

**Review of the Licence Fees for
Provision of the Public Radio Paging and
Mobile Virtual Network Services**

Statement of the Telecommunications Authority

20 February 2009

INTRODUCTION

Telecommunications numbers are allocated by the Telecommunications Authority (the “TA”) to Fixed Network Operators (“FNOs”), Mobile Network Operators (“MNOs”), Mobile Virtual Network Operators¹ (“MVNOs”), Public Radio Paging Service Operators² (“Paging Operators”) and Services-based Operators (“SBOs”) for various kinds of telecommunication services. Based on the existing demand and pace of allocation, our 8-digit telecommunications numbers will be exhausted in six to seven years (i.e. by 2015 – 2016) if the Government does not implement necessary measures to enhance the efficient use of numbers.

2. With a view to encouraging more efficient use of numbers, the concept of number fee was first introduced in the SBO licensing regime in January 2006. As part of the annual licence fee, SBO licensees are required to pay a number fee calculated based on the amount of numbers allocated. Number fee has also been applied to the newly created Unified Carrier Licence (“UCL”) since 1 August 2008. Holders of UCL requiring subscriber numbers for their fixed or mobile services have to pay a number fee of \$3 per allocated subscriber number per annum.

3. For the sake of fairness and consistency, the Government proposes to apply a similar number fee to MVNOs and Paging Operators as well. On 24 September 2008, the TA issued a consultation paper entitled “A Review of the Licence Fees for Provision of the Public Radio Paging and Mobile Virtual Network Services” (“the Consultation Paper”) to seek views and comments from the industry and interested parties on the proposal to adjust the licence

¹ A MVNO is issued with a Public Non-Exclusive Telecommunications Service licence.

² A Public Radio Paging Service Operator is issued with a Public Radiocommunications Service licence.

fees, including the introduction of a number fee and the simultaneous reduction of the mobile station fee for these operators. It is expected that under the proposal, the gross licence fee payable by MVNOs and Paging Operators will be reduced on the premise that they may utilize more efficiently the telecommunications numbers allocated to them.

RECEIVED SUBMISSIONS

4. In response to the Consultation Paper, the Office of the Telecommunications Authority (“OFTA”) received a total of eight submissions from the following parties (listed in alphabetical order):

- (1) China Motion Telecom (HK) Limited (“CMTHK”)
- (2) CSL Limited (“CSL”)
- (3) Kantone Paging Company Limited (“Kantone”)
- (4) New Telecomm Company Limited (“NTC”)
- (5) Technical Data Limited (“TDL”)
- (6) Telecom Digital Data Limited (“TDDL”)
- (7) Telecom Digital Mobile Limited (“TDML”)
- (8) Telepaging Limited (“Telepaging”)

The submissions can be downloaded from OFTA’s website³.

5. After considering the submissions received, the TA sets out in this statement his responses to the submissions and his decisions on the licence fee applicable to MVNOs and Paging Operators.

LICENCE FEE STRUCTURE

Number Fee

6. As mentioned in the Consultation Paper, the TA proposed to apply a number fee of \$3 to MVNOs and Paging Operators with a view to encouraging more efficient use of numbers. Views and comments were invited on the following question:

³ <http://www.ofa.gov.hk/en/report-paper-guide/paper/consultation/20081124/table.html>

Question (1): Do you have any comments on the proposal of applying the number fee arrangement to the Paging Operators under the Public Radiocommunications Service (“PRS”) licence and MVNOs under the Public Non-Exclusive Telecommunications Service (“PNETS”) licence and at an annual number fee of \$3 per subscriber number allocated to the licensees?

Views and Comments from Respondents

7. TDDL and TDML supported the proposal of number fee as the overall licence fee would be reduced for operators which used numbers efficiently. They agreed that the proposed change in the licence fee structure would be an efficient measure to encourage more efficient use of telecommunications numbers. However, they considered that operators should be allowed to return idle numbers, which may be non-contiguous, to OFTA. They would also like to be informed of the mechanism for return of numbers before the implementation of number fee. CSL also supported the proposal on the ground that subsequent to imposition of number fee upon UCL holders and SBOs, it would be fair and consistent for MVNOs and Paging Operators to be subject to the same component of licence fee. Telepaging and TDL had no objection to the proposal.

8. Kantone and NTC, however, objected to the proposal of applying the number fee to the Paging Operators. They considered that the introduction of number fee would lead to an increase in operating costs. They said that it was not appropriate for the TA to align the licence fee structure of PRS Licence with those of UCL and SBO licences, given the businesses of FNOs and MNOs are thriving with steady growth of customer base whereas paging services are declining with a much smaller subscriber base. CMTHK did not support implementation of the new scheme at the moment because most of its numbers were being deployed for pre-paid mobile services and the pre-paid SIM cards had been distributed to retail outlets. Nonetheless, CMTHK would support the proposal if sufficient time could be given for it to adjust its business plan and pricing scheme to match with the change in the licence fee structure. A few respondents suggested that the TA should waive part of the number fee, for instance, the fee in respect of the first 100,000 numbers, in the initial implementation stage of the new licence fee structure or provide monetary incentive for operators to return idle numbers.

