

**Assessment of Different  
Scenarios for Number Fee**  
June 2008




## **Objectives for Licence Fee under UCL**

- **Align level of fee for fixed and mobile services**
- **Encourage efficient use of scarce resource (such as numbers, spectrum)**
- **Be fair to all operators**
- **Recover costs of administering licences by OFTA**
- **Minimise costs of licence fee administration**



## Scenarios of Number Fee

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- 1) Charge Idle Numbers Only
  - 2) No Number Fee (with Penalty for Idle Numbers)
  - 3) Charge All Numbers (used or idle) – *Administration' Original Proposal*
  - 4) Scenario (3) with exemption of certain amount of numbers from charging



## Scenario (1) - Charge Number Fee (\$3) for Idle Numbers Only

### - Proposal :-

- ▶ Apply \$3 number fee for only those idle numbers held by an operator
- ▶ Reduced income from number fee need to be compensated by raising other fee components
  - **increase of connection fee to \$12**

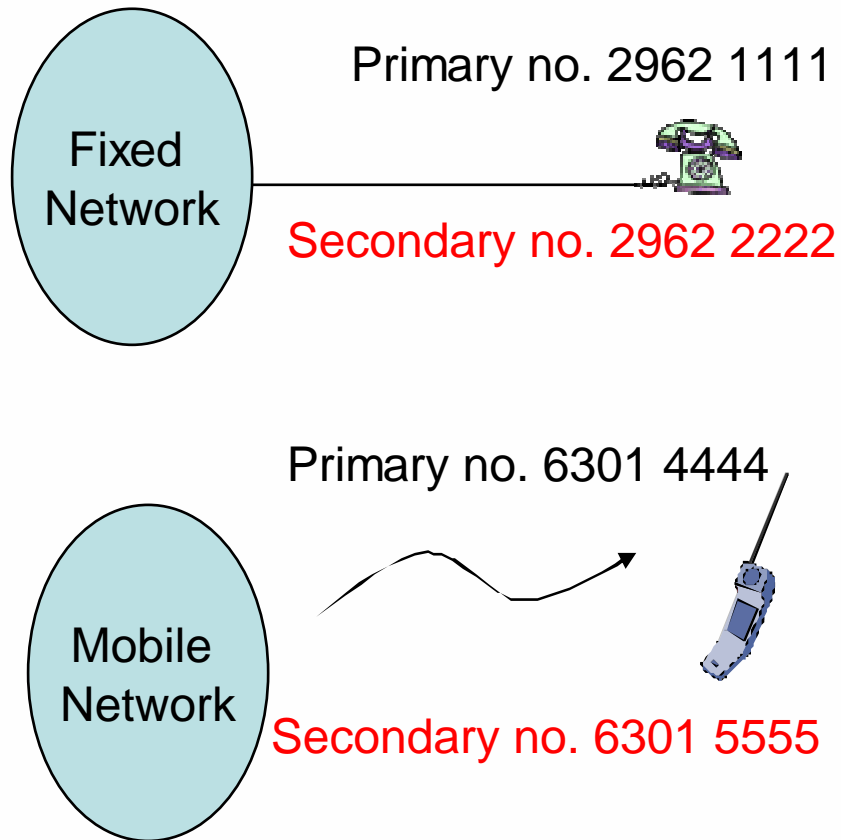


## Scenario (1) - Charge Number Fee (\$3) for Idle Numbers Only

### - Problems about “Idle Numbers”:-

- ▶ Encourage operators to assign numbers in less than disciplined manner in order to reduce / evade number fee (see examples in next 2 slides)
- ▶ More unnecessary consumption of numbers contrary to the objective of promoting efficient use of number
- ▶ OFTA has information on numbers allocated to operators only, but not their idle numbers. Cannot therefore charge idle numbers accurately
- ▶ Need a clear definition of “idle” numbers. In particular, whether the following types of numbers should be regarded as “idle” number:
  - reserved for expansion by customers (PABX users)
  - given up due to service termination and temporarily unused
  - for internal use by operators
  - for trials and testing etc
- ▶ No other jurisdiction charges fee for idle numbers only

