

**Universal Service Contribution -
Confirmed Level for the Year 2010,
and Provisional Level from 1 January 2011**

Statement of the Communications Authority

17 April 2013

INTRODUCTION

The Communications Authority (“CA”) has completed the review of universal service contribution (“USC”) for the period from 1 January 2010 to 31 December 2010. The review was conducted on the basis of the actual cost and revenue of the universal service provider (“USP”)¹ and in accordance with the revised USC calculation methodology² set out in the former Telecommunications Authority (“TA”)’s Statement entitled “Review of Regulatory Framework for Universal Service Arrangements” issued on 8 June 2007 (the “2007 USC Statement”).

2. **The USC for the year 2010 is calculated at HK\$58.6 million, or 15 cents per telephone number allocated per month³.** This represents an increase of HK\$12.4 million on a 12-month basis when compared to HK\$30.8 million calculated for the period from 1 May 2009 to 31 December 2009⁴ (“May-Dec 2009”).

ANALYSIS OF RESULTS

3. The USC for the year 2010 at HK\$58.6 million is made up of a

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 According to the 2007 USC Statement, with effect from 1 July 2007, there would be no USC for buildings connected by at least one alternative self-built fixed customer access network and no USC for payphones in the vicinity of competitive and alternative service. In addition, the aggregation basis would be changed from customer-by-customer to distribution points for USC calculation purpose.

³ The average number of total allocated telephone numbers for the year 2010 was 32.5 million.

⁴ See paragraph 3 of the former TA Statement, “Universal Service Contribution – Confirmed Level for the Period from 1 May 2009 to 31 December 2009, and Provisional Level from 1 January 2010”, dated 13 March 2012.

net cost of HK\$32.9 million in serving uneconomic fixed lines and HK\$25.7 million in serving uneconomic payphones.

Uneconomic Fixed Lines Aggregated on Distribution Points Basis

4. In accordance with the revised USC calculation methodology, the USC for uneconomic fixed lines is calculated on an aggregated basis for each distribution point of the USP's network. Among around 88,000 distribution points in the USP's network, 26% of them were uneconomic in 2010. They together took up 6% of the number of fixed lines in service. USC for uneconomic fixed lines was HK\$32.9 million, or an average of HK\$27 per uneconomic fixed line per month. Among the fixed lines served by the uneconomic distribution points, about 55% of them generated revenues of less than HK\$120 per line per month.

5. Table 1 below sets out the distribution points among the five regions and their shares in the net cost for uneconomic fixed lines. In general, the shares in the net cost for uneconomic fixed lines in the rural areas were above their shares in the total number of distribution points. This implies that the proportions of uneconomic distribution points were higher in the rural areas, which is as expected given the higher average net costs of providing fixed telephone service in the rural areas compared with the more developed urban areas.

Table 1: Distribution Points by Region

Region	Share in total number of distribution points (%)	Share in net cost for uneconomic fixed lines (%)	Proportion of uneconomic distribution points (%)
Hong Kong Island	17	9	5
Kowloon	25	9	4
N.T. Developed	42	58	40
N.T. Rural	13	22	48
Outlying Islands	3	2	28

Uneconomic Payphones

6. There were around 3,800 eligible payphones in the USP's network and 99% of them were uneconomic in 2010. The USC required for the provision of uneconomic payphones amounted to HK\$25.7 million, which was equivalent to an average of around HK\$570 per uneconomic payphone per month.

7. Table 2 below shows the distribution of payphones among the five regions and their shares in the net cost for uneconomic payphones. Since 99% of eligible payphones were uneconomic, the proportions of uneconomic payphones were similar among the five regions.

Table 2: Eligible Payphones by Region

Region	Share in total number of eligible payphones (%)	Share in net cost for uneconomic payphones (%)	Proportion of uneconomic payphones (%)
Hong Kong Island	24	24	99
Kowloon	39	38	99
N.T. Developed	30	31	100
N.T. Rural	6	6	99
Outlying Islands	1	1	100

Net USC for the Year 2010

8. Pursuant to the former TA Statement of 25 November 1998⁵, over-compensation received by the USP from local access charge ("LAC") should be used to reduce the USC. Based on the information provided by the USP and the industry, it is estimated that the over-compensation in LAC for the year 2010 is equivalent to around 12.5 cents per telephone number allocated per month. After taking out the adjustment for over-compensation in LAC, **the CA confirms that the net USC for the year 2010 would be 2.5 cents per telephone number allocated per month.**

⁵ The former TA Statement, "Local Access Charge and Modified Delivery Arrangements", dated 25 November 1998.

