

For information on 9 November 1998

**Legislative Council Panel on
Information Technology and Broadcasting
Telephone Charges of Hong Kong Telecom**

Background

1. Local telephone lines are supplied in Hong Kong by four fixed telecommunication network services (FTNS) licensees. The dominant licensee, Hong Kong Telecom (HKT)¹, has 98% of the market share.

2. The prices for local telephone services of the dominant licensee are subject to the approval of the Telecommunications Authority (TA) under the FTNS Licence. Under the licence conditions, the TA should approve the application for such prices unless the proposals are in breach of licence conditions prohibiting anti-competitive practices and abuse of dominant position or in breach of the relevant price control arrangement. All FTNS Licensees may not charge more than the tariffs published under licence conditions. In addition, a dominant operator (HKT is a dominant operator) may not offer any discount to its tariffs or customer equipment integral to the provision of a telecommunications service except under a discount calculated in accordance with a formula or methodology approved by the TA and published together with its tariffs.

Price control arrangements for HKT

3. Before 1 July 1998, the prices of various telecommunications services provided by HKT were constrained through the operation of the Telephone Regulation, made by the Secretary for Economic Services (the policy secretary previously responsible for telecommunications). Under that arrangement, the annual increase rate of the prices of telecommunications services subject to the Regulation was capped in aggregate at 4% below general inflation (as reflected by the Consumer

Note ¹ : The holder of the fixed telecommunication network services licence is a group of companies comprising Hong Kong Telephone Company Limited, Hong Kong Telecom International Limited and Hong Kong Telecom CAS Limited.

Price Index (A)), with a sub-cap for rental charges for residential lines at 3% below inflation. The continuation of this Regulation became untenable as the income from external telecommunications services was envisaged to be reduced to such an extent that it would no longer be able to cross-subsidise the rental charges for residential lines. Such reduction would arise as a result of increasing competition through reforms to the international accounting rate system to bring such external services charges towards costs and the development of alternative procedures for completing external calls (such as International Simple Resale). In addition, in order that competition can develop in the local fixed telecommunications market, it is necessary for the tariffs for services in this market to reflect costs. The current prices of telephone lines for residential customers (\$68.90) is well below cost (around \$120 per month).

4. The Telephone Regulation was repealed effective from 1 July 1998. As set out in the Framework Agreement of 20 January 1998 between the Government and HKT for the early surrender of the licence of Hong Kong Telecom International, the repeal of this Regulation was a condition precedent for the Agreement to be implemented. There are measures in the Framework Agreement to achieve improvements in effective competition in the supply of local telecommunications services. These measures include bringing tariffs to costs and extending the reach of Type II interconnection to enable the new FTNS operators to achieve a faster roll-out to their customers (see paragraph 6 below).

5. There are provisions in the Framework Agreement for the maintenance of price control over HKT by the TA. In the long-term, we anticipate that the growth of effective competition in the fixed telecommunications market will make price control unnecessary as in the mobile telecommunications market. In the meantime, under the Framework Agreement, there is a phased rebalancing programme to bring local telephone tariffs in line with the level of costs.

Rental charges for residential lines.

- HKT will maintain the existing tariff of \$68.90 to 31 December 1998
- subject to the satisfaction of certain Type II requirements (see paragraph 6 below), HKT will be able to increase the tariff to no more than -

\$90 effective 1 January 1999

\$100 effective 1 January 2000

\$110 effective 1 January 2001

Rental charges for business lines

These are unconstrained by the Framework Agreement, but will continue to be subject to the terms of the FTNS licence.

Other services previously subject to the Telephone Regulation

The prices of these services (as set out in the Annex) may, at the maximum, be increased from 1 January 1999, in aggregate, by 4% less than the Consumer Price Index (A) inflation rate. This will be reviewed after 1 January 2000.