## Inefficient Assignment of Numbers (Example 1)



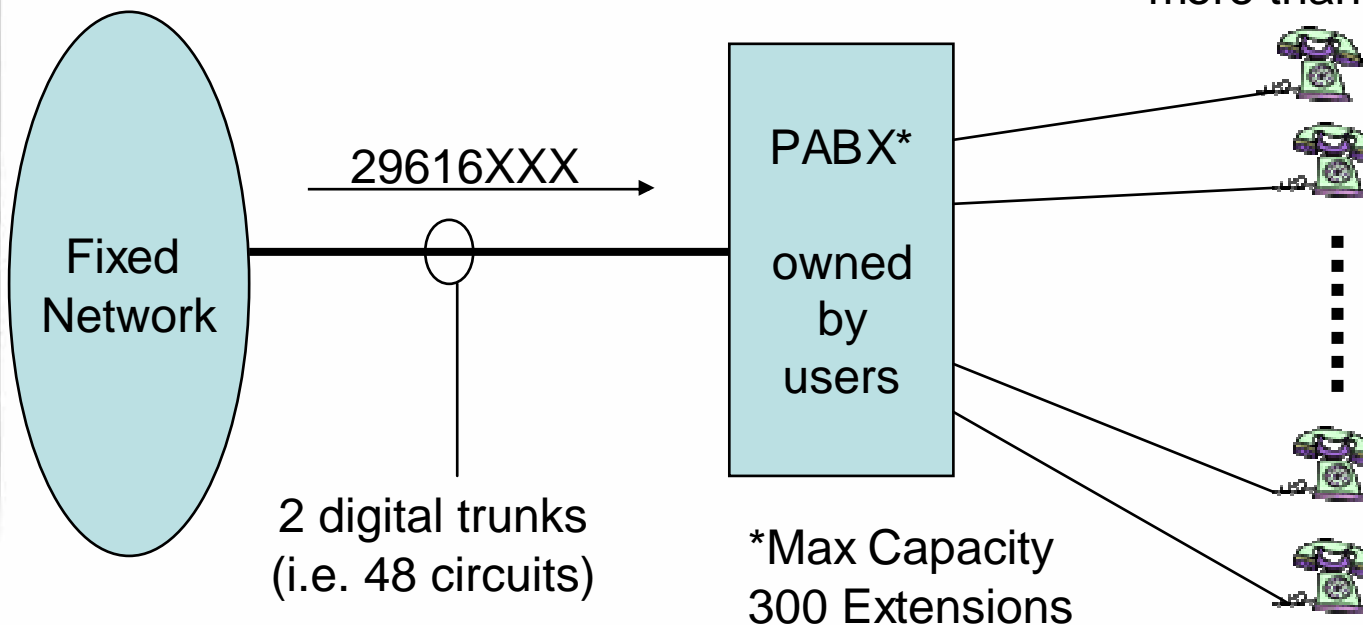
1. Temporary assignment of one or more secondary numbers to a telephone line/mobile user at no cost for a trial period to reduce quantity of idle numbers held for licence fee calculation
2. Operators may get back the secondary numbers later if end users are unwilling to pay for the service after the trial period

## Inefficient Assignment of Numbers (Example 2)

Operator may assign

- (a) 200 numbers (e.g. 29616000-29616199) to the PABX user : 30 numbers wasted; OR
- (b) 1000 numbers (e.g. 29616000-2961999) to the PABX user : **830 numbers wasted**

Total 170  
Extensions Lines  
(i.e. assign 200  
numbers to the  
PABX user is  
more than enough)







## Scenario (1) - Charge Number Fee (\$3) for Idle Numbers Only

### – Other Concerns / Considerations:-

- ▶ High administrative costs for both OFTA and operators
- ▶ Mobile operators pay more connection fee than original proposal and will object
- ▶ Need further consultation with industry and hence delay the introduction of UCL






