

**Universal Service Contribution -
Confirmed Level for the Year 2011,
and Provisional Level from 1 January 2012**

Statement of the Communications Authority

2 April 2014

INTRODUCTION

The Communications Authority (“CA”) has completed the review of universal service contribution (“USC”) for the period from 1 January 2011 to 31 December 2011. 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 the Regulatory Framework for Universal Service Arrangements” issued on 8 June 2007 (the “2007 USC Statement”).

2. **The USC for the year 2011 is calculated at HK\$68.0 million, or 16.7 cents per telephone number allocated per month.**³ This represents an increase of HK\$9.4 million when compared to HK\$58.6 million calculated for the year 2010.⁴

ANALYSIS OF RESULTS

3. The USC for the year 2011 at HK\$68.0 million is made up of a net cost of HK\$41.2 million in serving uneconomic fixed lines and

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 2011 was 33.9 million.

⁴ See paragraph 2 of the CA Statement, “Universal Service Contribution – Confirmed Level for the Year 2010, and Provisional Level from 1 January 2011”, dated 17 April 2013.

HK\$26.8 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 89,000 distribution points in the USP's network, 28% of them were uneconomic in 2011. They together took up 7% of the number of fixed lines in service. The USC calculated for uneconomic fixed lines for the year of 2011 was HK\$41.2 million, or an average of HK\$27 per uneconomic fixed line per month. Among the fixed lines served by the uneconomic distribution points, about 54% of them generated revenues of less than HK\$120 per line per month.

5. Table 1 below sets out a breakdown of the distribution points among five regions of Hong Kong 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	7	6
Kowloon	25	9	4
N.T. Developed	42	60	44
N.T. Rural	13	22	51
Outlying Islands	3	2	34

Uneconomic Payphones

6. There were around 3,800 eligible payphones in the USP's network and 99% of them were uneconomic in 2011. The USC required for the provision of uneconomic payphones for the year 2011 was amounted to HK\$26.8 million, or an average of around HK\$600 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	23	23	99
Kowloon	39	38	99
N.T. Developed	31	32	100
N.T. Rural	6	6	100
Outlying Islands	1	1	100

Net USC for the Year 2011

8. Pursuant to the former TA Statement of 25 November 1998,⁵ 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 2011 is equivalent to around 12.6 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**

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

year 2011 would be HK\$16.8 million, or 4.1 cents per telephone number allocated per month.

9. The provisional USC for the year 2011 was set at zero in the last USC review for the year 2010. **Despite that the net USC calculated for the year 2011 is a positive number, the CA has decided to allocate the special revenue pool (“SRP”) balance of HK\$5.0 million and the rent and rate recoverable fund balance of HK\$11.8 million for funding the net USC for 2011 so that USC contributing parties⁶ are not required to pay USC for the year concerned** (see paragraphs 14 and 15 below).

Provisional USC from 1 January 2012

10. According to the established practice, the provisional rate is usually set at the recently determined actual level. Nevertheless, since the remaining rent and rate recoverable fund of HK\$22.7 million (see paragraph 15 below) is more than enough to offset the recently determined actual level of HK\$16.8 million, **the CA has therefore decided to set the provisional rate at zero cent per telephone number allocated from 1 January 2012 onwards.** The CA will update the actual rate for the year of 2012 and the provisional rate for the year of 2013 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 regime.⁷ Under the new regime, both fixed network operators and mobile network operators are entitled to collect LAC, and a more market-oriented approach is adopted whereby the level of LAC is set by commercial negotiations by the interconnecting parties. The new LAC regime has come into effect on 1 July 2013, following an 18-month transitional period. As such, the LAC over-compensation, which has

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.

hitherto been used for reducing the USC paid to the USP, is no longer available under the new LAC regime.⁸ With no LAC over-compensation available to reduce USC for the period from 1 July 2013 onwards, this would imply an increase of USC payable by the USC contributing parties to the USP in the future.

SPECIAL REVENUE POOL AND USC

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 service.⁹ In the last USC review for the year 2010, the rental fee from 1 June 2012 was provisionally updated to HK\$176 per month with reference to the 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 June 2012 to 31 May 2013 would be confirmed at HK\$180 per month, and with effect from 1 June 2013, the rental fee would be provisionally updated to HK\$191 per month. The CA will further 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\$5.0 million as of 31 December 2013. After funding HK\$5 million for part of the net USC for the year 2011 as set out in paragraph 9 above, the SRP balance would be reduced to zero.

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.

RENT AND RATES RECOVERABLE FUND AND USC

15. As promulgated in the USC review for the year 2010,¹⁰ the Government had revised its past assessment of rent and rates imposed on the USP. With the Government's refund of excess payments made by the USP, it was estimated that there would be a total reduction of around HK\$34.5 million on the past net USC paid to the USP. The amount would be kept in the rent and rate recoverable fund to offset the USC from 1 January 2011 onwards. After funding HK\$11.8 million for part of the net USC for the year 2011 as set out in paragraph 9 above, the rent and rate recoverable fund balance would be reduced to HK\$22.7 million.

Communications Authority
2 April 2014

¹⁰ See paragraph 15 of the CA Statement, "Universal Service Contribution – Confirmed Level for the Year 2010, and Provisional Level from 1 January 2011", dated 17 April 2013.