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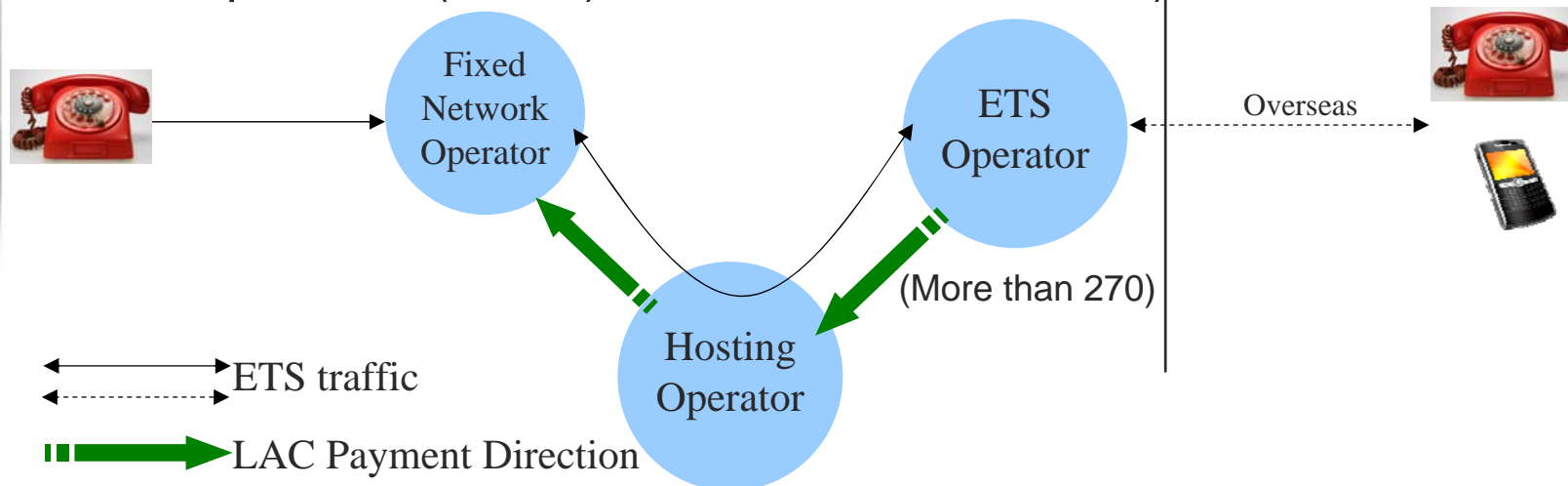
Review of Local Access Charge

**Legislative Council
Panel on Information Technology and Broadcasting**

14 June 2010

What is Local Access Charge (“LAC”)?

- An interconnection charge paid by external telecommunications service (“ETS”) operator
 - Introduced in 1999 when the ETS market was liberalised
 - To compensate local network operator for conveyance of ETS traffic (and provide incentive for fixed network operators (FNOs) to rollout their networks)



Existing LAC regime

- Regulatory regime – only regulate fixed network operators

	To PCCW	To Other FNOs	To MNOs
Obligation for ETS operators to pay LAC	Regulated	Regulated	Commercial negotiations
Level of LAC paid	Regulated	Commercial negotiations <i>(The industry make reference to PCCW's rate)</i>	Commercial negotiations

- The charge level of LAC receivable by the incumbent FNO (PCCW) was set by the Telecommunications Authority (“TA”)

Level of LAC (cents per min)	Since 28 Jun 2001
Outgoing Direct	12.1
Outgoing via Transit	10.6
Incoming Direct	12.6
Incoming via Transit	10.6