Type II Interconnection Offers under the Framework Agreement

6. Under the Framework Agreement, HKT has to make reasonable offers to the other FTNS operators that will, in aggregate, extend the reach of Type II interconnection¹, utilising the existing commercial agreements for Type II interconnection, to at least 50% of HKT's residential customers by 1 January 1999. HKT has met this condition - its offers, if accepted, would have amounted to 54% of residential customers (50% of business customers) capable of being so connected. However, only one new FTNS operator has so far accepted the offer. HKT is now engaged in ensuring that the work on the exchanges to implement this offer will be completed by 31 December 1998. This work appears on schedule. If the work is completed by then, HKT will have fulfilled its obligations under the Framework Agreement, sufficient to permit it to raise its charges for residential telephone lines up to the levels specified in the Framework Agreement (see paragraph 5 above).

7. The licensee which has accepted the offer from HKT will, by the end of 1998, have access to 24% of the residential lines of HKT for Type II interconnection. Through previous commercially negotiated agreements, HKT has already made some exchanges ready for Type II interconnection to the other two FTNS operators. Allowing for overlap of customers, a total of 30% of residential lines and 37% of business lines

Note ¹ : Type II Interconnection

Based on customer's request for switching subscription of services from FTNS operator A to FTNS operator B, FTNS operator B can request FTNS operator A to make "Type II" interconnection arrangement such that the local loop at the customer end provided by FTNS operator A can be used to connect with telecommunication facilities of FTNS operator B.

will be available for Type II interconnection by the end of 1998. One new FTNS operator has requested the TA to determine the terms and conditions of Type II interconnection. Although HKT has applied for a judicial review of the decision of the TA to proceed with such a determination, we understand that commercial settlement of the matter for determination is not entirely out of the question.

8. There are other means to access customers. One new FTNS operator has chosen to provide telephone services over the cable television network operated by its affiliated company. Already a proportion of the homes passed in accordance with its licence obligations are now capable of being reached in this way. The three new FTNS operators are also completing their local network roll-out and developing networks into buildings.

Tariffs for 1999

9. HKT has not yet submitted to the TA its application for tariff revisions for rental for local telephone lines or IDD rates from 1 January 1999. The TA will consider the application, when received, having regard to the relevant licence conditions and, where necessary, the Framework Agreement. Provided HKT has completed by 31 December 1998 its obligation to the FTNS operator which has accepted its Type II interconnection offer made under the Framework Agreement, the TA would accept a revised rental for residential lines not exceeding \$90, made in accordance with the FTNS licence conditions. To do otherwise may give rise to accusations that the Government is in breach of its obligation under the Framework Agreement.

10. For the majority of HKT's residential telephone users, the increase in line rentals will be offset by reductions in their costs for making external telephone calls, whether using the service of HKT or through indirect access to the increasing number of external telecommunications services operators. At present, some 80% of residential lines have IDD capability and the average consumer spends over \$200 on IDD calls per month. The scope for IDD savings offsetting the increases in line rental is significant.

PART II

TELEPHONE APPARATUS, EXTENSION AND LEASED CIRCUIT

- | Item | Particulars of service |
|------|--|
| 1. | A standard telephone instrument |
| 2. | For a coin box private payphone—
(a) rental
(b) connection for each local call |
| 3. | For an internal extension within the same curtilage as the PABX which was in existence before 1 July 1983—
(a) circuit only with socket or terminal block
(b) connection or removal |
| 4. | For an external extension routed between a building and a telephone exchange—
(a) rental, per 2 wire circuit presentation
(b) connection or removal to a different building
(c) removal within the same building |
| 5. | For an external extension between 2 telephone exchanges, per 2 wire circuit presentation (inclusive of any line conditioning equipment)—
(a) not exceeding a radial distance of 2 kilometres
(b) for each additional 500 radial metres or part thereof |

