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**Charges for Interconnection between
Public Mobile Radiotelephone Services (PMRS),
Personal Communications Services (PCS) and
Value Added Services (VAS) and the
Public Switched Telephone Network (PSTN)**

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

8 October 1999

Background

The Office of the Telecommunications Authority (OFTA) has completed a review on the interconnection charges applicable to Public Mobile Radiotelephone Services (PMRS), Personal Communications Services (PCS) and Value Added Services (VAS) for interconnection between the services and the Public Switched Telephone Network (PSTN) of Cable & Wireless HKT Telephone Limited (CWHKTT) based on data reported in accordance with the Accounting Manual. The findings of the review indicated that due to increases in CWHKTT's productivity, the rapid growth of PMRS/PCS and VAS traffic and the continued increase of the average duration per call of VAS traffic, the traffic dependent costs of CWHKTT to provide the interconnect services have reduced in spite of additional investment in network. The traffic independent cost per line for providing the interconnect lines has also decreased due to an increase in the number of lines resulting in a reduction of unit overhead cost. The Telecommunications Authority (TA) has therefore requested CWHKTT to review its current interconnection charges with respect to the two services.

Revised Interconnection Charges

2. CWHKTT has submitted a proposal to the TA proposing to revise the charges of interconnect lines to PMRS/PCS and VAS as follows:

For an interconnect line between PMRS/PCS and PSTN

- \$79 per line per month plus a usage charge of 5.9 cents per minute of line occupancy
(the current charges are \$82 per line per month and 6.4 cents per minute for usage)

For an interconnect line between VAS and PSTN

- \$79 per line per month plus a usage charge of 2.7 cents per minute of line occupancy
(the current charges are \$82 per line per month and 3.3 cents per minute for usage)

3. The TA considers the proposed charges to be acceptable as they are in line with the TA analysis of the costs of CWHKTT in the provision of such services and the TA has given approval to the revised charges with effect from 1 October 1999.

4. The revised charges only apply to CWHKTT's published interconnect services. The other three fixed telecommunication network services (FTNS) operators are free to offer their own interconnection arrangements and charges to PMRS/PCS and VAS operators in accordance with their licence conditions.

Reasons for the Reduction

5. During the year 1998/99, the volume of traffic from PMRS/PCS has increased by 47% in terms of occupancy minutes and 35% in terms of call attempts, compared with the year 1997/98. The volume of traffic from VAS has increased by 133% in terms of occupancy minutes and 38% in terms of call attempts from 1997/98 to 1998/99. However, as the overall PMRS/PCS and VAS traffic only constituted about 30% of the total network traffic, the total network traffic had increased by 15% in terms of occupancy minutes while the total number of call attempts registered a 2% reduction. The overall network cost was increased by about 5% to cater for the growth in traffic volume. The number of call minutes per call attempt for VAS has increased to 9 from 3.8 in the last review. These changes have accounted for the 8% and 18% reduction in the per occupancy minute in the interconnection charges for PMRS/PCS and VAS respectively.

Reasons for Different Charges for PMRS/PCS and VAS

6. In the detailed analysis of CWHKTT's costs conducted by the TA, the TA has concluded that it is reasonable to continue with the different levels of charge to PMRS/PCS and VAS interconnection which reflect the actual costs of provision of the two different interconnection services. It was confirmed that the traffic of PMRS consisted mainly of voice calls of short duration compared with traffic mainly of relatively lengthy data transmission in VAS messages. The average call duration of VAS traffic was observed to be longer reflecting the wider use of Internet services. Thus, the cost of conveying VAS traffic over the network is lower because of the smaller number of call attempts per occupancy minute generated.

Future Review

7. As the markets on PMRS/PCS and VAS are both developing at a very rapid pace and technology is also advancing quickly, the TA has received views from the industry that the methodology for calculating the interconnection charges should be reviewed so as to ensure that these charges are kept in line with costs.

8. The TA will commence a review on the calculation methodology, the benefits and feasibility of adopting a two-tiered charging structure and the desirability of determining a separate charge for transit traffic. The TA intends to consult the industry fully around the end of the year as to the appropriateness of continually using the cost model and implementing a two-tiered charging principle and a transit charge before he proceeds to determine the cost of interconnect charges next year.

**Office of the Telecommunications Authority
8 October 1999**