

Summary of Minutes of the 83rd Interconnection Committee Meeting

Date and time: Tuesday, November 14, 2006 13:00–15:30

Location: First Special Conference Room, MIC

Attendees: Interconnection Committee - Mr. Toukai, Committee Chair; Mr. Sakai, Deputy Chair; Mr. Aida, committee member; Mr. Sato, committee member; Mr. Fujiwara, committee member

MIC - Mr. Sakurai, Director-General of the Telecommunications Business Department; Mr. Taniwaki, Director of the Tariff Division; Mr. Ninomiya, Senior Planning Officer of the Tariff Division; Mr. Katagiri, Deputy Director of the Tariff Division; Mr. Yokote, Deputy Director of the Tariff Division; Secretary

【Summary of Agenda Items】

1. Authorization of changes to an interconnection tariff concerning Category 1 designated telecommunications facilities of NTT East Corp. (addition of functions of information disclosure system on estimated construction work period for fiber-optic subscriber local loop)

- MIC explained an outline of the proposed changes to interconnection tariffs and the draft report to the Telecommunications Business Division of the Information and Communications Council. Deliberations followed.
- As a result, the draft report was approved for submission to the Telecommunications Business Division without change.

2. "New Competition Promotion Program 2010"

- MIC explained the program and provided a questions-and-answers session.

3. Preparation of interconnection rules pertaining to revision of collocation rules

- MIC explained the topics that MIC had asked the committee to deliberate on and free discussions followed.
- The committee decided that it would jointly hold a carriers hearing at the next meeting with the Telecommunications Business Division at 13:00 on November 30.

【Discussion Details】

1. Authorization of changes to an interconnection tariff concerning Category 1 designated telecommunications facilities of NTT East Corp. (addition of functions of information disclosure system on estimated construction work period for fiber-optic subscriber local loop)

Mr. Sakai, committee member: Do consumers pay a total of basic plus additional charges when using a shared access method?

MIC: That is correct. In the case of the shared access method, as the system adopts a mechanism that displays information on an estimated construction period if a consumer used a single star method in conjunction with the information for the shared access method, the system works that way.

2. "New Competition Promotion Program 2010"

Mr. Toukai, Committee Chair: What organizational approach is MIC taking to address problems about the LRIC method at the moment?

MIC: MIC plans to start this month to study the problems in the Study Group on LRIC Mode. MIC plans to ask the Information and Communications Council to deliberate on them again in light of the results from the Study Group.

Mr. Toukai, Committee Chair: Did MIC make such plans while bearing in mind the argument that interconnections charges should be calculated with an LRIC model by the year 2010 in the Study Group on a Framework for Competition Rules to Address the Transition to IP Based Networks?

MIC: That is correct. MIC intends to ask the Information and Communications Council to deliberate on the problems in a way that the current LRIC model should be basically maintained by 2010 as stated in New Competition Promotion Program 2010.

Mr. Sato, committee member: Does page 7 show a summary of successive reform measures or list certain objectives?

MIC: It is no more and no less than a summary of ideas. We intend to implement each idea in line with current systems in practice.

3. Preparation of interconnection rules pertaining to revision of collocation rules

I: Overview

Mr. Fujiwara, committee member: The "New Competition Promotion Program 2010" includes a review of the current dominant carrier regulations. Will this committee not discuss it?

Mr. Toukai, Committee Chair: We need to decide what we should do by looking at the entire trend in this area.

II: Issues related to interconnection

Mr. Sato, committee member: I think stack tests are important from the viewpoint of pro-competition policy. It is necessary to check the validity of interconnection charges and retail prices.

Mr. Toukai, Committee Chair: Does MIC intend to include stack tests in the interconnection rules and also define the means to make them a part of the regular systems?

MIC: Currently, stack tests are performed based on the Guidelines and the Telecommunications Business Law, but what MIC intends to do is based on the idea that it is desirable to stipulate them in the interconnection rules from the viewpoint of the transparency of the regulations. We will also review stack tests per se.

Mr. Sato, committee member: There is a possibility that the current system allows operating costs to be spent on technical items.

Mr. Toukai, Committee Chair: How is the operating cost calculated?