TA's Considerations

9. The majority of respondents generally agreed to the policy objective of the TA introducing number fee as a financial incentive to encourage more efficient use of numbers. Regarding the suggestion from Kantone and NTC of exempting the paging industry from imposition of number fee, the TA is of the view that all the licensees consuming telecommunications numbers should be equitably accountable for efficient use of such a public resource. The TA also notes that the diverse views of the industry about the imposition of number fee upon MVNOs and Paging Operators stem from different perception of the proposed changes on the overall licence fee.

10. The TA would like to point out that the total licence fee payable by a Paging Operator or a MVNO under the new licence fee structures will be less than what it currently pays if it can manage to achieve a utilization rate of numbers higher than 30%⁴. Currently, around 30% of the numbers allocated to MVNOs are assigned to end customers. In contrast, the overall utilization rate for numbers allocated to Paging Operators amounts to less than 4%, which is low by any standard. To improve the utilization rate, OFTA has institutionalized the arrangement⁵ for return of numbers and operators may now return idle numbers, be they contiguous or not, to OFTA. If the operators subsequently need more numbers to meet their business needs, they may apply⁶ to OFTA. OFTA will then consider reallocation of the returned numbers to the applicants based on the information and justification provided. The concerns of CMTHK that sufficient time be given to adjust its business plan will be addressed in paragraphs 21 – 22 below.

11. As regards the request for waiving part of the number fee, the TA considers that MVNOs and Paging Operators should be able to realize savings after implementation of the proposed licence fee. He does not see the

⁴ Under the existing licence fee structure, a Paging Operator or MVNO needs to pay \$18 per annum for a mobile station. Assuming that the utilization of numbers is 30%, the numbers allocated to a Paging Operator or MVNO are 3.33 times more than the numbers assigned for mobile stations. The “equivalent” fee per mobile station under the proposed licence structure will be \$8 plus 3.33 times of \$3, i.e. \$18.

⁵ The Code of Practice Relating to the Use of Numbers and Codes in the Hong Kong Numbering Plan (“the Numbering CoP”) has been revised to include the procedures for operators to return numbers to OFTA.

⁶ According to the Numbering CoP, an operator is allowed to submit an application for numbers to OFTA at least six months after the date of its last return of numbers.

ground for any further reduction of number fee given the gross licence fee payable by MVNOs and Paging Operators will be less after the implementation of the new scheme.

12. Having considered the comments of the respondents, the TA concludes that the proposed annual number fee of \$3 per subscriber number should be adopted for Paging Operators under the PRS licence and MVNOs under the PNETS licence.

Mobile Station Fee

13. Under the PRS licence and the PNETS licence, there is a licence fee component based on the number of mobile stations used by customers of the licensee. The level of this fee is currently HK\$18 per mobile station per annum.

14. For UCL, the subscriber-based fee component is set at a unified rate of \$8 per customer connection for fixed or mobile services. In line with the rate adopted for UCL, the TA proposed that, as a total package together with the proposed number fee, the subscriber-based fee component for Paging Operators under the PRS licence and MVNOs under the PNETS licence should be reduced from \$18 per mobile station to the same level as that under the UCL (i.e. \$8 per mobile station per annum). The formulae for calculating the spectrum and base station fees would remain the same. Views and comments were invited on the following question:

Question (2): *Do you have any comments on the proposal to reduce the mobile station fee from \$18 to \$8 per station for the Paging Operators licensed under the PRS licence and MVNOs licensed under the PNETS licence?*

Views and Comments from Respondents

15. Almost all respondents supported or had no adverse comment on the proposal about the reduction of mobile station fee from \$18 to \$8 per station. Only Kantone considered that the bundling of reduction of mobile station fee with introduction of number fee would eventually increase the operating cost

and it would not benefit from such a move.

TA's Considerations

16. The TA notes that most respondents are supportive of the proposed reduction of the mobile station fee. Regarding Kantone's concern on the possible increase of operating cost, the licence fee payable by MVNOs and Paging Operators under the proposed scheme hinges on how they can utilize the numbers in a more efficient manner. In order that the respondents to the Consultation Paper may understand better OFTA's proposal, in particular the arrangements for the return of numbers, they were invited to the Telecommunications Numbering Advisory Committee ("NAC") held on 18 December 2008. In the meeting, OFTA explained in detail the channel established for return of numbers, including the arrangement for non-contiguous numbers, and assured that OFTA would be prepared to facilitate the relevant operators in the returning process. The respondents showed their understanding.

17. Having considered the comments of the respondents, the TA decides that along with the introduction of the annual number fee of \$3 per subscriber number, the annual mobile station fee for Paging Operators licensed under the PRS licence and MVNOs licensed under the PNETS licence will also be reduced from \$18 to \$8 per station.

