

By Fax 2537 1851 [5 Pages] and Mail

19 June, 2008

Hon Bernard Chan, GBS, JP
Chairman
Subcommittee on Subsidiary Legislation to Introduce a Unified Carrier Licence under the Telecommunications Ordinance
Legislative Council
Legislative Council Building
8 Jackson Road
Central
Hong Kong

Dear Mr Chan,

Subcommittee on Subsidiary Legislation to Introduce a Unified Carrier Licence ("UCL") under the Telecommunications Ordinance ("Subcommittee")

I refer to the Subcommittee meeting last Saturday 14 June 2008 in which I presented PCCW-HKT Telephone Limited's ("PCCW's") views regarding the licence fees proposed by the Commerce and Economic Development Bureau ("CEDB") for the new UCL. At the end of that meeting, you requested the operators to provide data on number usage. The relevant figures for PCCW are provided at the end of this letter.

I would like to draw the Subcommittee's attention specifically to the Number Fee (\$3 per number per annum) which the CEDB intends to levy on all telephone numbers.

During the Subcommittee meeting, the Office of the Telecommunications Authority ("OFTA") emphasized that it was necessary to introduce the Number Fee otherwise Hong Kong will run out of 8 digit telephone numbers very soon, and a 9 or 10 digit number format would need to be introduced at considerable expense and inconvenience to both the industry and the public.

PCCW disagrees that it is necessary to introduce the Number Fee for the following reasons:

1. There is no impending shortage of telephone numbers

Contrary to the picture painted by OFTA at the previous Subcommittee meeting, there is a sufficient quantity of numbers to last Hong Kong beyond 2015.

Per the figures presented by OFTA, there are 54 million numbers available for allocation to operators. In a previous submission by the CEDB, it indicated that around 20 million numbers had already been assigned by the fixed line

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and mobile operators to their customers. This means that, at present, there are about 34 million numbers (i.e. 54 million less 20 million) still left to be assigned to end users. At the consumption rate presented by OFTA in its presentation of 1.6 million numbers per annum (i.e. 1.2 million numbers for mobile and 0.4 million numbers for fixed line), the current stock of telephone numbers should be sufficient to last Hong Kong for a further 21 years (i.e. 34 million divided by 1.6 million).

Based on these calculations, it is difficult to understand why the CEDB considers it necessary to now impose a \$3 tax on operators (and ultimately users) to curb the use of telephone numbers.

2. Other non-financial measures can be introduced to prolong the life of the current Numbering Plan

Before imposing additional costs on operators and users, PCCW and others have suggested adopting number conservation steps which were supported by the industry and the CEDB. These steps include:

- Opening up number level "5" for use by the mobile operators (which has just been implemented by OFTA) and making more efficient use of number level "7" (which is currently heavily under-utilized by paging operators). PCCW notes that OFTA's total available numbers of 54 million includes number levels "5" and "7";
- Raising the present percentage number utilization threshold from 60% to 70% before operators can apply for more numbers;
- Allocating numbers in smaller batches than the current practice of number blocks of 100,000; and
- Instituting procedures for the return of unused numbers so that they can be re-allocated to other operators.

These measures are not controversial, enjoy broad industry support and can be effected immediately to improve the efficient use of the current Hong Kong Numbering Plan.

Clearly, there is no urgent need to penalize operators for using telephone numbers by imposing a Number Fee. Should the CEDB still believe it necessary to control the future consumption of numbers, however, then the following alternative options could be considered in the future (with more analysis):

(a) Charging for allocated but unused numbers

This option was suggested by the Hong Kong Telecommunications Users Group and brought up for discussion by Hon Albert Chan Wai-yip at the previous Subcommittee meeting.

Under this option, operators would be permitted to retain a reasonable stock of numbers which they can hold pending future assignment to customers. This “buffer” would be set by OFTA in consultation with the operators. After the buffer level has been set, those numbers held by the operator which exceeded its buffer will be subject to a Number Fee. Of course, the operator can always avoid the Number Fee by returning its excess quantity of numbers.

(b) Only charging for future number applications

This option recognizes the fact that the numbers currently being held by the fixed line and mobile operators were previously obtained on the understanding that they would not be subject to any payment. This option responds to the argument that it would be unreasonable to now charge for these numbers.

Thus, under this option, only those *new* batches of numbers which are allocated to an operator under its UCL, would be subject to a Number Fee. Those numbers which the operator previously held before taking up the UCL would be exempt from this Fee. In order to prevent operators from stockpiling telephone numbers before converting to a UCL so as to avoid payment, it is suggested that the percentage number utilization threshold be raised so that operators are not permitted to ask for more numbers until they have used up at least 70% of their allocated stock of numbers.

PCCW considers both of these options to be more equitable and hence preferable to the Number Fee tax proposal currently put forward by the CEDB and at the same time, would help to promote the efficient use of telephone numbers.

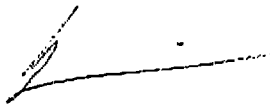
The number usage figures requested by the Subcommittee are contained in the attached Appendix. These figures indicate that:

- From December 2005 to May 2008, PCCW has only requested 400,000 new numbers from OFTA (i.e. on average one block of 100,000 numbers per year);
- PCCW has a high number utilization rate at consistently around 70% of its allocated telephone numbers; and
- On average, PCCW only assigns around 158,000 numbers to customers each year, indicating improved efficiencies in number usage. There is therefore no obvious number crisis at present or, based on this level of consumption, will there likely be a serious number shortage problem for years to come.

PCCW sees no urgency in introducing the Number Fee tax. There is no need to delay implementation of the UCL until the licence fees are resolved. The issue of the licence fees can be dealt with separately after the UCL is launched, so this would not affect the timetable for the licensing of Broadband Wireless Access ("BWA") services, should this be a concern for OFTA. In short, there is no reason to bundle BWA together with the issue of the Number Fee.

PCCW respectfully requests that the Subcommittee give serious consideration to the alternative proposals for the Number Fee put forward by PCCW in this letter before deciding on the way forward.

Yours sincerely,



Stuart Chiron
Director of Regulatory Affairs

APPENDIX

PCCW-HKT Telephone Limited Number Utilization

	Dec-05	Dec-06	Dec-07	May-08
Numbers Allocated				
▪ Cumulative quantity of numbers allocated from OFTA	9,500,000	9,700,000	9,800,000	9,900,000
▪ Increase in numbers allocated for each period		200,000	100,000	100,000
▪ Increase in numbers allocated from Dec-05 to May-08				400,000
Numbers Assigned				
▪ Cumulative % Numbers Assigned	69%	70%	70%	70%
▪ Numbers assigned between Dec-05 and May-08				382,231
▪ Average annual numbers assigned between Dec-05 and May-08				158,164