

**Universal Service Contribution -
Confirmed Level for 2018
and Provisional Level from 1 January 2019**

Statement of the Communications Authority

20 December 2019

INTRODUCTION

The Communications Authority (“CA”) has completed the review of universal service contribution (“USC”) for 2018. Same as the last USC review for 2017, the review for 2018 is based on a projection method taking into account the USC results for the previous period, the financial data of the universal service provider (“USP”)¹ and the operational statistics for the period concerned.

2. **The USC for 2018 is confirmed at HK\$30 million.** This represents a drop of HK\$1.7 million when compared to HK\$31.7 million of USC for 2017².

CONFIRMED USC FOR 2018

3. The USC for 2018 at HK\$30 million (or 6.6 cents per telephone number allocated per month)³ is made up of a net cost of HK\$10.7 million in serving uneconomic fixed lines and HK\$19.3 million in serving uneconomic payphones.

¹ Pursuant to the terms and conditions of the Unified Carrier Licence (no. 25), PCCW-HKT Telephone Limited and Hong Kong Telecommunications (HKT) Limited (collectively referred to as “HKT”) are jointly and severally liable for the universal service obligation (“USO”) under which HKT is the USP of basic telecommunications service in Hong Kong. The USP is entitled to recover the net cost from the contributing parties for meeting its USO.

² See paragraph 2 of the CA’s Statement “Universal Service Contribution – Confirmed Level for 2017 and Provisional Level from 1 January 2018” dated 21 December 2018.

³ The average number of total allocated telephone numbers for 2018 was 37.6 million.

Uneconomic Fixed Lines Aggregated on Distribution Points Basis

4. With reference to the audited regulatory accounting reports of the USP, it is estimated that the cost of fixed lines for USC calculation purpose decreased by about 2% in 2018 as compared to that of 2017. Against the above, and after excluding those distribution points or buildings which are connected by at least one alternative self-built fixed customer access network, the USC for uneconomic fixed lines for 2018 is calculated at HK\$10.7 million.

Uneconomic Payphones

5. The average number of public payphones (including emergency helplines) eligible for USC reduced from about 3 300 in 2017 to about 3 000 in 2018. The audited regulatory accounting reports of the USP show that the cost of public payphones for USC calculation purpose increased by around 1% in 2018 as compared to that of 2017. Taking into account other factors including the service level of payphones in 2018 and exclusion of those payphones where competitive and alternative service provision in the vicinity is available, the USC for uneconomic public payphones for 2018 is calculated at HK\$19.3 million.

PROVISIONAL USC FROM 1 JANUARY 2019

6. In accordance with the established practice, the provisional rate is usually set at the actual level determined for the preceding year. **Based on the USC calculated for 2018, the provisional USC from 1 January 2019 is set at 6.6 cents per telephone number allocated per month.** The CA will confirm the actual rate for 2019 as well as update the provisional rate for 2020 and thereafter in the next USC review.

SPECIAL REVENUE POOL

7. A special revenue pool (“SRP”) has been set up whereby all unclaimed USC rebate and revenue/income/fee generated (or deemed to be

generated) from using the payphone kiosks of the USP for non-public payphone purpose would be used for funding USC related activities.

8. In the last USC review for 2017, the rental fee for each payphone kiosk deployed for public Wi-Fi service for the period from 1 March 2017 to 28 February 2018 was confirmed at HK\$209 per month; and from 1 March 2018 onwards, the rental fee was provisionally set at HK\$214 per month with reference to the changes in Private Retail Rental Index published by the Rating and Valuation Department (“RVD”). In the current review, based on the confirmed indices published by RVD, the rental fee for the period from 1 March 2018 to 28 February 2019 is confirmed at the same level of HK\$214 per month; and with effect from 1 March 2019, the rental fee is provisionally updated to HK\$216 per month based on the latest provisional indices published by RVD. The CA will further update the rental fee level in the next USC review.

9. After the update in rental fee above, the SRP balance has accumulated to HK\$2.3 million as of 30 June 2019. The CA decides that **this SRP balance should be used to fund part of the USC for 2018, so that the USC contributing parties are only required to pay the remaining USC in the amount of HK\$27.7 million (or 6.1 cents per telephone number allocated per month) for 2018.**

BILLING AND COLLECTION OF USC

10. The Office of the Communications Authority (“OFCA”) will advise the USP the amount of each individual USC contributing party should pay for 2018 in accordance with the levels set out in paragraph 9 above. It is expected that the USP will start billing and collecting the USC directly from the USC contributing parties by 2020 in respect of the USC payable for 2018, and by 2021 for the provisional USC for 2019.

11. In the last USC review for 2017, the provisional USC from 1 January 2018 was set at 7.1 cents per telephone number allocated per month. This provisional level is 1.0 cent higher than the payable level for 2018. Noting that the USP has yet to issue the demand notes for payment

of the provisional USC for 2018, it is hence unnecessary for the USP to make any refund to the USC contributing parties in this regard.

REVIEW OF THE NUMBER OF PUBLIC PAYPHONES UNDER THE USO

12. In view of the diminishing demand for public payphones in recent years, the CA announced on 29 June 2017 to embark on a review to determine the reasonable number of public payphones that should be subject to the USO⁴. Whilst public payphones with an extremely low usage rate (i.e. with an average revenue of not more than \$1 per day) were the subject of the review, OFCA engaged the relevant stakeholders, including site owners or managers for in-building type public payphones and District Councils for kiosk type public payphones, throughout the process such that any needs and considerations specific to the locations or districts were well catered for before a decision to exclude specific public payphones from the USO was made.

13. For in-building type public payphones, consultations with the site owners or managers were conducted between July 2017 and February 2018. Altogether, the CA decided to exclude 515 in-building type public payphones (or about 35% of the total number of in-building type public payphones) from the USO. The USP has already removed all excluded in-building type public payphones from the relevant sites⁵. For kiosk type public payphones, consultations with District Councils were conducted between March 2018 and March 2019. Altogether, the CA decided to exclude 765 kiosk type public payphones (or about 50% of the total number of kiosk type public payphones) from the USO. The USP has started to remove the excluded kiosk type public payphones from the relevant locations with about 15% of them dismantled as of end October 2019⁶.

⁴ See CA's Press Release entitled "Communications Authority to Embark on a Review of the Number of Public Payphones under the Universal Service Obligation Imposed in accordance with Telecommunications Ordinance (Cap. 106)" issued on 29 June 2017.

⁵ For the purpose of USC calculation for 2018, 99% of the excluded in-building type public payphones were removed by HKT as of end 2018.

⁶ For the purpose of USC calculation for 2018, about 2% of the excluded kiosk PPs were removed by HKT as of end 2018.

14. Looking forward, the CA will continue to administer the USC arrangement by calculating the net cost of the USP in meeting the USO in a fair, reasonable and efficient manner, and promulgate the calculated USC levels on a regular basis.

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