

**Universal Services Contribution –  
Confirmed Levels for the period 1 January 2005 to 30 June 2007,  
and Provisional Level from 1 July 2007**

**Statement of  
the Telecommunications Authority, Hong Kong**

**28 December 2007**

**(A) Background**

The Telecommunications Authority (TA) has completed the review of universal service contribution (USC) for the period 1 January 2005 to 30 June 2007. The review for 2005 was based on actual cost and revenue and on a customer-by-customer basis utilising the concept detailed in the TA Statement of 14 January 1998<sup>1</sup>, and the revised calculation methodology detailed in the TA Statement of 13 July 2000<sup>2</sup>. The review for the period 1 January 2006 to 30 June 2007 was based on the result in 2005 and the financial data for the period as proposed in the TA Statement of 8 June 2007<sup>3</sup>.

2. In accordance with the TA Statement of 28 May 1999<sup>4</sup>, any recovery of administrative cost and bad debts would be absorbed as part of the total cost of providing universal service.

3. To ensure that the USC contributing parties were not unfairly financing the marketing campaigns of the universal service provider - PCCW-HKT Telephone Ltd. (PCCW-HKT), any discounts including, but not limited to, rebates, waivers, allowances, freebies and any other incremental costs associated with the promotional programs of the Company would continue to be taken out from the USC calculation. In addition, after these adjustments those telephone lines that are still “uneconomic” but could have

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<sup>1</sup> TA Statement, “Universal Service Arrangements: the Regulatory Framework”, dated 14 January 1998.

<sup>2</sup> TA Statement, “Universal Service Contribution Calculation Methodology”, dated 13 July 2000.

<sup>3</sup> TA Statement, “Review of the Regulatory Framework for Universal Service Arrangements”, dated 8 June 2007.

<sup>4</sup> TA Statement, “Universal Service Contribution Collection Mechanism”, dated 28 May 1999

been switched to other competitors had those promotions not existed would be totally excluded from the USC calculation.

**(B) Confirmed USC Level for 2005:**

4. The USC for 2005 was calculated at \$63.5 million or 0.8 cent per minute of external traffic. This represented a decrease of 0.5 cent per minute over the level of the previous year.

5. The universal service cost was made up of \$35.7 million in serving uneconomic fixed lines, \$27.5 million in serving the uneconomic payphones, and \$0.3 million in the recovery of administrative cost.

Uneconomic Fixed Lines

6. Among the 1.8 million customers<sup>5</sup>, 6% of them were uneconomic during the year. They together took up 6% of the number of telephone lines in service. The universal service cost was \$35.7 million, or an average of \$26 per uneconomic customer per month. Among the uneconomic customers, about 53% of them generated revenues of less than \$120 per month. In the case of economic customers, about 18% of them generated revenues of over \$200 per month.

7. The model also showed that the average universal service cost per uneconomic customer varied widely across the five geographical regions. Table 1 below displayed the distribution of customers among the five regions and their shares in the total universal service cost for uneconomic customers. In general, the shares in the total universal service cost for uneconomic customers in the urban areas were below their shares in the total number of customers. This meant that the proportions of uneconomic customers were higher in the rural areas.

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<sup>5</sup> Unless otherwise specified, customers in this context referred to customers at the same location irrespective of the number of telephone lines subscribed to by them.

**Table 1**  
**Distribution of Customers by Region**

<b>Region</b>	<b>Share in total number of customers (%)</b>	<b>Share in total universal service cost for uneconomic customers (%)</b>	<b>Proportion of uneconomic customers (%)</b>
Hong Kong Island	23	15	3
Kowloon	45	24	3
N.T. Developed	27	40	13
N.T. Rural	3	15	27
Outlying Islands	2	6	14

*Source: CPM, PCCW-HKT Telephone Ltd.*

8. Residential customers accounted for 78% of the overall number of customers, which was higher than the share in terms of the number of telephone lines subscribed to. This was due to the fact that residential customers in general did not subscribe to as many lines as the business customers did. Table 2 showed the proportion of uneconomic customers in the business and residential markets and their shares in the total universal service cost.

**Table 2**  
**Distribution of Customers by Market**

<b>Region</b>	<b>Share in total number of customers (%)</b>	<b>Share in total universal service cost for uneconomic customers (%)</b>	<b>Proportion of uneconomic customers (%)</b>
Business	22	41	6
Residential	78	59	6

*Source: CPM, PCCW-HKT Telephone Ltd.*

## Uneconomic Payphones

9. There were 4,000 (rounded off to the nearest hundred) eligible payphones and 92% of them were uneconomic during the estimation period. The universal service cost for the provision of uneconomic payphones was \$27.5 million, which was equivalent to an average of \$623 per uneconomic payphone per month. Table 3 showed the distribution of payphones among the five regions and their shares in the total universal service cost for uneconomic payphones. Similar to the distribution of uneconomic customers, the proportions of uneconomic payphones were higher in the rural areas and they also incurred higher levels of average costs per payphone.

**Table 3**  
**Distribution of Payphones by Region**

<b>Region</b>	<b>Share in total number of payphones (%)</b>	<b>Share in total universal service cost for uneconomic payphones (%)</b>	<b>Proportion of uneconomic payphones (%)</b>
Hong Kong Island	23	22	87
Kowloon	46	46	92
N.T. Developed	26	26	94
N.T. Rural	3	3	99
Outlying Islands	2	3	96

*Source: CPM, PCCW-HKT Telephone Ltd.*

10. The corresponding figures of the previous year were 4,200 (rounded off to the nearest hundred) eligible payphones, 94% of them being uneconomic and an average of \$1,011 per uneconomic payphone per month.

