

Letterhead of PCCW-HKT

Chairman & Members
Information Technology & Broadcasting Panel
Legislative Council
Legco Secretariat
Legco Council Building
8 Jackson Road
Central
Hong Kong

8 January 2001

Dear Sirs

Interconnection Issues

We understand that the Panel will be discussing Interconnection Issues at today's panel meeting.

You may have noted from recent press articles that New T & T, one of the industry operators, complained about OFTA's role in handling interconnection issues. As such, we would like to provide the Panel with additional information as outlined in the attached paper.

Yours faithfully

Stuart Chiron
Director of Regulatory Affairs

INTERCONNECTION BY PCCW-HKT

ACTING RESPONSIBLY, WITH COMMITMENT

PCCW-HKT accepts its responsibilities in regard to competitors and is committed to abiding by its obligations. PCCW-HKT has made considerable investments, totalling more than HK\$350M, in support of other operators.

Criticisms directed at PCCW-HKT are unfair and inaccurate.

The fundamental problem lies in the ability of competitors to demand interconnection support (in terms of huge financial outlays and services) from PCCW-HKT without having any responsibility to fulfil their Forecasts, thus leaving PCCW-HKT with the certainty of stranded investment.

This current environment allows competitors to gain a "free ride" without risk, while requiring PCCW-HKT to commit its resources, to the possible detriment of its own business planning, and ultimately of its customer base.

The situation requires a thorough and detailed review, in particular the degree of genuine, concrete commitment to be made by competitors when calling upon PCCW-HKT to invest in facilities.

Further information and comprehensive elaboration on these matters will be made available from PCCW-HKT. Briefly, the situation is as outlined below.

Forecasts without commitment

Competitors are in a position to request PCCW-HKT investment, based on unsupported and often optimistic forecasts of required interconnection capacity, without making any financial or other commitment to actually achieving them. The lack of a forecast/traffic commitment requirement actually encourages unsupported forecasts by the 2Ns, no risk to them, added costs to PCCW-HKT

This clearly disadvantages PCCW-HKT, as it drains financial and human resources, while presenting the competitors with zero risk.

A stark example is shown in our experience with New T&T, which has consistently engaged in over-forecasting and under-utilization. In 1996 it *over*forecast by 88%. In 1997 it *over*forecast by 138%. In 1998, it *over*forecast by 570%.

The current New T&T forecast for 2001 is a 150% increase over existing ports.

It is unfair and unreasonable for PCCW-HKT to be required to make considerable commitments when competitors are not obliged to match their expectations with commitments of their own.

Responsible Service & Support

PCCW-HKT provides interconnection responsibly, efficiently and cost-effectively, in a realistic time- and cost-frame.

The establishment of support for competitors is based on an understanding of actual requirements, rather than unsupported speculation. This prudent approach allows for rational use of funding and human resources.

PCCW-HKT's interconnection charges are regulated by OFTA and also are among the lowest in the world.

Competitors representations of long-lead times and higher than expected charges are due to unreasonable expectations and a lack of awareness of the full extent of the time, effort and material expense involved.

Committed to Providing Capacity

PCCW-HKT has actively sought to avoid congestion, to the point where there is little or none. Congestion harms our customers also. The Company is constantly alert to this concern and is vigorously addressing the situation in order to prevent any inconvenience to *all* customers, including those of competitors.

PCCW-HKT has reconfigured its POI links to provide additional ones (especially to NEW T&T) and to accelerate new links in a concerted effort to avoid problems.

Offers to provide 90 additional links to NEW T&T in the first quarter of 2001 (beyond 20 which were put in place on a "rush" basis before yearend 2000), plus a further 360 links by June 2001 have been refused. Without making any commitment, NEW T&T has maintained its desire to pursue its unsubstantiated forecasts. It could have started with these poets.

PCCW-HKT Committed to Agreements

PCCW-HKT is acting properly and in full compliance with the letter and spirit of the agreements it has entered into.

The Company accepts its responsibilities toward competitors and has committed large levels of funding to unbundling local loops and interconnection services to customers as required through our binding agreements.

The infrastructure investment outlay by PCCW-HKT has been considerable while that of New T&T stands at about 3% in comparison.

PCCW-HKT has pursued interconnectivity with genuine commitment, while competitors have been able to seek growth at our expense without making a similar commitment.

A determination is in progress with OFTA. Comments are due on 31 January. PCCW-HKT will be presenting its response in accordance with the procedure OFTA has outlined. It is hoped that it will lead to a truly level playing field for all parties.

Perhaps NEW T&T's sudden outburst is calculated to influence OFTA and Legislative Council to keep policy from moving even slightly toward a forecasted commitment environment.