

**Universal Service Contribution -
Confirmed Levels for 2015 and 2016,
and Provisional Level from 1 January 2017**

Statement of the Communications Authority

30 November 2017

INTRODUCTION

The Communications Authority (“CA”) has completed the review of universal service contribution (“USC”) for 2015 and 2016. Same as the last review for 2014, the review for 2015 is conducted on the basis of the actual cost and revenue of the universal service provider (“USP”)¹ and in accordance with the calculation principles² 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”). Since the levels of USC have stabilized in recent years³ and that a reasonable trend based on past data can now be established, the CA considers it an opportune time to readopt the trend analysis or projection method⁴ as set out in the 2007 USC Statement in order to simplify the calculation process and shorten the time for confirming the actual USC level. The review for 2016 is therefore conducted with the use of the projection method taking into account the USC results for 2015, the financial data of the USP and the operational statistics for 2016. With the adoption of the projection method,

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 USC for 2013, 2014 and 2015 were HK\$45.4 million, HK\$38.5 million and HK\$36.9 million, respectively.

⁴ The projection method was first adopted in the USC review for the period from 1 January 2006 to 30 June 2007. The same method was used in two subsequent reviews, covering the periods from 1 July 2007 to 30 June 2008; and from 1 July 2008 to 30 April 2009 respectively.

the time for confirming the USC level for 2016 is effectively shortened and the cost for calculating the corresponding USC is also reduced.

2. **The USC for 2015 and 2016 are confirmed at HK\$36.9 million and HK\$32.1 million respectively.** They represent a reduction of USC for the two years as compared with the USC at HK\$38.5 million previously confirmed for 2014⁵.

CONFIRMED USC FOR 2015

3. The USC for 2015 at HK\$36.9 million (or 8.2 cents per telephone number allocated per month)⁶ is made up of a net cost of HK\$13.4 million in serving uneconomic fixed lines and HK\$23.5 million in serving uneconomic payphones.

Uneconomic Fixed Lines Aggregated on Distribution Points Basis

4. The USC for uneconomic fixed lines is calculated on an aggregation basis for each distribution point of the USP's network. For 2015, about 16% of the distribution points were uneconomic. Together they took up around 3% of the number of fixed lines in service. The USC calculated for uneconomic fixed lines for 2015 is HK\$13.4 million, or an average of HK\$30 per uneconomic fixed line per month.

5. Table 1 below sets out the breakdown of the distribution points among five regions of Hong Kong for 2015. In general, the proportion of uneconomic distribution points was higher in the rural areas. This is expected given the higher average net costs of providing fixed line service in the rural areas as compared with that in the more developed urban areas.

⁵ See paragraph 2 of the CA's Statement, "Universal Service Contribution – Confirmed Level for 2014 and Provisional Level from 1 January 2015" dated 27 September 2016.

⁶ The average number of total allocated telephone numbers for 2015 was 37.5 million.

Table 1: Distribution Points by Region - 2015

Region	Share in the total number of distribution points (%)	Proportion of uneconomic distribution points (%)
Hong Kong Island	17	3
Kowloon	24	3
N.T. Developed	42	24
N.T. Rural	14	32
Outlying Islands	3	13

Uneconomic Payphones

6. There were around 3 500 eligible payphones in the USP's network and almost all of them were uneconomic for 2015. The USC required for the provision of uneconomic payphones for 2015 amounts to HK\$23.5 million, or an average of around HK\$560 per uneconomic payphone per month.

7. Table 2 below shows the distribution of payphones among the five regions of Hong Kong for 2015. 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 - 2015

Region	Share in the total number of eligible payphones (%)	Proportion of uneconomic payphones (%)
Hong Kong Island	23	100
Kowloon	38	almost 100
N.T. Developed	32	almost 100
N.T. Rural	6	100
Outlying Islands	1	100

CONFIRMED USC FOR 2016

8. The USC for 2016 at HK\$32.1 million (or 7.1 cents per telephone number allocated per month)⁷ is made up of a net cost of HK\$9.3 million in serving uneconomic fixed lines and HK\$22.8 million in serving uneconomic payphones.

Uneconomic Fixed Lines Aggregated on Distribution Points Basis

9. With reference to the audited regulatory accounting reports of the USP, it is estimated that the cost of fixed lines for USC calculation purpose was reduced by more than 5% in 2016 as compared to that of 2015. Further, the USC is adjusted by excluding those distribution points or buildings which are connected by at least one alternative self-built fixed customer access network. After the above adjustments, the USC for uneconomic fixed lines for 2016 is calculated at HK\$9.3 million.

Uneconomic Payphones

10. The number of eligible payphones in the USP's network was reduced to around 3 400 in 2016. The audited regulatory accounting reports of the USP showed that the cost of public payphones for USC calculation purpose was reduced by more than 2% in 2016 as compared to that of 2015. Taking into account the above factors, and after considering the service level of payphones in 2016 while excluding those payphones where competitive and alternative service provision in the vicinity is available, the USC for uneconomic public payphones for 2016 is calculated at HK\$22.8 million.

PROVISIONAL USC FROM 1 JANUARY 2017

11. In accordance with the established practice, the provisional rate is usually set at the recently determined actual level. **Based on the USC**

⁷ The average number of total allocated telephone numbers for 2016 was 37.6 million.

calculated for 2016, the provisional USC from 1 January 2017 would be set at 7.1 cents per telephone number allocated per month. The CA will confirm the actual rate for 2017 based on projection, as well as update the provisional rate for 2018 and thereafter in the next USC review.

SPECIAL REVENUE POOL

12. 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.

13. In the last USC review for 2014, the rental fee for each payphone kiosk deployed for public Wi-Fi service for the period from 1 October 2014 to 30 November 2015 was confirmed at HK\$207 per month; and from 1 December 2015 onwards, the rental fee was provisionally set at HK\$204 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 December 2015 to 28 February 2017 is confirmed at HK\$204 per month, and with effect from 1 March 2017, the rental fee is provisionally updated to HK\$208 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.

14. After the update in rental fee above, the SRP balance accumulated to HK\$3.5 million as of 30 June 2017. The CA has decided that **part of the USC for 2015 should be funded out of this SRP balance, so that the USC contributing parties are only required to pay the remaining USC in the amount of HK\$33.4 million (or 7.4 cents per telephone number allocated per month) for 2015.**

BILLING AND COLLECTION OF USC

15. The Office of the Communications Authority will advise the USP of the amount which individual USC contributing party should pay in accordance with the levels set out in paragraphs 14 and 8 above for 2015 and 2016 respectively. It is expected that the USP will start billing and collecting the USC directly from the USC contributing parties by 2017 in respect of the USC payable for 2015; and by 2018 for the USC payable for 2016.

16. In the last USC review for 2014, the provisional USC from 1 January 2015 was set at 8.7 cents per telephone number allocated per month. This provisional level is 1.3 cents and 1.6 cents higher than the payable levels for 2015 and 2016 respectively. As the USP has yet to issue the demand notes for payment of the provisional USC for the two years, it is hence unnecessary for the USP to make any refund to the USC contributing parties in this regard.

17. 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.

Communications Authority
30 November 2017