

**Universal Service Contribution -
Confirmed Level for 2014
and Provisional Level from 1 January 2015**

Statement of the Communications Authority

27 September 2016

INTRODUCTION

The Communications Authority (“CA”) has completed the review of universal service contribution (“USC”) for the period from 1 January 2014 to 31 December 2014. The review is 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 CA’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 2014 is calculated at HK\$38.5 million (or 8.7 cents per telephone number allocated per month).³ This represents a decrease of HK\$6.9 million compared to HK\$45.4 million calculated for 2013.⁴

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 2014 was 37 million.

⁴ See paragraph 2 of the CA’s Statement, “Universal Service Contribution – Confirmed Levels for 2012 and 2013, and Provisional Level from 1 January 2014”, dated 27 July 2015.

ACTUAL USC FOR 2014

3. The USC for 2014 at HK\$38.5 million is made up of a net cost of HK\$14.8 million in serving uneconomic fixed lines and HK\$23.7 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. For 2014, about 20% of the distribution points were uneconomic and they together took up around 4% of the number of fixed lines in service. The USC calculated for uneconomic fixed lines for 2014 is HK\$14.8 million, or an average of HK\$23 per uneconomic fixed 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 for 2014. In general, the shares in the net cost for uneconomic fixed lines in the rural areas were bigger than their shares in terms of 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	11	3
Kowloon	24	22	3
N.T. Developed	42	44	31
N.T. Rural	14	21	38
Outlying Islands	3	2	18

Uneconomic Payphones

6. There are around 3,600 eligible payphones in the USP's network and almost all of them were uneconomic for 2014. The USC required for the provision of uneconomic payphones for 2014 amounts to HK\$23.7 million, or an average of around HK\$550 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 for 2014. Since almost all of the 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	100
Kowloon	38	38	100
N.T. Developed	32	32	almost 100
N.T. Rural	6	6	100
Outlying Islands	1	1	100

USC Payable by Contributing Parties

8. The CA has decided that part of the USC for 2014 shall be funded out of the special revenue pool ("SRP") balance of HK\$2.7 million (see paragraph 14 below), so that the USC contributing parties are only required to pay the remaining USC in the amount of HK\$35.8 million (or 8.1 cents per telephone number allocated per month) for the year.

PROVISIONAL USC FROM 1 JANUARY 2015

9. According to the established practice, the provisional rate is usually set at the recently determined actual level. **Based on the USC calculated for 2014, the provisional USC from 1 January 2015 would be set at 8.7 cents per telephone number allocated per month.** The CA will update the actual rate for 2015 and the provisional rate for 2016 and thereafter in the next USC review.

BILLING AND COLLECTION OF USC

10. The Office of the Communications Authority will advise the USP the amount that individual USC contributing party should pay in accordance with the levels set out in paragraphs 8 and 9 above. It is expected that the USP will start billing and collecting the USC directly from the USC contributing parties by 2016 in respect of the payable USC for 2014 and by 2017 for the provisional USC for 2015.

11. In the last USC review for 2012 and 2013, the provisional USC for 2014 was set at 10.3 cents per telephone number allocated per month. This provisional level is 2.2 cents higher than the payable level for 2014. As the USP has yet to issue the demand notes for payment of provisional USC for 2014, it is not necessary for the USP to make any refund to the USC contributing parties in this regard.

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 service.⁵ In the last USC review for 2012 and 2013, the rental fee for the period from 1 June 2013 to 30 September 2014 was confirmed at HK\$194 per month, and from 1 October 2014 onwards, the rental fee was provisionally set at HK\$203 per month with reference to the changes in Private Retail Rental Index published by the Rating and Valuation Department (“RVD”). In this review for 2014, the rental fee for the period from 1 October 2014 to 30 November 2015 would be confirmed at HK\$207 per month, and with effect from 1 December 2015, the rental fee would be provisionally updated to HK\$204 per month based on the latest indices published by RVD. 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\$2.7 million as of 31 December 2015. After funding HK\$2.7 million for part of the USC for 2014 as set out in paragraph 8 above, the SRP balance would be reduced to zero.

15. The CA will continue to administer the existing 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.

Communications Authority
27 September 2016

⁵ The CA’s 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.