

**Universal Service Contribution -
Confirmed Level for 2017
and Provisional Level from 1 January 2018**

Statement of the Communications Authority

21 December 2018

INTRODUCTION

The Communications Authority (“CA”) has completed the review of universal service contribution (“USC”) for 2017. Same as the last USC review for 2016, the review for 2017 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 2017 is confirmed at HK\$31.7 million.** This represents a drop of HK\$0.4 million when compared to HK\$32.1 million of USC for 2016².

CONFIRMED USC FOR 2017

3. The USC for 2017 at HK\$31.7 million (or 7.1 cents per telephone number allocated per month)³ is made up of a net cost of HK\$11.4 million in serving uneconomic fixed lines and HK\$20.3 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 Levels for 2015 and 2016, and Provisional Level from 1 January 2017” dated 30 November 2017.

³ The average number of total allocated telephone numbers for 2017 was 37.4 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 increased by more than 4% in 2017 as compared to that of 2016. Furthermore, 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 2017 is calculated at HK\$11.4 million.

Uneconomic Payphones

5. The number of public payphones (including emergency helplines) eligible for USC reduced from about 3 400 in 2016 to about 3 200 in 2017. The audited regulatory accounting reports of the USP show that the cost of public payphones for USC calculation purpose reduced by more than 10% in 2017 as compared to that of 2016. Taking into account the above factors, and after considering the service level of payphones in 2017 while excluding those payphones where competitive and alternative service provision in the vicinity is available, the USC for uneconomic public payphones for 2017 is calculated at HK\$20.3 million.

PROVISIONAL USC FROM 1 JANUARY 2018

6. In accordance with the established practice, the provisional rate is usually set at the recently determined actual level. **Based on the USC calculated for 2017, the provisional USC from 1 January 2018 is set at 7.1 cents per telephone number allocated per month.** The CA will confirm the actual rate for 2018 based on projection, as well as update the provisional rate for 2019 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 2016, the rental fee for each payphone kiosk deployed for public Wi-Fi service for the period from 1 December 2015 to 28 February 2017 was confirmed at HK\$204 per month; and from 1 March 2017 onwards, the rental fee was provisionally set at HK\$208 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 2017 to 28 February 2018 is confirmed at HK\$209 per month; and with effect from 1 March 2018, the rental fee is provisionally updated to HK\$214 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\$2.4 million as of 30 June 2018. The CA decides that **part of the USC for 2017 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\$29.3 million (or 6.5 cents per telephone number allocated per month) for 2017.**

BILLING AND COLLECTION OF USC

10. The Office of the Communications Authority (“OFCA”) will advise the USP of the amount which individual USC contributing party should pay for 2017 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 2019 in respect of the USC payable for 2017, and by 2020 for the provisional USC for 2018.

11. In the last USC review for 2016, the provisional USC from 1 January 2017 was set at 7.1 cents per telephone number allocated per month. This provisional level is 0.6 cent higher than the payable level for 2017. Noting that the USP has yet to issue the demand notes for payment

of the provisional USC for 2017, 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) would be the subject of the review, OFCA would engage the relevant stakeholders, including site owners 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 would be well catered for before a decision to exclude specific public payphones from the USO is made.

13. For in-building type public payphones, consultations with the site owners started in July 2017 and were completed in February 2018. Altogether, the CA decided to exclude about 35% of the in-building type public payphones from the USO. For kiosk type public payphones, consultations with District Councils (“DCs”) started in March 2018. So far, 14 DCs were consulted and exclusion decisions were made in relation to seven of the districts. Of these seven districts, the CA decided to exclude about 51% of the kiosk type public payphones from the USO. The remaining four DCs will be consulted in the coming months and it is expected that the entire review will be completed by end 2019. Following the reduction of the number of public payphones alongside with the review, it is expected that the USC for uneconomic payphones will be reduced accordingly.

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.

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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