9. The provisional USC for the year 2010 was set at zero in the last USC review for May-Dec 2009. **Given that the net USC calculated for the year 2010 is a positive number, the CA has decided to use the special revenue pool (“SRP”) balance to fund the net USC for 2010 so that USC contributing parties⁶ are not required to pay USC for the year concerned** (see paragraph 14 below).

Provisional USC from 1 January 2011

10. According to the established practice, the provisional rate is usually set at the determined actual level. Nevertheless, since there is a reduction in the past USC as a result of the Government rent and rates recovered by the USP (see paragraph 15 below), **the CA is minded to use the reduction in the past USC to offset future USC. The CA has therefore decided to set the provisional rate at zero cent per telephone number allocated from 1 January 2011 onwards.** The CA will update the actual rate for the year of 2011 and the provisional rate for the year of 2012 and thereafter in the next USC review.

NEW LAC REGULATORY REGIME AND FUTURE USC

11. In December 2011, the former TA issued a statement setting out his decisions and the arrangements regarding the implementation of a new LAC regulatory regime⁷. Under the new regime, both fixed network operators and mobile network operators will be entitled to collect LAC, and a more market-oriented approach will be adopted whereby the level of LAC will be set by commercial negotiations by the interconnecting parties. The new LAC regime will come into effect on 1 July 2013, following an 18-month transitional period. As such, the LAC over-compensation, which has hitherto been used for reducing the USC paid to the USP, will no longer be available when the LAC payable to the USP is no longer determined by

⁶ USC contributing parties include unified carrier licensees, local fixed carrier licensees, local fixed telecommunications network services licensees, and mobile carrier licensees authorized to provide local fixed or mobile services, as well as services-based operator licensees authorized to provide Class 1 service, Class 2 service or Class 3 service (mobile virtual network operator services only).

⁷ The former TA Statement, “New Regulatory Regime for Local Access Charge”, dated 23 December 2011.

the CA but is rather set by commercial negotiations under the new LAC regime⁸. This implies an increase of USC payable by the USC contributing parties to the USP in the future.

SPECIAL REVENUE POOL

12. A 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.

13. In February 2008, a rental fee of HK\$130 per month was adopted for each payphone kiosk deployed for public Wi-Fi service⁹. In the last USC review for May-Dec 2009, the rental fee from 1 July 2011 was provisionally updated to HK\$157 per month based on changes in Private Retail Rental Index published by the Rating and Valuation Department. Based on the latest indices, the rental fee for the period from 1 July 2011 to 31 May 2012 would be HK\$161 per month, and with effect from 1 June 2012, the rental fee would be provisionally updated to HK\$176 per month. The CA will update the rental fee level in the next USC review.

14. The SRP balance after the update in rental fee above was accumulated to HK\$12.3 million as of 31 December 2012. After funding the net USC of HK\$10 million for the year 2010, the SRP balance would be reduced to HK\$2.3 million.

RENT AND RATES RECOVERABLE BY THE USP FROM GOVERNMENT AND ITS IMPACT ON FUTURE USC

15. Recently, the Government has revised its past assessment of rent and rates imposed on the USP. With the Government's refund of excess

⁸ Following a supplementary determination made by the former TA on 12 March 2012, the former TA permitted, as a transitional measure, the coming into effect of replacement commercial arrangements on LAC that are agreed between the USP and its interconnecting parties to charge LAC at a level different from the level determined by the former TA during the transitional period.

⁹ The former TA Statement, "Use of Public Payphone Kiosks on Public Streets and Unleased Government Lands for the Provision of Public Wi-Fi Service", dated 15 February 2008.

payments made by the USP, it is estimated that there would be a total reduction of around HK\$34.5 million on the past net USC paid to the USP. As indicated in paragraph 10 above, the CA is minded to use the HK\$34.5 million to offset the USC from 1 January 2011 onwards.

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