MIC: We regard the operating cost amount as equal to the user rate minus the interconnection charge and check the validity of it.

Mr. Toukai, committee member: Does MIC not calculate it by prorating actual amounts?

MIC: No. MIC does not prorate the amounts.

Mr. Fujiwara, committee member: I think including the implementation of stack tests into the regulations themselves is an issue we should discuss. Even if stack tests should be stipulated in the interconnection charge rules, a new problem of when the approval of an interconnection charge can be denied would occur.

MIC: Stack tests legally base their implementation on the provision "The interconnection charges shall be fair and justifiable ..." in Article 33 Paragraph (4) Particular ii) of the Telecommunications Business Law.

This inquiry is intended to help secure the transparency of the regulations.

Mr. Fujiwara, committee member: Has MIC taken actions such as issuing change orders for interconnection charge tariffs based on the results of stack tests?

MIC: MIC has never judged in the past that the results of stack tests are "wrong." Consequently, MIC has never taken actions such as issuing change orders based on the results of stack tests.

Mr. Sato, committee member: I think that we should discuss the issue of review on post-settlement systems on the assumption that the predictability of interconnection charges will improve. However, 100% guaranteed investments are impossible in any businesses. If investments should be fully guaranteed, rates-of-return should be made risk-free rates or a mechanism that provides cost reduction incentives should be implemented because incentives to reduce costs have disappeared due to the full return of investments. We need to discuss such measures while striking a good balance among the stakeholders.

Mr. Toukai, Committee Chair: if we calculate interconnection charges based on the performance data in this fiscal year, there is no way we can return the full costs unless a settlement system is established. On the other hand, mechanisms for deciding rates based on past performance under certain assumptions have been settled in Japan. If the actual data is far different from the assumed figures, then an issue of too much profit or loss will occur. I think it would be right that we should discuss what we should do about it, but we must break away a little from thinking that the interconnection charge rules should be modified so that full investment in this fiscal year may be guaranteed.

Mr. Fujiwara, committee member: There are no other industries that adopt settlement or recalculation processes.

Mr. Sato, committee member: I assume one reason why a settlement process is not generally adopted in other industries is that it would take time and labor and need to harmonize differing interests to use estimated demand or perform retroactive cost settlements.

III: Issues related to collocation

Mr. Sato, committee member: One of major principles in interconnection is that once a customer applies for connection to a carrier, the carrier must offer it unless it can prove that it is impossible to provide the service due to technical or economic reasons. In this sense, I believe it is somewhat erroneous for us to think of the following two

facts in a similar way: One is that the same services can be provided if WDM equipment is installed; and the other is that a carrier lay down new optical fiber cables. From the principles of interconnection rules, I think that carriers must basically provide connections. And, if NTT East and NTT West developed their investment plans only based on demand for their services, these problems may occur. For that reason, we need to discuss this matter, including an argument that if other carriers need optical fibers to fairly compete with NTT, NTT's investment plans should include such demand.

Mr. Sakai, Deputy Chair: How much does it cost carriers to install WDM equipment?

MIC: It will cost carriers several million yen to tens of million yen to install a pair of WDM devices, depending on the carrier. If the distance over which optical fiber is used is shorter, the cost will be higher than that of relay dark fiber. If the distance is longer, the reverse is true. Assuming that only those users that actually use a particular segment bear the cost, then, generally, it would be comparatively higher.

Mr. Sakai, Deputy Chair: Will interconnection carriers not request the installation of WDM equipment if relay dark fiber includes free spaces?

MIC: Perhaps not.

Mr. Aida, committee member: Can the current interconnection rules order NTT to install relay dark fiber if there are no free spaces in core lines?

MIC: According to the current interconnection tariffs, NTT East and NTT West do not assume such responsibilities.

Mr. Sato, committee member: Although there is an issue of cost sharing, I think basically WDM equipment should be set up.

Mr. Toukai, committee member: Is WDM equipment generally being used?

MIC: Yes, it is. Such equipment is used, for example, when improving transmission volumes of optical lines or providing video delivery services with Internet connection service over the same optical fiber cable.

Mr. Toukai, committee member: Like the case we are considering, is the configuration for using WDM equipment, such as that operated by NTT East and NTT West, providing one core line to more than one carrier by using WDM equipment?

