

**Subcommittee on Subsidiary Legislation
to Introduce a Unified Carrier Licence under the
Telecommunications Ordinance (“Subcommittee”)**

Assessment of Different Scenarios on Charging Number Fee

At the second meeting of the Subcommittee on 14 June 2008, Members asked the Administration to consider different scenarios on charging the proposed number fee under the Unified Carrier Licence (“UCL”) as follows:

- Whether the number fee could be applied for idle numbers only
- Whether the proposed number fee could be abolished and a penalty charge to be imposed on idle numbers only
- Whether a certain amount of the number fee could be waived for all UCL licensees

2. After giving careful examination of the above scenarios, the Administration does not consider that any of these alternative proposals feasible or worth pursuing.

Apply number fee for idle numbers only

3. We are not convinced that the proposal of applying number fee for idle numbers only could achieve the policy objective of promoting the efficient use of number. On the contrary, it may encourage operators to assign numbers in a less than disciplined manner so as to reduce / evade the number fee payable, thus leading to unnecessary consumption of numbers. At present, the Office of the Telecommunications Authority (OFTA) only has information on the amount of numbers allocated to operators, but not on idle numbers held by them. OFTA therefore cannot charge number fee for idle numbers accurately. It is also difficult to define what “idle numbers” are. Whether numbers reserved for expansion by customers (such as users of private automatic branch

exchange), numbers given up by users due to service termination and cannot be immediately re-assigned to other users, or numbers for internal use by operators, for trials and testing, should be classified as “idle numbers” is subject to debate. In fact, we understand that no other administration has adopted a scheme of charging number fee for idle numbers only.

4. In addition, since OFTA would need to recover cost from the licence fees, and charging number fee on idle numbers only would reduce income for OFTA, OFTA would need to raise the level of other fee components like the customer connection fee in order to compensate for the shortfall of income so as to achieve “revenue neutral”. Based on our initial assessment, the customer connection fee has to be increased up to \$12 per connection so as to maintain the same level of revenue. As a result, there will be adverse impact on some operators (the mobile network operators in general) as compared with the original proposal of the Administration.

Abolish the proposed number fee and impose a penalty charge on idle numbers only

5. With the imposition of a penalty charge on idle numbers only, operators would seek to keep the numbers “not idle” so as to avoid the penalty. Licence fee designed for collection by the OFTA Trading Fund could only aim at recovering cost. Charging a penalty element in the licence fee may be subject to challenge of being *ultra vires*. It is therefore not feasible to amend the proposed subsidiary legislation to introduce a penalty charge on idle numbers.

6. Apart from the above, if the proposed number fee is abolished, the reduced income to OFTA would be even greater than charging idle numbers only. Based on our initial assessment, the customer connection fee has to be increased up to \$15 per connection so as to maintain the same level of revenue. The adverse impact on some operators (the mobile network operators in general) will be even greater as compared with the original proposal of the Administration.

7. A comparison of the licence fee payable by operators under the different scenarios is given in Table 1 below. It should be noted that the industry has been consulted on the fee proposal for three times (September 2005, July 2006 and December 2007) and the current fee proposal is supported by the Consumer Council, the Hong Kong Telecommunications Users Group (representing general consumers and corporate users) and a number of telecommunications operators. We do not see any compelling reason why the number fee proposal should be abolished. Any material change to the proposed fee structure should be subject to public consultation, thereby affecting the plan for introducing the UCL in August 2008 for licensing the Broadband Wireless Access services scheduled for the fourth quarter of 2008.

Table 1: Estimated licence fee payable by operators under different scenarios (in 2010)*

Scenarios for Licence Fee	Fixed Operators# (\$million)	Mobile Operators (\$million)	Total (\$million)
Charge all numbers (Original Proposal)	76.3	161.8	238.1
Charge idle numbers only	69.1	169.8	238.9
No number fee and penalty imposed on idle numbers	65.7@	178.3@	244.0@

* The comparison is for the year 2010 when the major operators are expected to have taken up UCL.

For four fixed operators with licences expiring in 2010 and to be replaced by UCLs

@ Penalty for idle number not included

Waive a certain amount of the number fee

8. There was also discussion as to whether a certain amount of the number fee could be waived for all UCL licensees. 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. To ensure a level playing field, the OFTA cannot negotiate with individual operator on the amount of telephone numbers the number fee of which can be waived. Furthermore, this proposal would not help to promote the policy objective

of encouraging more efficient use of numbers. Operators may take the waiver advantage and apply for the exempted amount of numbers, irrespective of whether there is actual operational need for these numbers, which could be kept by the operators at no cost.

Communications and Technology Branch
Commerce and Economic Development Bureau
June 2008

**Number of Telephone Numbers Allocated to Fixed Operators
(2005-2008)**

<u>Operator</u>	<u>March 2005</u>		<u>March 2006</u>		<u>March 2007</u>		<u>April 2008</u>	
PCCW-HKT Limited	9,700,000	72.12%	10,000,000	70.67%	10,100,000	69.90%	10,300,000	68.90%
Wharf T&T Limited	1,100,000	8.18%	1,300,000	9.19%	1,450,000	10.03%	1,550,000	10.37%
Hutchison Global Communications Limited	950,000	7.06%	1,050,000	7.42%	1,050,000	7.27%	1,200,000	8.03%
Hong Kong Broadband Network Limited	750,000	5.58%	850,000	6.01%	850,000	5.88%	900,000	6.02%
New World Telecommunications Limited	600,000	4.46%	600,000	4.24%	650,000	4.50%	650,000	4.35%
CM Tel (HK) Limited	100,000	0.74%	100,000	0.71%	100,000	0.69%	100,000	0.67%
HKC Netwok Limited	100,000	0.74%	100,000	0.71%	100,000	0.69%	100,000	0.67%
SmarTone Communications Limited	100,000	0.74%	100,000	0.71%	100,000	0.69%	100,000	0.67%
Hong Kong Cable Television Limited	50,000	0.37%	50,000	0.35%	50,000	0.35%	50,000	0.33%
Total	13,450,000	100.00%	14,150,000	100.00%	14,450,000	100.00%	14,950,000	100.00%

**Number of Telephone Numbers Allocated to Mobile Operators
(2005-2008)**

<u>Operator</u>	<u>March 2005</u>		<u>March 2006</u>		<u>March 2007</u>		<u>April 2008</u>	
Hutchison Telephone Company Limited	3,500,000	25.64%	3,500,000	24.14%	3,600,000	22.36%	3,700,000	20.90%
China Mobile Peoples Telephone Company Limited	1,600,000	11.72%	2,000,000	13.79%	2,600,000	16.15%	3,200,000	18.08%
Hong Kong CSL Limited	2,050,000	15.02%	2,200,000	15.17%	2,300,000	14.29%	2,600,000	14.69%
Smartone Mobile Communications Limited	2,200,000	16.12%	2,200,000	15.17%	2,200,000	13.66%	2,300,000	12.99%
New World PCS Limited	2,000,000	14.65%	2,000,000	13.79%	2,100,000	13.04%	2,100,000	11.86%
PCCW Mobile HK Limited	1,300,000	9.52%	1,400,000	9.66%	1,700,000	10.56%	1,900,000	10.73%
Mobile Virtual Network Operators	1,000,000	7.33%	1,200,000	8.28%	1,600,000	9.93%	1,900,000	10.72%
Total	13,650,000	100.00%	14,500,000	100.00%	16,100,000	100.00%	17,700,000	100.00%