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{Subsidiary}

- | Item | Particulars of service |
|------|--|
| 6. | For an external extension automatic relay set in an exchange—
(a) rental
(b) connection |
| 7. | For a 2 wire leased circuit within the same curtilage—
(a) circuit only with socket or terminal block
(b) connection or removal |
| 8. | For a leased circuit routed between a building and a telephone exchange—
(a) rental—
(i) category 1
(ii) category 2
(iii) category 3
(iv) category 4
(v) category 5
(vi) category 6
(vii) category 7
(A) not exceeding a radial distance of 1 kilometre
(B) each additional 500 radial metres or part thereof
(b) connection or removal to a different building—
(i) category 1
(ii) category 2
(iii) category 3
(iv) category 4
(v) category 5
(vi) category 6
(vii) category 7
(c) removal within the same building—
(i) category 1
(ii) category 2
(iii) category 3
(iv) category 4
(v) category 5
(vi) category 6
(vii) category 7 |
| 9. | Rental service for a leased circuit between 2 telephone exchanges (inclusive of any line conditioning equipment) not exceeding a radial distance of 2 kilometres—
(a) category 1
(b) category 2
(c) category 3
(d) category 4
(e) category 5
(f) category 6
(g) category 7 |
| 10. | Rental service for a leased circuit between 2 telephone exchanges (inclusive of any line conditioning equipment) for a radial distance of not exceeding 20 kilometres—
(a) category 1
(b) category 2
(c) category 3
(d) category 4
(e) category 5
(f) category 6
(g) category 7 |
| 11. | Rental service for a leased circuit between 2 telephone exchanges (inclusive of any line conditioning equipment) exceeding a radial distance of 20 kilometres— |

{Subsidiary}

- | Item | Particulars of service |
|------|---|
| | (a) category 1
(b) category 2
(c) category 3
(d) category 4
(e) category 5
(f) category 6
(g) category 7 |
| 12. | For a leased circuit automatic relay set in an exchange—
(a) rental
(b) connection |
| 13. | For an AudioLine routed between a building and a telephone exchange—
(a) rental—
(i) one-way (or mono)
(ii) both-way (or stereo)
(b) connection or removal to a different building—
(i) one-way (or mono)
(ii) both-way (or stereo)
(c) removal within the same building |

PART III

SPECIAL APPARATUS

- | Item | Particulars of service |
|------|---|
| 1. | Line Conditioning Equipment—
(a) 2 wire repeater
(b) 2 wire to 4 wire terminating unit
(c) loop extender
(d) signalling relayset for a central battery circuit routed over a PCM link
(e) signalling relayset for an out of area exchange line of PBX external extension
(f) termination relayset for a central battery circuit routed over a 4-wire physical cable circuit
(g) termination relayset for an out of area exchange line or PBX external extension routed over a 4-wire physical cable circuit
(h) amplifier/negative impedance repeater/amplitude equalizer/delay and amplitude equalizer |
| 2. | An Audio Broadcast panel—
(a) connection (stock exchange type)
(b) connection to the output circuit |
| 3. | A Ringing Supply circuit—
(a) using eliminator
(b) from public exchange (subject to prior agreement with the company) |
| 4. | A Power Supply circuit—
(a) using eliminator
(b) from public exchange (subject to prior agreement with the company)
(c) standby equipment |
| 5. | A Branching panel |

PART IV

MISCELLANEOUS SERVICES

- | Item | Particulars of service |
|------|---|
| 1. | For a Private Automatic Branch Exchange (PABX) owned by a subscriber and in existence before 1 July 1983—
(a) connection and removals
(b) maintenance per installed extension for—
(i) strowger equipment
(ii) cross bar equipment
(iii) semi-electronic equipment
(iv) electronic-analogue equipment
(v) electronic-digital equipment
(vi) other types of equipment
(c) minor work |
| 2. | Connection or disconnection of privately owned apparatus |
| 3. | Evaluation of privately owned apparatus—
(a) connected to PSTN or PABX—
(i) for ordinary telephone
(ii) for feature telephone (with handsfree and/or autodialling)
(iii) for feature equipment, alarm system, answering and recording machine and autodialler
(iv) for modem and facsimile equipment
(v) for other items
(b) connected to leased circuit—
(i) for modem and facsimile equipment
(ii) for other items |
| 4. | (a) Changing a telephone instrument or socket at subscriber's premises at request of subscriber
(b) Changing each additional telephone at the same time
(c) Changing a telephone instrument at request of subscriber (changed instrument to be collected by subscriber) |
| 5. | Changing a telephone number at request of subscriber |
| 6. | Interception service for changed telephone number |
| 7. | Registration of a change of name for an existing subscriber or user |
| 8. | Registration of a different subscriber for an existing installation |
| 9. | Reconnecting a service disconnected for non-payment of charges |
| 10. | Administration service for work undertaken but subsequently cancelled at request of subscriber |
| 11. | Change of Billing Telephone Number |
| 12. | A telephone pole for services other than a permanent exchange line service |
| 13. | Connection device for privately owned apparatus |
| 14. | Message waiting service, internal wiring only |
| 15. | Administration service for work undertaken outside normal operating hours at request of subscriber |
| 16. | A service at a subscriber's request which is not otherwise provided for in this Schedule |

