

Summary of Minutes of the 84th Interconnection Committee Meeting

Date and time: Monday, December 18, 2006 16:30–18:30

Location: Common Conference Room No. 4, 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 interconnection tariffs concerning Category I designated telecommunications facilities of NTT East and NTT West (addition of additional charges pertaining to cost sharing for Universal Service Fund)

- MIC explained the 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 committee modified the wordings in the draft report and the examined results based on its deliberation, and agreed to report them to the Telecommunications Business Division as the deliberation results of this committee. Then, the committee decided to leave what would be included in the draft report and others concerning it to the discretion of Mr. Toukai, Committee Chair.

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

- MIC explained what MIC asked the committee to deliberate on and deliberations followed.
- As a result, the Secretary (MIC) made an announcement to the effect that this would be carried over to the next consultation that would be held at 16:00 on December 22.

[Discussion Details]

1. Authorization of changes to interconnection tariffs concerning Category I designated telecommunications facilities of NTT East and NTT West (addition of additional charges pertaining to cost sharing for Universal Service Fund)

Mr. Toukai, Committee Chair: Can we regard these changes to the interconnection tariffs as an issue due to the result from the fact that the contributions of the Universal Service Fund system have begun to be a reality?

MIC: Yes.

Mr. Sakai, Deputy Chair: For example, think about telephone numbers assigned to a PHS base station line. If a carrier has been allotted the telephone numbers and provides a service with them, the carrier does not charge users who use the service. For this reason, must their interconnection tariffs be changed this way when everything has been sorted out to be consistent with the Universal Service Fund system?

MIC: That is correct.

Mr. Fujiwara, committee member: Although the contributions should not be treated as interconnection charges because of their nature, do they try to use this kind of a convenient alternative because it is most appropriate to collect them as interconnection charges?

MIC: Basically, Mr. Fujiwara is right.

Mr. Fujiwara, committee member: In that sense, I do not think that the approach described in Item 17 of the examined results falls under the jurisdiction of the Interconnection Committee. In a word, it does not fall in the scope of examination items in the examination standards, does it?

MIC: If it is decided at all that a contribution is listed as the amount of a charge in an interconnection tariff, it must be defined in the interconnection tariff. Consequently, since it is classified as an interconnection charge, MIC has examined it in Item 17 "Price Calculation" in the examined results. Of course, it requires a special permission stipulated in Article 3 of the Rules for Interconnection Charges before it is approved.

Mr. Fujiwara, committee member: I do not think what MIC has just explained does not fall within the scope of existing examination item 17. In short, I am saying that it is irrational for us to judge based on Item 17 of the examined results whether or not it is right to include this kind of an interconnection charge in an interconnection tariff.

Mr. Sato, committee member: It is an issue to be discussed in the Interconnection Committee whether calculation of interconnection charges is proper or not. But, I wonder if only deliberations in the Committee can decide whether what is not classified as an interconnection charge in its nature can be collected as such. Returning to the issue of the Universal Service Fund system, I could not determine whether that should be discussed in the Interconnection Committee or somewhere else.

Mr. Toukai, Committee Chair: Since they applied for changes to their interconnection tariffs for approval, it is the Interconnection Committee that deliberates on the applications. Having said that, as other members have just mentioned, I think that the point is whether they can be adjusted in the Universal Service Fund system or not.

Mr. Sakai, Deputy Chair: Users are not necessarily allocated to the numbers even if they are 0AB to J numbers for PHS base station lines. For this reason, we could consider an alternative of excluding them from the phone numbers under the Universal Service Fund system.

MIC: Assuming the current ministerial ordinances, it is difficult to adjust them within the Universal Service Fund system. To find a solution to them within the Universal Service Fund system, there are no other ways but to review the relevant ministerial ordinances.

Mr. Toukai, Committee Chair: May I propose that this Committee will judge the soundness of their applications on the assumption that the Committee will treat them in the scope of interconnection tariffs, and turn to the Telecommunications Business Division for judgment of the soundness of whether what is related to the Universal Service Fund system in its nature should be treated within an interconnection tariff. At the same time, I would like MIC to rewrite the content of Item 17 in the examined results.

MIC: MIC will modify the draft report as the member just pointed out.

Mr. Toukai, Committee Chair: Assuming our current arguments, may I ask your comments on the validity of the calculation of the interconnection charges?

Mr. Sato, committee member: Is the number of public telephones decreasing?

