



PEOPLES 2nd Submission in Relation to “Open Network” Regulatory Framework for Third Generation Public Mobile Radio Services in Hong Kong

Further to the industry workshop held by OFTA on 5 January 2001, PEOPLES is pleased to forward a 2nd submission related to the above to OFTA for consideration.

1. Outstanding Issues that Need to be Addressed

PEOPLES would like to highlight that a large number of issues are still outstanding. These issues are considered to be very important in the licensing process as they will determine the strategic direction our company will take. These outstanding issues include,

- Pre-qualification Requirements
- Auction Process
- Payment Method for Successful Bidders
- Percentage of Open Network

PEOPLES would like to have these issues made prior to the start of the Pre-qualification process.

2. Full Support to “Open Network”

PEOPLES would like to re-confirm its position of full support to OFTA’s intention and objectives of implementing an “Open Network” for the third generation Public Mobile Radio service in Hong Kong.

3. Preference for Contractual and Commercial Negotiation

PEOPLES is highly in favor of the approach of contractual and commercial negotiation between NSP and MNO for the provision of 3G service. We also agree that a reserve mechanism be put in place-in case such contractual and commercial negotiations fail.



4. Payment Method

PEOPLES wishes to re-confirm its recommendation to OFTA to adopt “Royalty Percentage” on revenue, with no minimum guaranteed payment, instead of “Upfront Cash Payment” as the payment method for successful 3G license bidders. The benefit of this arrangement is that it would encourage more service-committed and innovative companies to bid for the 3G license rather than only a few cash-rich companies participating in the auction.

5. Commitment of MNO and NSP

PEOPLES believes that Hong Kong 3G market will be a great success provided that ALL 3G MNO’s and NSP’s have a *long-term* commitment in the market.

An MNO definitely shows a strong commitment when they bid for the spectrum and invest in 3G infrastructure. In fact, it is estimated that the normal payback period of such high investment would not be less than 8-9 years.

PEOPLES does not see any reasonable commitment as required by OFTA for an NSP in the proposed arrangement. In order to encourage a healthy and stable industry development, PEOPLES would highly recommend that NSP is required to apply for an NSP license in addition to a PNET license.

The terms and conditions of the NSP license should require an NSP to fulfill a certain and reasonable level of long-term commitments in order to protect the interests of both the MNO and the consumer. The commitment must be made known prior to the pre-qualification of the auction. PEOPLES also recommend to use the concept of Performance Bond as part of the commitment required from an NSP



6. Contracted Capacity and Performance Bond

It is highly likely that NSP's would overstate their required capacity which would ultimately lead to great amount of idle capacity and over investment by MNO. Therefore, PEOPLES would highly recommend that all NSPs have to sign a contracted capacity contract with MNO. A reasonable penalty or compensation would be imposed if they fail to utilize the committed contract capacity.

7. Further Industry Workshop

In view of the large number of outstanding questions raised by PEOPLES and other players in the industry, PEOPLES firmly believes that there is a need of further workshops to determine and clarify the licensing framework, pre-qualification requirements, spectrum auction conditions as well as terms and conditions of the proposed NSP license. We understand that this may delay the licensing process. However, it does give potential investors a clearer picture of the market and business opportunity.

Yours faithfully,

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