- | Item | Particulars of service |
|------|---|
| 17. | An abortive visit due to mis-reporting of line fault when terminated on equipment supplied by the company—
(a) between 8 a.m. and 5 p.m. on weekdays or between 8 a.m. and 12.30 p.m. on Saturday
(b) outside the hours mentioned in paragraph (a) |
| 18. | For an ex-directory unlisted telephone number—
(a) where the telephone number is in addition to a listed number in the same name at the same address
(b) where there is no additional telephone number listed in the same name at the same address (minimum period 12 months)—
(i) registration
(ii) service |
| 19. | For each additional entry in small type in either the English or Chinese section of the Telephone Directory (minimum period 12 months)—
(a) registration
(b) service |
| 20. | Change of entry in either the English or Chinese section of the Telephone Directory at request of subscriber which does not involve a change in registration |
| 21. | Additional copy of the Telephone Directory in excess of free allowance |
| 22. | (a) An interconnection line between subscriber's message recording equipment and public switched telephone network
(b) Other services for an interconnection line—
(i) connection
(ii) removal within same building
(iii) removal to a different building
(c) (i) For use of an interconnection line to provide a chargeable information service callers—
(A) category A service
(B) category B service
(ii) Use of an interconnection line to provide a free-of-charge information service callers |
| 23. | Interconnection of a Private Automatic Branch Exchange (PABX) to the Public Switched Telephone Network (PSTN)—
(a) for an Integrated Digital Access (IDA T1) system between PABX and PSTN—
(i) for the first 8 systems
(ii) for additional systems at the same location
(b) for an Integrated Digital Access (IDA B1) system between PABX and PSTN—
(i) for the first 8 systems
(ii) for additional systems at the same location |
| 24. | Associated services for item 23—
(a) connection or removal to a different building
(b) removal within the same building |
| 25. | Cable Diversity Service |
| 26. | Duplex ringing feature |
| 27. | A barring service against outgoing IDD calls, Infoline calls and incoming collect calls |
| 28. | Tie Line Access Facility for "Citinet" Service—
(a) connection
(b) rental |
| 29. | "Citinet" Intelligent Operator Console facility—
(a) connection
(b) rental |

[Subsidiary]

PART V

TELEPHONE CALL SERVICE

Item	Particulars of service
1.	Local call from a public payphone
2.	Connection for a local operator assisted conference call service
3.	Connection for an international operator assisted conference call service
4.	In respect of international toll free calls— (a) registration (b) service subscription (c) alternation of the terminating number schedule
5.	Connection for international telephone calls at public or private payphones
6.	Connection for Third Country Calling Service
7.	Connection for IDD or other chargeable calls in Hong Kong or overseas, using a Personal Identification Number as allocated by the company to holders of its Calling Card