MIC: No. WDM equipment has never been operated in such configurations.

Mr. Sato, committee member: There is still an issue of whether or not the case where WDM equipment is used and the one where one whole core is used should be treated as the same menus.

Mr. Aida, committee member: I would like to get data on utility-pole collocation, especially, on the current status of how lines are laid out on utility-poles. I think that

one of the important requirements for approving collocation is whether or not a target is essential for collocation. We should deliberate on this point again.

MIC: We should provide an opportunity for deliberating on the matter. Having said that, we can regard utility poles as being essential for collocation because it is almost impossible to construct new utility poles.

Mr. Sato, committee member: I think a study on the mandatory installation of WDM equipment is a policy in line with the purpose of the promotion of optical-fiber-based networks. In addition, we need to think over this matter by separating the argument into two parts: One argument concerns whether it is appropriate that MIC requires carriers to lay down new facilities with one of the interconnection rules; and another argument is whether this installation of WDM equipment can really be regarded as an installation of a new facility. It is also important to study utility-pole collocation in the future while competition is progressing closer to users, from switches to local loops and even from local loops to sub-loops. Note that collocation is being discussed in foreign countries, such as the US, on the assumption that utility-poles are close to essential facilities and discussions over utility-pole collocation will be important if competition becomes fiercer in sub-loops. As far as this matter is concerned, I think, in principle, NTT East and NTT West should develop a solution on issues such as how to share cost and then lease free core lines. Note that we need to carefully study the handling of power poles.

Mr. Toukai, Committee Chair: It states "...cannot be said to be essential but it is reasonable to specify" We need to think again about the definition of "essential" in the first place. By the way, should we discuss all of these arguments in the Interconnection Committee?

MIC: To make anything into an interconnection rule, MIC must ask the Interconnection Committee to discuss the matter, because the laws and regulations—such as the Regulations for Enforcement of the Telecommunications Business Law—must be amended. Note that there may be other means, such as the Telecommunications Business Dispute Settlement Commission, through which carriers can voluntarily settle disputes between them.

Mr. Sato, committee member: Essential facilities for collocation are targets to be opened to other carriers. There are several arguments or questions about collocation. For example, how should we treat collocation facilities that have no free spaces? Central office spaces are not essential but reasonable. There are some wordings or terms whose meanings are ambiguous. For example, what is mandatory collocation? I think we must fully discuss with NTT the collocation objects that NTT are required to open,

not the definition of essentiality.

IV: Other issues

Mr. Sato, committee member: First of all, we must summarize examples that show how much trouble interconnection carriers have been facing in competition because NTT East and NTT West fail to perform indoor wiring work. In addition, MIC must approach this matter not from the viewpoint of essentiality but by ensuring the equality of competition. Next, I don't understand the nominal person problems. All we have to do to resolve the problem is to improve the relevant systems or the problems that are occurring in confirming line owners when applying for DSL services. Which case is true? Regarding problems with debt defaults for interconnection charges, since we always have many instances of failure to collect debts, we do not need to protect the entire interconnection charge with deposits. I think, however, we should take some measures to reduce risk by sharing it among carriers.

Mr. Sakai, Deputy Chair: Is it possible for interconnection carriers to perform all wiring work from down-leads to indoor wiring?

MIC: It would be possible if interconnection carriers drew down-leads by themselves. But, it is quite difficult to draw them on their own at this point in time, so we only know of a few cases. In reality, it is virtually only carriers that use interconnection menus.

Mr. Sakai, Deputy Chair: All we have to do to resolve the nominal person problems is just to clean them up legally.

Mr. Fujiwara: Indoor wiring work is simpler. The problem seems to be simply resolved by other carriers' contracting out the work to NTT. Why can the problem of indoor wiring not be settled through consultations between carriers? I think it would be better to build a mechanism that releases NTT from its responsibilities through a more flexible approach to the matter of line owners.

Mr. Toukai, Committee Chair: The argument in today's meeting highlights how essentiality can be defined. In addition, I think it would be sufficient for us to return our attention to the issue of what are the "charges" in interconnection charges, and comment on the details of problems and issues such as the settlement issue while clarifying the concept of "appropriate cost."

(End)