MIC: The number of public telephones per se is decreasing, but the standard number of Type I public telephone sets to which the Universal Service Fund system applies remains the same.

Mr. Toukai, Committee Chair: Then, the committee will modify the wordings in the draft report and the examined results based on its deliberations, and agree to report them to the Telecommunications Business Division as the deliberation results of this committee.

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

I: Stack test

Mr. Sato, committee member: This consultation started with regarding the status of wholesale prices and interconnection charges being reversed as absurd. From the viewpoint of the pro-competitive measures, I think that the direction per se of incorporating stack tests as rules into the Rules for Interconnection Charges is appropriate. It is slightly difficult to operate them in the Rules for Interconnection Charges. How to classify services will determine whether wholesale prices and interconnection charges will be reversed or not. It is necessary to develop appropriate test units on which stack tests should be operated as we observe real data for a few years by assigning some figures to each test unit.

In addition, we need to consider stack tests from the viewpoint of time passage. To understand what point in time when wholesale prices and interconnection charges begin to be reversed and how much duration of time period during which they are kept reversed will pose a problem, we need to look at data in the market.

Transparency of stack tests is also important. At the same time, we must clarify the transparency of stack tests: Is it for rivals, does it mean the transparency of procedures with which MIC must perform stack tests, or is it for whom and for what? In addition, stack tests need to have as high transparency as possible, but we must consider it a little more carefully because too much transparency could cause a problem to the strategies of NTT East and NTT West.

Mr. Toukai, Committee Chair: In fact, stack tests were started with political considerations. Stack tests are positioned as what validates interconnection charges.

Mr. Sakai, Deputy Chair: If interconnection accounting functions properly and a stack test reveals that a wholesale price and an interconnection charge are reversed in a use department, it should be regarded as a matter of accounting in the use department and it has nothing at all to do with arguments of interconnection charges. Can we understand that the intention is that stack tests should be simultaneously used because the current transparency of interconnection accounting has to be improved yet?

Mr. Toukai, Committee Chair: Basically, that is correct. Note that currently, a study group concerning accounting systems has been started and one of its agenda is to discuss as one of the moot points how the current accounting system can be changed in relation to stack tests.

Mr. Fujiwara, committee member: There is nothing wrong with stack tests themselves. When including them as a principle for setting interconnection charges in the Rules for Interconnection Charges, we will face the issues of operation, how to judge when a wholesale price and an interconnection charge are reversed, and even interconnection accounting. In this sense, it would be better not to turn stack tests to rules without proper rationale but to follow other means such as operating the current stack tests with the purport of what Mr. Sato pointed out without making them a matter of laws or cabinet or ministerial ordinances. I am not opposed to performing stack tests in itself, but I think it is still premature to turn them to exact rules.

Mr. Sato, committee member: I do not think it necessary to convert them to exact rules, but turning them to certain rules in advance would be also better for those who design interconnection charges.

Mr. Fujiwara, committee member: When they apply for approval for interconnection charges, the interconnection charges will be only estimates. It must be acknowledged that the meaning of stack tests can be found in the review per se of interconnection charges after they are put into force. Having said that, we need to consider how they will be incorporated into articles. The current articles include a provision that interconnection charges shall be fair and justifiable.

Mr. Sato, committee member: I would imagine that they should be incorporated as one of the interconnection charge principles into the current articles on a temporary basis, and they will be streamlined some other time when the necessity arises.

Mr. Toukai, Committee Chair: Is a stack test or stack tests performed in every fiscal year for which a

stack test interconnection accounting report is announced in the current mode of operation?

MIC: Yes.

Mr. Toukai, Committee Chair: When does MIC perform stack tests?

MIC: MIC reports the results to an interconnection committee concerning annual recalculation of interconnection charges based on a real cost approach. In addition, a stack test is supposed to be performed when a new service is installed.

Mr. Toukai, Committee Chair: The moot points are whether the current static tests are converted to rules and incorporated into the Rules for Interconnection Charges and how they should be stipulated in the Rules.

Mr. Sato, committee member: I remember that we verified what operation costs were like by examining data related to operation costs from NCC (New Common Carrier) companies when we discussed interconnection charges several years ago. I also remember that we recognized that interconnection charges would substantially fluctuate depending how we classified services.

Mr. Toukai, Committee Chair: The committee members share the common understanding of the need that relationships between wholesale prices and retail prices must be validated. When stack tests are incorporated into the Rules for Interconnection Charges as a system, the content of the system will matter.