IMPLEMENTATION TIME FRAME

18. In the Consultation Paper, the TA proposed to implement the proposals by the end of 2008 at the earliest. Views and comments were invited on the following question:

Question (3): Do you have any comments on the proposed implementation time frame for the new number fee and mobile station fee of Paging Operators under the PRS licence and MVNOs under the PNETS licence?

Views and Comments from Respondents

19. While Kantone, NTC and Telepaging objected to the proposed

schedule, the other respondents had no adverse comment. CMTHK suggested that a period of time should be given to the existing operators before a mandatory shift to the new scheme. It also suggested implementing the new scheme at mid 2010 which was consistent with the transfer to UCL for major FNOs. Further, CMTHK suggested that MVNOs should be allowed to opt for the existing scheme or the new scheme of their own accord.

20. A few respondents expressed concerns about the lead time required for them to return the idle numbers. Given the numbers assigned to their customers are scattered in the allocated number blocks, it would be time consuming for them to sort out all the idle numbers and identify those numbers which can be returned to OFTA.

TA's Considerations

21. The TA accepts that operators may need time to re-organize and return idle numbers to OFTA. As there are around six million numbers allocated to MVNOs and Paging Operators, the TA considers it appropriate to allow sufficient time for them to identify all the idle numbers and get prepared for the return of some of them before the new licence fee comes into effect.

22. Having considered the comments of the respondents, the TA decides to adopt the proposed licence fee structures applicable to Paging Operators licensed under the PRS licence and MVNOs licensed under the PNETS licence with effect from 1 June 2009.

CONCLUSION

23. The TA concludes that the proposed annual number fee of \$3 per subscriber number and the proposed reduction of the annual mobile station fee from \$18 to \$8 per station should be adopted for Paging Operators under the PRS licence and MVNOs under the PNETS licence. The new licence fee structures applicable to Paging Operators and MVNOs are specified in Annexes 1 and 2 respectively and they will be posted on OFTA's website on the effective date i.e. 1 June 2009.

Office of the Telecommunications Authority
20 February 2009

**New Licence Fee for
Public Radio Paging Services Licensed under the PRS Licence
(Effective from 1 June 2009)**

The annual licence fee payable on the issue and on anniversary of the issue of the licence in each year while the licence remains in force shall be the sum of:

Base Station Fee⁷

- ◆ For the 1st to the 50th base station installed for the service:
\$1,000 per base station
- ◆ For the 51st to the 100th base station installed for the service:
\$500 per base station
- ◆ For the 101st base station installed for the service and any additional base stations:
\$100 per base station

Mobile Station Fee

- ◆ \$800 for each 100 mobile stations or less used by customers of the service.

Spectrum Fee⁸

- ◆ \$50 for every 1 kHz of spectrum assigned to the licensee.

Number Fee

- ◆ \$3 for every subscriber number allocated to the licensee. A subscriber number is a number in the Hong Kong Numbering Plan within numbering blocks allocated by the TA to a licensee, which number may be assigned by the licensee to its customer for use of a telecommunications service. The number fee shall be payable on the issue of a PRS licence and on each anniversary of the issue of the PRS licence while the licence remains in force, for each subscriber number allocated to the licensee.

⁷ The calculation methodology is basically the same as that for the existing PRS Licence.

⁸ The calculation methodology is basically the same as that for the existing PRS Licence.

**New Licence Fee for
Mobile Virtual Network Services Licensed under the PNETS Licence
(Effective from 1 June 2009)**

A fee of \$750 shall be payable on the issue or renewal of licence.

When apparatus for radiocommunications is possessed, used, established or maintained for the purposes of the services provided, the following additional licence fee payable on the issue or renewal of the licence shall be the sum of:

Base Station Fee⁹

- ◆ A fee of \$750 for every base or fixed station.

Mobile Station Fee

- ◆ \$800 for each 100 mobile stations or less used by customers of the service.

Number Fee

\$3 for every subscriber number allocated to the licensee. A subscriber number is a number in the Hong Kong Numbering Plan within numbering blocks allocated by the TA to a licensee, which number may be assigned by the licensee to its customer for use of a telecommunications service. The number fee will be payable on the issue of a licence and on each annual renewal of the licence, for each subscriber number allocated to the licensee that is not ported out from the licensee's network or assigned, as authorized by the TA, to another licensee (which has made payment of the licence fee for such number under its licence) and for each subscriber number allocated to another licensee that is ported in to the licensee's network¹⁰.

⁹ The calculation methodology is basically the same as that for the existing PNETS Licence.

¹⁰ MVNOs are required to facilitate Mobile Number Portability but are not allowed to assign numbers allocated by the TA to other licensees. Therefore, numbers allocated by the TA to a MVNO and the net of those numbers ported in and ported out of the MVNO's system are subject to the number fee.