

Regulatory Framework for Universal Service Arrangements

Telecommunications Regulatory Affairs Advisory Committee
17 September 2015

Policy Objectives

- **To ensure access to affordable basic telephone service reasonably available for all people in Hong Kong, irrespective of where they reside or carry on business**
- **To ensure the costs of providing “basic service” are fairly borne by the users of network services**

Legislative Framework

■ Section 35B of the Telecommunications Ordinance (TO) on universal service obligation (USO)

- The Authority may require one or more **fixed** carrier licensees to have a USO
- The USO requires a licensee to ensure a good, efficient and continuous “**basic service**” is reasonably available to all persons within the areas of Hong Kong covered by that obligation
- The Authority may set up a system for licensees prescribed by the Authority to meet a reasonable contribution to meet the cost of USO (i.e. **universal service contribution (USC)**)

Scope of Universal Service

- **Section 2 of the TO on interpretation of “basic service”**
 - Public switched (fixed) telephone service
 - Public payphone service
 - Directory enquiries service
 - Weather warning services (i.e. tropical cyclones, thunderstorm, heavy rain and flooding)
 - Access to numbers for emergency services

Regulatory Regime for Universal Service

- Regulatory framework first set out in TA Statement **“Universal Service Arrangements: the Regulatory Framework”** of 14 January 1998
- USC calculation methodology updated by TA Statement **“Universal Service Contribution Calculation Methodology”** of 13 July 2000
- Major review of regulatory framework and calculation methodology by TA Statement **“Review of the Regulatory Framework for Universal Service Arrangements”** of 8 June 2007

Existing Universal Service Mechanism

■ Universal Service Provider (USP)

- Only the incumbent fixed carrier, i.e. PCCW-HKT & HKT, is required to have a USO

■ USC Calculation

- Periodic assessment on the net cost of meeting the USO

■ Funding Arrangement

- All licensees holding telephone numbers for fixed and mobile telephone services required to pay USC

USC Calculation

- **Based on the net cost incurred by USP in providing the ‘basic service’**
 - Net cost means the excess of **relevant cost** over **relevant revenue**
- **Relevant revenue**
 - Revenue that is derived from the provision of ‘basic service’ and all other services associated with the provision of standard telephone lines
 - e.g. revenues from line rental, call management services, and interconnection charges

USC Calculation

■ Relevant cost

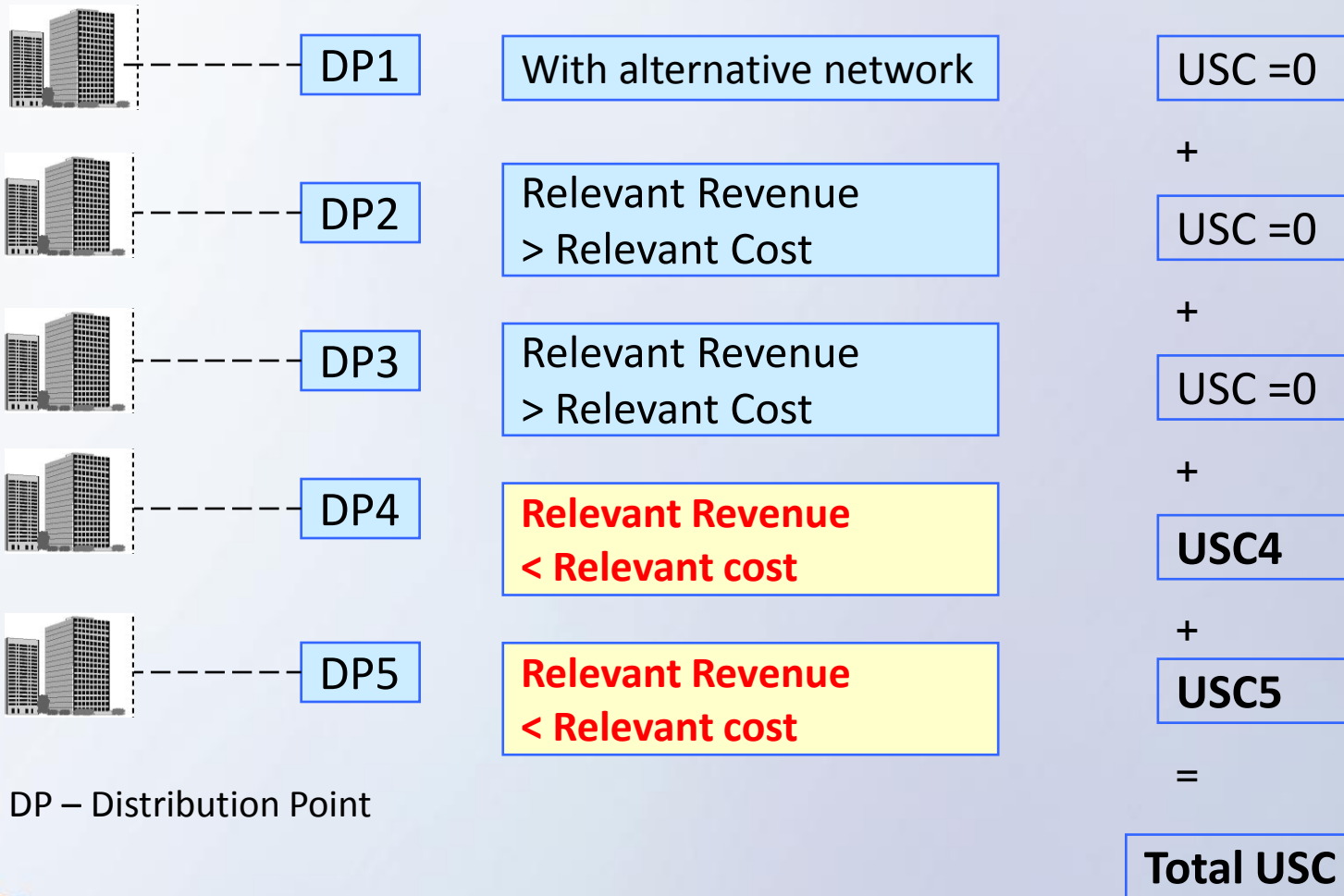
- Cost that would not be incurred if 'basic service' and the associated services are not provided
- e.g. costs associated with the provision of telephone lines, call management services, switching and transmission, and avoidable corporate overheads