Mr. Sato, committee member: What will stack tests be like when they have been converted to rules?

MIC: Even if they are included in the Rules for Interconnection Charges, they will not drastically change from the current stack tests basically. Rather, for example, a statement such as "the level of any interconnection charge shall be set to be reasonable" will be included as one of principles to be used when setting interconnection charges, and the current stack tests will be used to judge whether the set interconnection charge is reasonable. That is a picture MIC envisages now about what stack tests will become.

Mr. Toukai, Committee Chair: When interconnection charges and user prices are reversed, NTT East and NTT West shall be required to provide proper explanations. That is the appropriate operation.

MIC: The current stack tests are positioned as judgment standards used when issuing an order for change to an interconnection tariff. MIC thinks that establishing a firm foundation for stack tests in the Rules for Interconnection Charges will lead to ensuring transparency in the system operation. However, MIC does not intend to describe the firm foundation in an exact way, but it is one way to prevent the arbitrariness in administration by establishing a guideline for the operation of the stack tests.

Mr. Toukai, Committee Chair: I assume that MIC intends to treat the details of stack tests in the form of a guideline.

MIC: That is correct.

Mr. Toukai, Committee Chair: As for the reference document Mr. Sato pointed out previously, I would like MIC to prepare it in the next Interconnection Committee meeting.

MIC: Understood.

II: Time-lag settlement

Mr. Sakai, Deputy Chair: Suppose that we adopt proposition (i). Then, will NTT East and NTT West not have to pay to their interconnection carriers the amount of settlement that they are now paying in the time-lag settlement scheme?

MIC: That is correct.

Mr. Sakai, Deputy Chair: If we accept proposition (iii), will they have to pay this amount?

MIC: As the time-lag settlement is a one-half settlement scheme, proposition (iii) means that NTT East and NTT West will have to pay double.

Mr. Toukai, Committee Chair: As interconnection charges cannot be determined by the time when a carrier starts a lag-time settlement process for them, lag-time settlement could be regarded as an inappropriate approach in terms of a management policy for carriers and should be avoided

whenever possible. As an extreme case, I said in the previous meeting that the direction of an argument that interconnection charges should be fixed at a point in time in an appropriate fiscal year that was explained in proposition (i) was good. Taking into consideration the point specific to interconnection charges that there are competitive relationships between those that set interconnection charges and those that pay them, however, we cannot adopt proposition (i) after abolishing the current post-settlement scheme. As proposition (ii) includes a serious problem of considering estimate processes, I think that proposition (iii) will be the best.

Mr. Sakai, Deputy Chair: Looking at the past settlement examples, proposition (i) seems the best for NTT East and NTT West, but they submitted an opinion that they are for proposition (iii). In a word, I presume that carriers are determined to avoid adopting any unfair settlement systems.

Mr. Toukai, Committee Chair: The fairest system would be that an interconnection charge for use in this fiscal year could be determined in the same year.

Mr. Sakai Deputy Chair: Since it seems impossible, proposition (iii) would be fair in the long run. I presume the reason why many members are for proposition (iii), including NTT East and NTT West, may be that fair proposition (iii) is comparatively safe if we neglect a nonbinding target of a one-half settlement process.

Mr. Toukai, Committee Chair: If an interconnection charge is included as the one in a new fiscal year, it will be not a settlement item, but the interconnect charge cost in the year. Do we have to switch our perception?

MIC: That is correct.

Mr. Sato, committee member: One point about this inquiry is that we can return as much investment cost as possible and another is an issue of economical incentive schemes. Basically, we need to include an incentive scheme in regulations. One of the arguments about this is how much incentive effect has been working in the past with a one-half settlement scheme. On the contrary, if investment cost could be recovered as fully as possible, it would be logically possible to change an investment cost that includes risk to a risk-free rate.

MIC: MIC presumes that the current mechanism was adopted with a great emphasis on an incentive scheme when design interconnection charges. The current moot point is whether we must focus on the standpoint of eliminating contradictions in interconnection charges so that they may be competition-neutral or the standpoint of incentive programs.

III: Handling relay dark fiber

Mr. Sakai, Deputy Chair: It costs approximately 10 to 20 million yen to install WDM equipment. This means that if the distance over which dark fiber is installed is short, the cost will be relatively high. I presume that installing WDM equipment lead to raising interconnection charges.

MIC: Looking at the cost for each segment, it is certainly relatively high. WDM equipment, however, is installed only on some segments of the whole, and MIC presumes what percent of the whole the cost accounts for is not higher than we expect.