## Scenario (2) – No Number Fee with High Penalty for Idle Numbers

### – Proposal :-

- ▶ Abolish the \$3 number fee all together
- ▶ Apply high penalty charge (much higher than \$3) for idle numbers held by an operator – not for cost recovery purpose
- ▶ Reduced income from number fee need to be compensated by raising other fee components
  - **increase of connection fee to \$15**



## Scenario (2) – No Number Fee with High Penalty for Idle Numbers

### – Concerns / Considerations:-

- ▶ Create even stronger incentive for evasion of high penalty charges by making numbers “non-idle” as far as possible. Unnecessary consumption of numbers contrary to the policy objective of efficient use of numbers
- ▶ Need a clear definition of idle numbers to avoid argument
- ▶ Higher costs of administering number fee
- ▶ Licence fees designed for collection by OFTA Trading Fund can only aim at recovering cost. Charging a penalty element in the licence fee may be subject to challenge of being ultra vires
- ▶ Mobile operators pay more than original proposal (even more than Scenario (1))
- ▶ Need further consultation with industry and hence delay the introduction of UCL



## Scenario (3) - Charge All Numbers

### – Proposal (Same as Original) :-

- ▶ Apply \$3 number fee for all numbers, whether in use or idle
- ▶ Align customer connection fee at \$8 for both fixed services (currently \$7) and mobile services (currently \$18)

### – Advantages:-

- ▶ Charge of fee for every number allocated to the licensee recognises the cost of managing numbers (same as cost of management of spectrum)
- ▶ Fair to all operators
- ▶ Charging criteria are clearly defined. Simple to administer and enforce
- ▶ Operators may reduce licence fees through return of numbers and retain quantity according to individual operator's business need
- ▶ The industry had been consulted on the fee proposal for three times (Sept 2005, July 2006 and Dec 2007) and the fee proposal was supported by Consumer Council and HKTUG (representing general consumers and corporate users) and a number of telecom licensees



## Scenario (3) - Charge All Numbers

### – Concern:-

- ▶ Number fee at \$3 is set at too low a level to deter number hoarding
  - *All commercial companies are cost conscious. Operators holding many unused numbers need to pay extra millions of dollars which could be saved.*
- ▶ Some uncertainty in income to OFTA
  - *OFTA has budgeted for a certain amount of numbers to be returned by operators and still can achieve specified rate of return*

## Licence Fees payable by operators under different scenarios (in 2010)

Scenarios	Fixed Operators*	Mobile Operators#	Total
(1) Charge idle no. only - \$3 no. fee + \$12 conn. fee	69.1M	169.8M	238.9M
(2) No number fee + penalty for idle no. - \$15 conn. fee	65.7M@	178.3M@	244.0M@
(3) Charge all numbers (Original Proposal) - \$3 no. fee + \$8 conn. Fee	76.3M	161.8M	238.1M

\* for four fixed operators with licences expiring in 2010 and to be replaced by UCLs  
 # All mobile operators are expected to have converted their licences to UCLs in 2010  
 @Penalty for idle numbers not included



## Scenario (4) – Exempt some numbers from charging

### – Proposal :-

- ▶ Based on original proposal in Scenario (3), but exempt certain percentage / amount of numbers from number fee

### – Concerns / Considerations :-

- ▶ How to ensure fairness (e.g. fixed percentage / amount or variable percentage / amount)
- ▶ Since different operators have different operational needs, it is difficult to apply an aligned and objective standard on what amount or percentage of numbers should be exempted from the number fee
- ▶ Encourage every operator to apply for free numbers even without concrete business needs
- ▶ Unlikely to have significant savings for operators



## Conclusions

- **Original proposal in Scenario (3) best meet the desired policy objectives**
- **Other alternative proposals are not feasible or worth pursuing**
- **Other scenarios may not appeal to operators**
  - ▶ Fixed operators continue to pay more than before UCL is introduced
  - ▶ Mobile operators enjoy less reduction in fee than the Administration's original proposal
- **Charging of fee or penalty for idle numbers has inherent implementation problems**
  - ▶ cannot be dealt with in the current exercise
  - ▶ need further study and consultation