

Legislative Council Panel on Information Technology and Broadcasting

**Public Consultation on
Spectrum Utilization Fee for
Spectrum Assigned Administratively**

10 Dec 2010

Radio Spectrum Policy Framework (April 2007)

- Spectrum policy: facilitate economically, socially and technically efficient use of spectrum

- Level of SUF on non-Government use of spectrum :
 - Set by **auction or other market means** (e.g. 3G services, mobile TV) or
 - Set to reflect **opportunity cost**

Studying SUF for Spectrum Assigned Administratively

- Included in the Chief Executive's Policy Agenda 2009-10 and 2010-11
- Consultant commissioned to
 - develop a generic system for setting SUF for non-Government uses of administratively assigned spectrum, and
 - give advice on implementation issues
- Consultancy report published on OFTA's web site for public information

The Scheme for Consultation

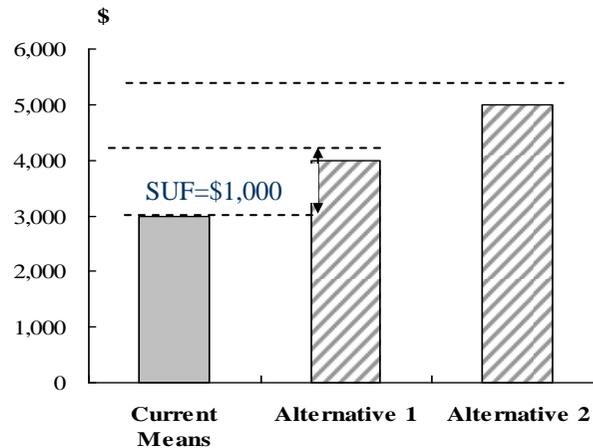
- Principles for setting SUF for administratively assigned spectrum:
 - Frequency bands proposed to be subject to SUF
 - Proposed level of SUF
- Implementation arrangements

Deciding the Bands subject to SUF

- SUF to apply to users of spectrum in bands that are congested and will become more congested
 - Over 75% occupancy at present; and
 - Demand will grow over time
- Exceptions
 - Use of spectrum with significant public interests (e.g. terrestrial broadcasting services, mobile coverage in country parks)
 - Spectrum under temporary assignment
 - Use of spectrum under a “commons approach”
(It refers to frequencies designated as a common resource which can be accessed by anyone subject to certain rules, and rely on users of a spectrum to come up with their own solutions to resolve potential interference problem, e.g. WiFi)

Setting the level of SUF

- SUF to be based on **Opportunity Cost**
 - Least Cost Alternative approach
 - To find out the costs of alternative means for providing the same service
 - SUF is set as the difference between existing cost and the cost of the lowest priced alternative



Frequency Bands Affected

- Fixed links:
 - 6440 - 7100 MHz
 - 7421 - 7900 MHz
 - 7900 - 8000 MHz
 - 8275 - 8500 MHz
 - 10700 -11700 MHz
- Electronic News Gathering/Outside Broadcast (ENG/OB) links:
 - 2055 - 2095 MHz
 - 2200 - 2290 MHz
- Satellite links:
 - 5875 - 6425 MHz
 - 6425 - 7075 MHz