Mr. Sakai, Deputy Chair: I expect that a moot point when installing WDM equipment will be whether cost must be recovered from an interconnection carrier that wishes to install it or all interconnection carriers concerned will bear the cost by imposing it to the whole interconnection charge.

Mr. Sato, committee member: If interconnection carriers wish to use WDM equipment, is there any tendency for relay dark fiber such as having longer segments?

MIC: No. MIC does not have any knowledge of it.

Mr. Aida, committee member: We could determine the usage status of relay dark fiber if we had statistical data that can be used as samples. For example, think about a location that has no free spaces for dark fiber. It is likely that the location lacks spaces for a central office in the first place. Then, it is difficult to install WDM equipment to it.

Mr. Toukai, committee member: I can understand a concept of "building networks under conditions comparable to those for NTT East and NTT West." We, however, need to examine the reality of

how much need interconnection carriers have for WDM equipment, whether or not solutions to the status of occupying much relay dark fiber in spite of weak necessity can be worked out, and so on. Can MIC present any documents in the next Interconnection Committee meeting?

MIC: It is difficult to track all relevant documents, but possible to present some specific examples. MIC will consider it.

IV. Handling central office spaces

Mr. Sato, committee member: I remember that arguments at the time of creating the collocation rules came down to a conclusion that as businesses could not get off the ground in exiting environment unless interconnection carriers were connected to central offices of NTT East or NTT West, the facilities of NTT East and NTT West would be used up to the first utility holes and the facilities of interconnection carriers could be connected to those in a central office from there. When I had discussions with NTT East and NTT West and interconnection carriers in a Competition Evaluation Advisory Board meeting last year, I heard them say that collocation and power supply systems cause bottlenecks. Then, NTT East and NTT West said that they would positively respond to bottlenecks caused by collocation. Considering that resources are getting scarcer, including those interconnection carriers hold, I hope that exact rules should be established and the resources should be effectively used based on them. It must be acknowledged that the considerable number of individual disputes have already occurred. I hope that we will discuss the matter based on the standpoints I just explained. Did anybody mention power supply systems?

MIC: KDDI submitted a request as an opinion for the public comment. In addition, eAccess Ltd. and ACCA Networks Co., Ltd. submitted opinions that voiced concern about opacity of price calculation.

Mr. Sato, committee member: In addition to the issue of resource allotment, we have an issue of cost sharing. This comes down to an issue of who bears cost that will be generated due to the necessity when a new power supply system needs to be installed due to the appearance of an interconnection carrier(s) that requests new collocation.

Mr. Aida, committee member: What obligations are imposed to NTT East and NTT West about collocation?

Mr. Sato, committee member: NTT East and NTT West must estimate demand for collocation and reserve collocation spaces based on the estimate and provide a collocation space to an interconnection carrier whenever the carrier requests it and they have free spaces. But, many problems are occurring, for example, interconnection carriers are not using collocation spaces that they requested and acquired.

Mr. Sakai, Deputy Chair: Have the collocation charges already been calculated so that they may be lower than the cost required if an interconnection carrier installed relevant facilities to its own building?

MIC: Collocation charges are calculated based on net fixed asset value. Prices for general hosting services have been decided based on the market price. For this reason, basically, collocation charges are very likely to be less expensive than the costs required when interconnection carriers try to install relevant facilities to their own buildings.

Mr. Toukai, Committee Chair: I think it difficult to find out where to strike a compromise among competitors that have conflicts of interest.

Mr. Sato, committee member: I remember a case where collocation was denied to an interconnection carrier several years ago because it would violate "public interest" at the risk of lawsuits.

Mr. Aida, committee member: Are there any requests for securing collocation spaces to interconnect NCCs?

MIC: WILLCOM Inc. submitted a request for a collocation space to be provided at the collocation rate stipulated in the interconnection tariffs.

Mr. Aida, committee member: I remember that it was concluded that as NCCs could interconnect with

each other regardless of connecting to designated telecommunications facilities, the request could not be treated based on mandatory collocation. While it is insisted that if you do not have a space, you should lay it out by yourself, requests for collocation are denied because your facilities are Non-Designated Telecommunications Facilities. I do not think this stance makes any sense. These days, these issues do not seem to come to the fore.

Mr. Toukai, Committee Chair: I would like MIC to present cases in the Telecommunications Business Dispute Settlement Commission.

MIC: Understood.

(End)