USC Calculation

■ Fixed Lines

- Aggregation basis – on a per distribution point (DP) basis for assessment of whether the DP is unprofitable and in which case USC would be calculated
- Buildings with alternative fixed network coverage would be excluded from USC calculation

USC Calculation



DP – Distribution Point

USC Calculation

■ Public Payphones

- Aggregation basis – on individual payphone basis
- Payphones in the vicinity (within a walking distance of 100 metres) of competitive and alternative service would be excluded from USC calculation

Calculated USC Levels

	2010	2011	2012	2013
	HK\$M	HK\$M	HK\$M	HK\$M
Uneconomic fixed lines	32.9	41.2	26.7	15.7
Uneconomic public payphones	25.7	26.8	29.3	29.7
Gross USC	58.6	68.0	56.0	45.4
Average telephone no. (M)	32.5	33.9	35.9	36.6
Gross USC per telephone no. per month (cents)	15.0	16.7	13.0	10.3

Other Sources for Funding USC

■ Source 1: Local access charge (LAC) over-compensation

- There had been over-compensation of LAC inherent in the level of LAC determined for USP
- USC contributing parties had not been paying USC since 2005 due mainly to the funding from LAC over-compensation
- **However, new LAC regime (with level of LAC de-regulated and set by commercial negotiations) has become effective from 1 July 2013, there would be no LAC over-compensation thereafter**

Other Sources for Funding USC

■ Source 2: Special Revenue Pool (SRP)

- SRP has been set up to record unclaimed USC rebate and revenue generated (or deemed to be generated) from using payphone kiosks for non-public payphone purpose
- **The major revenue source to SRP is rental fee (2014: HK\$2.7M) from USP for using payphone kiosks for deployment of Wi-fi services**
- SRP has provided HK\$17.7M for funding USC since 2010

Other Sources for Funding USC

■ Source 3: Rent & Rate Recoverable Fund (RRRF)

- RRRF was set up to record the HK\$34.5M reduction in past USC due to Government's refund of excess payments on rent and rates paid by USP
- **RRRF was fully used up for funding USC for 2011 to 2013**

USC Payable by Contributing Parties

	2010	2011	2012	2013
	HK\$M	HK\$M	HK\$M	HK\$M
Gross USC	58.6	68.0	56.0	45.4
Less: LAC over-compensation	48.6	51.2	47.2	21.7
Net USC	10.0	16.8	8.8	23.7
Less: SRP funding	10.0	5.0	2.7	-
Less: RRRF funding	-	11.8	6.1	16.6
USC payable by contributing parties	-	-	-	7.1 (1.6 cents per number per month)

USC Billing and Collection

- **USP would take up the role of USC billing and collection**
- **USP would start billing and collecting USC from contributing parties**
 - By 2015 in respect of USC payable for 2013 (i.e. 1.6 cents per number per month)
 - By 2016 in respect of provisional USC for 2014 (i.e. 10.3 cents per number per month based on the gross USC level for 2013)

Thank you