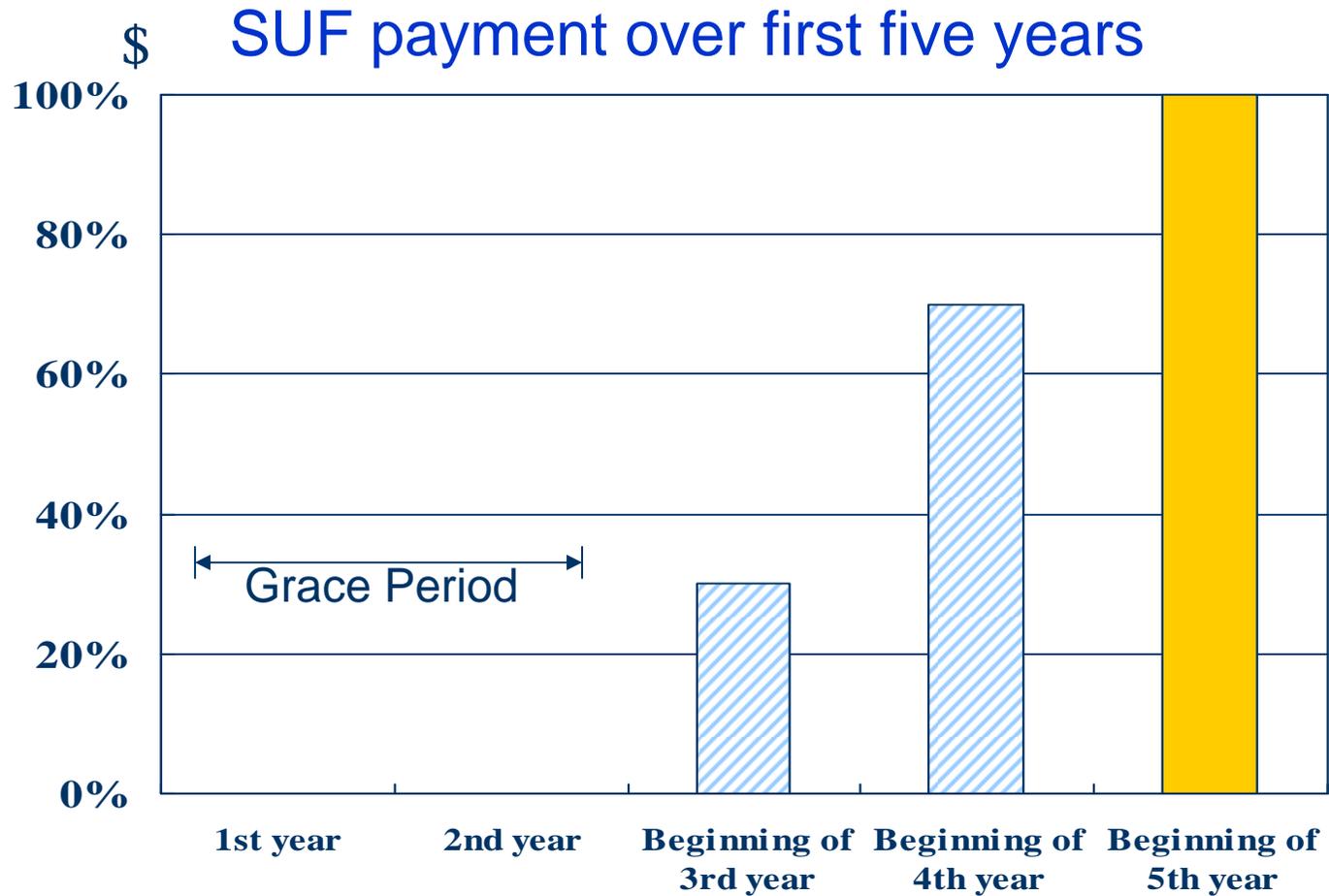
Implementation Issues (1)

- Congestion and SUF levels be reviewed every five years
 - Variations in congestion level over short term do not warrant policy change
 - Time required to undertake pricing review
- SUF to be paid annually
 - One-off charge lacks on-going incentives for efficient use of spectrum
 - Minimize impact on cash flow of spectrum users

Implementation Issues (2)

- Transitional Arrangement - Phased approach
 - Allow time for spectrum users to review spectrum usage
 - A two-year grace period during which no SUF is imposed
 - Followed by a three-year phased-in approach
 - 30% of the full SUF imposed at the beginning of third year
 - 70% in the fourth year
 - Full SUF in the fifth year and beyond

Implementation Issues (3)



Implementation Issues (4)

- Incentive scheme
 - A one-off grant serving to
 - Provide financial incentive for early return of spectrum
 - Subsidize increase in costs incurred by users in migrating to alternative means
 - Amount of grant based on actual expenditure of users on migrating to alternative means, capped by 10% of the annual SUF concerned
 - Offered only to users who return spectrum within the two-year grace period

Who will benefit?

- **Potential spectrum users**
 - SUF serves as price signal to encourage spectrum users to review their spectrum requirements from time to time
 - To avoid SUF, spectrum users are expected to make more efficient use of spectrum and return excessive spectrum to OFTA for re-assignment to potential users
- **Community as a whole**
 - Promote the use of innovative and spectrum-efficient technologies

Impact on Industry

- Our aim is to promote spectrum efficiency. We do not seek to raise revenue
- Users affected include mainly:
 - Telecommunications carrier licensees
 - Television broadcasters
 - Utility companies
 - Satellite uplink operators
- Total estimated SUF payment : around \$10M/annum (to be received in full amount in Year Five, by the General Revenue)
 - Fixed links around \$7 million
 - ENG/OB links around \$2 million
 - Satellite links around \$1 million

Impact on Consumers

- Fully payable annual SUF amount is around \$10 million , payable by 24 users, and the amount of which constitutes only a small portion of the operating expenditure of the concerned companies
- We believe that the concerned users are not likely to pass on the SUF to consumers in full
- Even if all the concerned users pass on the SUF cost in full to end consumers, the impact on them should be minimal

Way Forward

- Consultation paper released on 26 November 2010
- Views and comments by 25 February 2011
- The Administration will carefully consider submissions received in deciding on our way forward

Thank You