## Recovery of Administrative Cost and Bad Debts

11. Administrative cost was around \$0.3 million for the year 2005. Additional provision for bad debts was not required since sufficient provision has been made.

**(C) Confirmed USC Level for the period 1 January 2006 to 30 June 2007:**

12. With reference to the regulatory reports of PCCW-HKT, it is estimated that the average avoidable cost per fixed line during the period 1 January 2006 to 31 March 2007 was reduced by around \$6 per month. Starting with the number of uneconomic fixed lines in 2005 and adjusted for the increase in total fixed lines thereafter, the USC for uneconomic fixed lines for the period 1 January 2006 to 30 June 2007 was calculated at \$41.4M. This represented a drop of \$8.1M on a yearly basis as compared to that of 2005.

13. Similarly, it is found that the net loss per public payphone was reduced by about \$100 per month during the period 1 January 2006 to 31 March 2007. Based on the number of uneconomic payphones in 2005 and adjusted for the reduction in the total number of payphones thereafter, it is estimated that the USC for uneconomic payphones for the period 1 January 2006 to 30 June 2007 would be \$34.6M. This represented a drop of \$4.4M on a yearly basis as compared to that of 2005.

14. Administrative cost for the period was reported at HK\$0.4M. Additional provision for bad debts was unnecessary.

15. The USC for the period 1 January 2006 to 30 June 2007 was totaled at \$76.4 million or 0.6 cent per minute of external traffic. This represented a decrease of 0.2 cent per minute over the level of 2005.

**(D) USC Adjustments for Overcompensation in LAC**

16. Pursuant to the TA Statement of 25 November 1998<sup>6</sup>, the over-compensation received by PCCW-HKT from local access charge (LAC) should be used to reduce the USC. In view that PCCW-HKT's market share in customer access lines has been decreasing since the issue of the TA Statement, the level of USC adjustment was reduced to 0.9 cent per minute for 2005 and 0.8 cent per minute for the period 1 January 2006 to 30 June 2007 to

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<sup>6</sup> TA Statement, "Local Access Charge and Modified Delivery Arrangements", dated 25 November 1998,

reflect a decrease in the portion of external traffic carried by the network of PCCW-HKT.

**(E) Settlement**

17. Provisional USC level already paid was 0.3 cent per minute for the period 1 January 2005 to 30 June 2007. Following the issue of this Statement, PCCW-HKT should provide a refund of the excess payment to the USC contributing parties. As stated in the TA Statement of 14 January 1998<sup>7</sup>, there will not be any interest payment for the adjustment of USC.

18. The arrangements for refund of USC payment for the period 1 January 2005 to 30 June 2007 and provisional USC after 1 July 2007 are summarized in Table 4 below.

**Table 4**  
**Actual USC and Provisional USC**

<i>Period Covered</i>	<i>Provisional USC already paid</i>	<i>Actual USC</i>	<i>Arrangements</i>
1 January 2005 to 30 June 2005	0.3 cent per minute, after USC adjustment of 1.6 cents per minute.	0.0 cent per minute, after revised USC adjustment of 0.9 cent per minute.	PCCW-HKT to refund 0.3 cent per minute.
1 July 2005 to 31 December 2005	0.3 cent per minute, after USC adjustment of 1.3 cents per minute.	0.0 cent per minute, after revised USC adjustment of 0.9 cent per minute.	PCCW-HKT to refund 0.3 cent per minute.
1 January 2006 to 30 June 2006	0.3 cent per minute, after USC adjustment of 1.3 cents per minute.	0.0 cent per minute, after revised USC adjustment of 0.8 cent per minute.	PCCW-HKT to refund 0.3 cent per minute.

<sup>7</sup> TA Statement, "Universal Service Arrangements: the Regulatory Framework", dated 14 January 1998,

<i>Period Covered</i>	<i>Provisional USC already paid</i>	<i>Actual USC</i>	<i>Arrangements</i>
1 July 2006 to 30 June 2007	0.3 cent per minute, after USC adjustment of 1.0 cent per minute.	0.0 cent per minute, after revised USC adjustment of 0.8 cent per minute.	PCCW-HKT to refund 0.3 cent per minute.
From 1 July 2007		To be determined.	Contributing parties are not required to pay provisional USC, until revision.

19. For all international incoming and outgoing traffic, refund from PCCW-HKT to local fixed telecommunications network operators, mobile network operators and external telecommunication service (ETS) operators will be handled through Citibank in accordance with TA Statement of 25 January 2000<sup>8</sup>. For incoming traffic sent through the gateway of Reach Networks Hong Kong Ltd. (Reach), formerly known as PCCW-HKT International Ltd., the payment from Reach to the terminating local fixed and mobile network operators has covered the USC payment. Depending on the contracts between the local fixed and mobile network operators and Reach, there may be a requirement for the local network operators to refund the corresponding amount to Reach.

**Office of the Telecommunications Authority**  
**28 December 2007**

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<sup>8</sup> TA Statement, "Universal Service Contribution Collection Mechanism", dated 25 January 2000.