PART VI

OTHER EQUIPMENT AND SERVICES

Item	Particulars of service
1.	Internal extension wiring— (a) connected to a single exchange line with socket or terminal block (b) connected to the Private Manual Branch Exchange (PMBX) switchboard with socket or terminal block (c) connection or removal
2.	A 1+3 switching equipment— (a) with battery eliminator (b) with battery (c) connection or removal
3.	Starline Services— (a) for features including abbreviated dialling, additional abbreviated dialling, do-not-disturb, appointment service, IDD barring, call waiting I, call-forwarding— (i) any 1 feature (ii) any 2 features (iii) any 3 features (iv) any 4 features (v) any 5 features (vi) any 6 features (vii) any 7 features (viii) connection or change of features (b) (i) for conference (3-way) calling (ii) connection or change of features
4.	For Private Manual Branch Exchange (PMBX) and associated equipment— (a) PMBX (5 + 20) switchboard— (i) rental (ii) removal to a different building (iii) removal within the same building of switchboard only (iv) removal within the same building of associated apparatus

[Subsidiary]

Item	Particulars of service
(b)	PMBX (10 + 30) switchboard— (i) rental (ii) removal to a different building (iii) removal within the same building of switchboard only (iv) removal within the same building of associated apparatus
(c)	PMBX (10 + 50) switchboard— (i) rental (ii) removal to a different building (iii) removal within the same building of switchboard only (iv) removal within the same building of associated apparatus
(d)	PMBX (any other capacity) switchboard— (i) rental for capacity of 12 indicators or less (ii) rental for each additional indicator (iii) removal to a different building (iv) removal within the same building
5.	For miscellaneous apparatus— (a) small extension bell— (i) rental (ii) connection or removal (b) large extension bell— (i) rental (ii) connection or removal (c) 4-metre long connecting cord (d) 6-metre long connecting cord (e) bell cut-off switch (f) watch receiver (g) lamp signalling device mains operated (h) lamp signalling transformer (i) lamp signalling handset (j) amplifying handset (k) diversion key unit— (i) rental (ii) connection or removal (l) Conquest handset (m) Inductive coupler (n) Autofaller (o) Speakerphone (p) Pressac tone ringer— (i) rental (ii) connection or removal
6.	For a tropical cyclone warning service (minimum period 12 months)— (a) registration (b) service
7.	For a thunderstorm and heavy rain warning service (minimum period 12 months)— (a) registration (b) service
8.	For a flood warning service (minimum period 12 months)— (a) registration (b) service
9.	Advice of duration of an outgoing international telephone call
10.	Non-standard telephone instruments— (a) Big button telephone (b) Executive I telephone (c) Earaphone telephone

[Subsidiary]

- | Item | Particulars of service |
|------|---|
| 11. | An emergency alert telephone (inclusive of one radio trigger unit and one confirmation unit)— |
| | (a) rental |
| | (b) each additional radio trigger unit |
| | (c) each additional confirmation unit |
| | (d) connection |
| | (e) connection of extension wiring from the main socket |
| | (f) removal within the same building for which rewiring is required |
| | (g) removal within the same building for which no rewiring is required |
| | (h) removal to a different building |
| 12. | Interpreter handling service— |
| | (a) for successful calls |
| | (b) for calls requested but subsequently cancelled by subscriber |
| 13. | A "Faststar" service |
| 14. | A "Magistar" service |
| 15. | A "Follow me" call forwarding service |
| 16. | Public Domain Information Voice Retrieval Service— |
| | (a) between the hours of 8 a.m. and 9 p.m. |
| | (b) not between the hours of 8 a.m. and 9 p.m. |
| 17. | For a "Call Me" service— |
| | (a) registration |
| | (b) service subscription |
| | (c) alternation of terminating numbers |
| 18. | A "Call Waiting II" service |
| 19. | A "CallBack" service |
| 20. | A "PhoneMail" service— |
| | (a) Basic package |
| | (b) Premium package |
| | (c) Additional 20 messages each of one minute duration |
| 21. | For a "Management Report" service— |
| | (a) Service subscription |
| | (b) Alternation of customer specified parameters |
| 22. | A "Super Follow Me" service |
| 23. | A "Super Do Not Disturb" service |
| 24. | A "Call Transfer-Conference" service |
| 25. | A "Call Forwarding on Hunt Group" service |

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