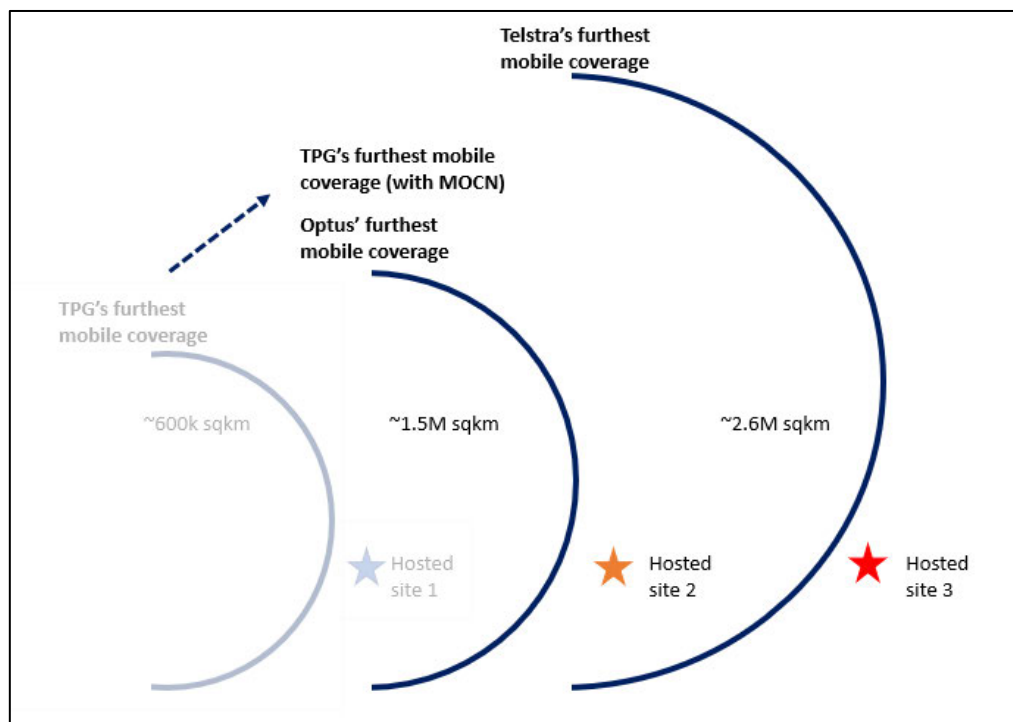
The consequential commercial and policy considerations are also significant. If a neutral host can reasonably assume its sites would be desired by only one MNO, its commercial model will be such that all costs, plus a margin, would have to be recouped from that one MNO. The consequence is that it is unlikely this neutral host model would result in any real cost savings vis-à-vis a traditional MNO-led site deployment. Therefore, from a public policy perspective, there is no guarantee a neutral host design will be superior to a traditional MNO-led site deployment in practice for co-funding programs targeting inadequate mobile coverage in regional and rural Australia.

As we stated in our previous submission, there are many challenges associated with an infrastructure provider establishing a viable neutral host solution in regional Australia. The sale of passive mobile infrastructure to specialised tower companies may mean these new entities have the necessary resources and incentives to overcome those challenges over time. However, this will not be a quick process. It will take a significant amount of capital and time, and is unlikely to ever be a viable alternative to MNO-led mobile network deployment model in regional Australia at scale. The neutral host sites are likely to be limited to small pockets of sites immediately adjacent to the much larger networks of the MNOs.

The above scenario reflects the current reality. However, the TPG-Telstra Arrangement, if approved, would significantly increase the likelihood of a multi-carrier outcome. Under the TPG-Telstra Arrangement, TPG Telecom's mobile network coverage will increase to approximately 1.5 million sqkm. This is a similar level of geographic coverage as the Optus network. The graphic below shows a stylised depiction of this scenario, again assuming new sites are neutral host sites co-funded by government.

⁴ See: https://www.accc.gov.au/system/files/RMII%20Consultation%20Paper_0.pdf, page 10, and associated ACCC Mobile Infrastructure Report 2021 – output tables. We note the ACCC's submission to the Committee stated that the figure is 9 per cent as of January 2022.

Scenario 2: MNOs pursuing new coverage (with TPG-Telstra Arrangement)



The key point made in the above graphic is, with the TPG-Telstra Arrangement, both TPG Telecom and Optus would have similar incentives to rent network services on hosted site 2, because it would enable both operators to extend their mobile network coverage.

When compared against scenario 1 above, this is clearly a superior outcome for Government co-funding programs as it significantly increases the likelihood of a multi-carrier outcome.

ACCC submission

TPG Telecom's comments regarding the ACCC's submission is limited to its recommendations on how to improve co-funding programs, specifically:

- The ACCC noted that co-contribution programs could potentially seek to promote competition by adopting other models to co-location such as:
- a neutral host model, where funding is awarded to a non-MNO infrastructure provider who can then provide wholesale services to all MNOs. The neutral host should be provided with incentives to collaborate with as many MNOs as possible. The ACCC notes that Round 5A of the Mobile Black Spot Program awarded funding to Field Solutions Group (FSG) to trial this model.
 - an active sharing model, where at least two MNOs collaborate and jointly apply for funding on the basis that they will share both passive and active infrastructure being deployed under the co-contribution program, perhaps through a joint venture.

With respect to the first dot point, our comments regarding Indara's statement equally apply to the comments made by the ACCC. The ACCC's recommendation could be misinterpreted unless considered in the relevant factual context, being the three MNOs' regional coverage is so vastly different in scope that without the TPG-Telstra Arrangement, it is unlikely a multi-

carrier outcome is achievable at any meaningful scale.

Policy design will not overcome the *physical fact* the three MNOs have very different regional mobile network coverage and therefore could not overcome their very different commercial needs.

In an extreme example, short of the Government heavily subsidising TPG Telecom to locate on hosted sites 2 and 3 (in the above scenario 1), TPG Telecom would have zero incentive to locate on those sites because they are so far away from its mobile network.

This is the dynamic that played out in the Government's MBSP. TPG Telecom did not participate in the Government's MBSP rounds 4 and 5 because those targeted areas were too far from TPG Telecom's network, and therefore TPG Telecom gains no utility from those sites.

With respect to the second dot point, TPG Telecom agrees there is significant benefit in promoting active sharing models as evidenced by its entry into the proposed TPG-Telstra Arrangement which shares 3,700 sites in regional Australia. TPG Telecom noted in its previous submission the NSW Government is currently in the trial phase of the Mobile Connectivity Program, which requires active network sharing. TPG Telecom notes all three MNOs are participating in this program.

TPG Telecom's participation in the NSW Mobile Connectivity Program is largely only possible because of the proposed TPG-Telstra Arrangement, for the reasons already outlined. Noting the TPG-Telstra Arrangement is still subject to ACCC clearance, should the TPG-Telstra Arrangement not proceed, TPG Telecom's ability to participate and invest its capital in Government co-funding programs will be significantly curtailed, whether it involves active or passive sharing.