

LETTERHEAD OF CITY TELECOM (H.K.) LTD

2 November, 1998

Mr. M H Au
Office of the Telecommunications Authority
29/F, Wu Chung House,
213 Queen's Road East,
Wanchai,
Hong Kong.

Dear Mr. Au,

This refers to our earlier discussion on the setting of Local Access Charge (LAC). We would like to furnish further information to substantiate our claim for a lower LAC.

(a) FCC's Default Rate

The first one is on the FCC's default rate of US 0.2 - 0.4 cents per minute. To our knowledge, most of the jurisdictions in US adopted this default rate as their transport and termination rate (equivalent to the switching and transmission component in Hong Kong). Although our study was not exhaustive, the highest rate is only US\$ 0.0066. The following are the examples for your reference.

Example	Rate in US\$
(a) <i>Petition of AT&T Comminations of Cal., Inc. for Arbitration Pursuant to Section 252 of the Federal Telecommunications Act of 1996 to Establish on Interconnection Agreement with GTE Cal., Inc, Application 96-08-041</i> "Opinion Approving Arbitrated Agreement," App. A at 2 (Cal. P.U.C. Jan. 13, 1997)	0.003629
(b) <i>AT&T's Petition for Arbitration of Interconnection Rates, Terms, and Conditions with Ohio Bell, Case No. 96-752-TP-ARB, "Arbitration Panel Report," at 31 (Ohio PUC Nov. 6, 1996), affdid., "Arbitration Award," at 11-12 (Ohio PUC December 5, 1996).</i>	0.0015
(c) <i>Petition of AT&T Communications of New York for Arbitration of an Interconnection Agreement with New York Tel. Co., "Opinion and Order Resolving Arbitration Issues," at App. A (New York PSC Nov. 29, 1996).</i>	0.0066

**HONG KONG HEADQUARTERS
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(b) Local Loop

The second issue is on the local loop component. Ofta is of the opinion that the local loop component will be taken out once the rebalancing is completed on 1 January 2001. This appears that Ofta is of the same view as FCC towards the cost allocation. The traffic insensitive component should be recovered from the flat monthly service charge to end customers while the traffic sensitive component should be recovered from the usage. Otherwise, it may cause unnecessary over-compensatory to the carrier serving the end user.

Although we have different opinion, we do appreciate Ofta's effort to provide incentive to the FTNS operators to build the network infrastructure during the interim period. However, based on the above principle, the external telecom services should at most cover the shortfall between the effective flat monthly service charge and the cost of local loop prior to the completion of rebalancing. In other words, the local loop component should be 1.6 and 0.8 cent in 1999 and 2000 respectively as indicated in the following table.

Year	HkT's Price Ceiling	Shortfall of local loop cost allocated to LAC
1999	\$90	$[(110-90) \div 110] \times (4.6+1.2+3.1) = 1.6$ cent
2000	\$100	$[(110-100) \div 110] \times (4.6+1.2+3.1) = 0.8$ cent
2001	\$110	None
2002	- -	None

Ofta is moving in the right direction in liberalising the Hong Kong telecommunications industry. The setting of an appropriate LAC will be essence to the success of realising this objective. If it is set at the present proposed unreasonable high level, the industry will continue to be distorted. The only beneficiary is the incumbent carrier. The public will not benefit anything from your decision. We hope the above information will be helpful to you to make the right decision.

Yours sincerely,

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c.c. Mr. Anthony Wong, Mr. Sin Chung-kai, Legco Panel on IT & Broadcasting