Reasons for Current Review

- To address problems arising from significant changes in technology, market and regulatory environment over the past decade
- Problems arising from technological developments
 - Fixed mobile convergence
 - Voice over Internet Protocol (“IP”) or Internet Telephony
 - Future environment of Next Generation Network (“NGN”)
- Problems arising from market and regulatory developments
 - Out-dated costing methodology (e.g. the LAC was calculated based on the then prevailing costs of the incumbent FNO)
 - Existing regime only regulates the level of LAC of the incumbent FNO
 - Asymmetric regime between FNOs and MNOs may not be conducive to the fixed mobile convergence environment

The Consultation

■ Public consultation paper issued in December 2009

- To invite views and comments from stakeholders on the way-forward
- Four options proposed reflecting different degree of regulation / deregulation
- The TA has an open mind to any one of the four options or any other option proposed by the industry

Option 1

■ To maintain status quo

- Existing problems will be unaddressed
- Not the optimal option

Status Quo	To PCCW	To Other FNOs	To MNOs
Obligation for ETS operators to pay LAC	Regulated	Regulated	Commercial negotiations
Level of LAC paid	Regulated	Commercial negotiations	Commercial negotiations

Option 2

■ To maintain the obligation to pay LAC and align regulation on FNOs and MNOs

- Align regulation between FNOs and MNOs
- ETS operators will be obliged to pay LAC to both FNOs and MNOs
- Charge level will be determined by the TA

Option 2	To PCCW	To Other FNOs	To MNOs
Obligation for ETS operators to pay LAC	Regulated	Regulated	Commercial negotiations → Regulated
Level of LAC paid	Regulated	Commercial negotiations → Regulated	Commercial negotiations → Regulated

Option 2

■ Details of the regime to be decided

- Whether the levels of LAC for the originating and terminating ETS traffic should be different?
- Whether the levels of LAC payable to FNOs and MNOs should be unified?
- Whether the LAC should be applied to Voice over Internet Protocol (VoIP) traffic?
- The settlement mechanism (which party to pay, collect and receive LAC)
- The costing methodology

Option 3

■ To maintain the obligation to pay LAC and deregulate the level of LAC

- Align regulation between FNOs and MNOs
- ETS operators will be obliged to pay LAC to both FNOs and MNOs
- The level of LAC will be subject to commercial agreements among connecting parties with reference to regulatory guidance issued by the TA
- Consistent with market driven approach

Option 3	To PCCW	To Other FNOs	To MNOs
Obligation for ETS operators to pay LAC	Regulated	Regulated	Commercial negotiations → Regulated
Level of LAC paid	Regulated → Commercial negotiations	Commercial negotiations	Commercial negotiations

Option 4

■ To deregulate fully the LAC regime

- Both obligation and level of LAC are de-regulated
- Same arrangement for both FNOs and MNOs
- Interconnection charge will be decided by the market and not regulated at all

Option 4	To PCCW	To Other FNOs	To MNOs
Obligation for ETS operators to pay LAC	Regulated → Commercial negotiations	Regulated → Commercial negotiations	Commercial negotiations
Level of LAC paid	Regulated → Commercial negotiations	Commercial negotiations	Commercial negotiations

Responses to the Consultation

- Three months consultation ended on 9 April 2010
- 11 submissions received from FNOs, MNOs and ETS operators
- Views of stakeholders are diverse
 - ETS operators consider that LAC should be abolished
 - MNOs consider that ETS operators should be required to pay to them LAC
 - FNOs have divided views, including:
 - Maintaining status quo
 - Abolishing LAC
 - Aligning LAC with interconnection charge for local value added service
 - None of the stakeholders support total deregulation

Considerations

- **Objective of review is to chart out a fair and updated regulatory regime conducive to market and technology development**
- **Considerations on the option to pursue include**
 - ongoing developments including fixed mobile convergence and new technologies
 - market-driven policy
 - potential impact on consumers and the industry
 - practicality of the transitional and implementation arrangements; and
 - views of the stakeholders and members of this Panel

Way Forward

- OFTA has an open mind and will study the views and comments received carefully
- To consider if a specific option should be pursued
- To propose detailed implementation arrangements
- To carry out a second round of consultation if necessary

Thank You !

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