

Recent Review of Regulatory Framework for Universal Service Arrangements

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Background Information

- Provision of basic service for everyone in Hong Kong.
- Basic service includes mainly fixed line telephone service and public payphones. Also covers directory enquiries, weather warning service, emergency services, etc.
- Universal Service Provider (USP) will be compensated for the cost of providing the USO (USO cost).
- USO regulatory framework was established in 1998 and subsequently updated in 2000.

Background Information (2)

- So far PCCW-HKT Telephone Ltd. (PCCW) is the only USP appointed by the Telecommunications Authority (TA).
- The USO cost incurred by the USP is settled under the Universal Service Contribution (USC) scheme.
- Carriers and service providers offering external telecommunications services (ETS) via the public switched telephone network (PSTN) are required to contribute to the USO cost. The cost sharing is based on the ETS traffic volume (i.e. IDD minutes) carried by the contributing operators.
- The USO cost for 2004 was US\$13.24 million.

Reasons for Review

- Rapid development of telecom market since 2000
- Emerged VoIP services bypassing the USC sharing arrangement
- Decline of IDD traffic gives marginal profit for operators to cross-subsidise the loss-making local telecom service
- Tariff rebalancing of local services in 2001

Reasons for Review (2)

- Currently more than 76% of the households in Hong Kong have a choice of telephone services supplied over these alternative customer access networks
- Not fair to other operators competing with PCCW in these areas if PCCW is receiving subsidy or compensation of USO
- Importance of payphones has diminished in recent years
- Announcement of weather warnings on tropical cyclones, thunderstorm, heavy rain, and flooding over the phone in the scope of USO are now provided by the Hong Kong Observatory

Results of Consultation

- Consultation paper on “Review of the Regulatory Framework for Universal Service Arrangements” dated 28 December 2006 identified a number of key issues for review
- 17 submissions were received
- Having considered the views of the respondents, the TA sets out his considered views and decisions on the major issues in a Statement issued on 8 June 2007

Results of Consultation (2)

Universal Service Arrangement:

- Existing universal service arrangement should be retained
- However, the scope of USO and the calculation of USC should be altered to suit the current and foreseeable market situation. These will be addressed in other key issues

Results of Consultation (3)

Scope of Universal Service:

- The current scope of universal service should be maintained except for the following changes:
 - The weather warning services will be taken out of the scope of the universal service
 - The 'market value' of using the payphone kiosks for purpose other than payphone service should be counted towards the USC
 - A mechanism will be introduced for the TA to direct additions to, or removal from, the list of payphones eligible for USC after consultation with the USP and concerned parties.

Results of Consultation (4)

USC for areas/payphones with alternative coverage/service:

- The fair USC for areas (or buildings) connected by at least one alternative self-built fixed customer access network capable of providing basic telephone service should be zero.
- The fair USC for payphones in the vicinity of competitive and alternative service should be zero. The TA will consider whether:
 - payphone service provided by competitive providers is available nearby (within a walking distance of 100 meters);
 - the payphone in question is next to other payphone(s) of PCCW; and
 - there is a genuine public need of that public payphone (including whether peak demand at the location concerned justify the provision of multiple payphones).
- Upon proof by evidence to the satisfaction of the TA, any unrecovered asset cost for fulfilment of USO could be added back to the USC calculation.

Results of Consultation (5)

Costing for USO:

- The existing treatment of USP's discounts should be continued.
- The aggregation basis should be changed to 'distribution points' because
 - From investment angle, the decision to network and service rollout would probably be closer to "area" basis than 'customer-by-customer' basis, on which the USP would be fairly compensated by the USC contributing parties.
 - From competition and level playing field angles, an FNO without the USO has similar licence obligation to provide service at locations where the service could be reasonably provided.

Results of Consultation (6)

Funding Arrangements for USO:

- The status quo on the sharing of the cost of USO on the basis of IDD traffic volume handled should continue for the time being. The sharing basis will be migrated, by end of April 2009 when the current regulatory intervention in fixed-mobile interconnection charge is withdrawn, to that of the number of all telephone numbers allocated.

Results of Consultation (7)

The conclusions of the Consultation had been implemented from 1 July 2007 or immediately after the necessary legislation amendments, if applicable.



The End - Thank You