

Summary of Minutes of the 94th Interconnection Committee Meeting

Date and time Tuesday, June 26, 2007, 10:00-12:00

Location Conference Room 1101, MIC

Attendees

Interconnection Committee

Mr. Toukai, Committee Chair; Mr. Sakai, Deputy Chair;
Mr. Aida, committee member; Mr. Naoe, committee member;
and Mr. Fujiwara, committee member

MIC

Mr. Taniwaki, Director of the Tariff Division; Mr. Ninomiya, Senior Planning Officer of the Tariff Division; Mr. Iimura, Deputy Director of the Tariff Division; Mr. Shirai, Deputy Director of the Tariff Division; and Secretary

[Summary of Agenda Item]

How Interconnection Charges Should Be Calculated in and after FY2008

- MIC explained the contents of the consultation, and deliberations followed.
- As a result, the Secretary (MIC) made an announcement to the effect that this matter would be carried over to the next consultation to be held on July 10.

[Discussion Details]

How Interconnection Charges Should Be Calculated in and after FY2008

1. Handling of NTS Costs

Mr. Aida, committee member: It is difficult to make a judgment within the Interconnection Committee. Let's look at page 18 of Reference Material 2. If the red part on the left is covered by interconnection charges, the part of the amount to be compensated for in the universal service system becomes the blue part. This will shake the foundation of the conventional universal service system. When we had a joint hearing on this matter, there was a voice that it was outrageous that ¥7 was passed on to consumers. When we say we will review the method for calculating the amount to be compensated for, it should mean that the total amount is to be reduced. As a result, the stance is against what we thought appropriate. Probably there was a deliberation on to what extent the compensation should be made in the universal service system. There shouldn't be a discrepancy between the Committee on Universal Service and the Committee on Basic Charges, etc., and the Interconnection Committee about what the Interconnection Committee has judged as

appropriate. Isn't it necessary to hold a joint meeting or the like if the concept needs to be reviewed? I myself have no strong opinion on a final conclusion.

Mr. Toukai, Committee Chair: What is the current status of the review of the method for calculating the amount to be compensated for in the universal service system? Have you had a public comment meeting?

MIC We have not held a public comment meeting yet. We are planning to hold one starting in the latter half of July in parallel with a report (draft) on the review of the method for calculating interconnection charges.

Mr. Sakai, Deputy Chair: I remember that you are going to hold a joint committee meeting.

MIC We are going to ask Mr. Kurokawa, Committee Chair of the Committee on Universal Service, to sit in the Interconnection Committee meeting in July.

Mr. Aida, committee member: Are there RTs installed in local exchange offices on the model?

MIC Yes, there are. But since the RTs installed in local exchange offices on the model have a line concentration function, they are regarded as TS costs.

Mr. Aida, committee member: The choice between RTs installed in local exchange offices and RTs installed at feeder points may have been made based on the comparison of the respective costs on the model. If there wasn't an opinion that the logic was inappropriate, it can be said that this matter has already been resolved since the facilities constructed most inexpensively and efficiently happened to be of NTS costs.

Mr. Sakai, Deputy Chair: It is possible to use RTs having line concentration functions which are not NTS, but RTs having no line concentration function may have been less costly when the model was set. Basically, fixed-line phones are not going to disappear in the high-cost regions, but they may be replaced with mobile phones in the low-cost regions in the future. It cannot be said in a definite manner that TS costs should be incorporated in interconnection charges by all means. When NTS costs are to be incorporated in interconnection charges, it will be necessary to study how to implement that.

Mr. Aida, committee member: If we adopt the logic that we should make NTS costs low and uniform nationwide as much as possible in consideration of the universal service, we have to install a large number of RTs in local exchange offices on the model. By this the overall costs will increase, but we can suppress the increase in basic charges since the RTs are recorded as TS costs.

Mr. Naoe, committee member: Since the model is on the premise of a network that does not actually exist, a design can be made in such a manner that NTS costs are a minimum level in consideration of universal service. In that case, there are no major changes in total costs, and I think it is more realistic as a network composition. On the model, it is the main objective to decrease the costs in urban areas that account for a large proportion of total costs, and the costs in rural areas are comparatively high. But in reality, that is not

the case, and the costs in rural areas are kept low, aren't they? If we are to review the universal service system without changing the logic, we will need to take some measures concerning interconnection charges as well.

MIC Concerning the review of the method for calculating the amount to be compensated for in the universal service system, we were requested to carry out an early review aiming at reducing costs to be borne by users in the calculation method in and after 2007 in consideration of the current status of the carriers passing costs on to users, on the occasion that we received a recommendation on the calculation of interconnection charges for 2007 in March this year. From the view point of what can be done in a limited time, the Committee on Universal Service did not choose to review the model itself. Instead, as a realistic measure, we have come to the conclusion that we will change the benchmark to "national average cost + two times standard deviation" based on the concept of (1) reducing the amount to be compensated for, (2) calculating in an objective way, and (3) referring to the American bench mark system.

Mr. Aida, committee member: Do you grasp the costs in the blue and yellow parts of the proposed revision on page 18 of the Reference Material 2?

MIC We do not grasp the realistic figures yet, but according to the estimation of the amount to be compensated for in 2007 in the Committee on Universal Service, the amount will decrease to ¥9.6-12.7 billion when the bench mark is changed to "national average cost + two times standard deviation" from ¥19.5-27.5 billion in the case of the current benchmark. As to 2008, the amount to be compensated for is estimated to be ¥28.0-38.0 billion in the case of the current benchmark, and ¥12.9-16.8 billion when "national average cost + two times standard deviation" is used.

Mr. Naoe, committee member: Network models in the coming years will focus on NTS costs since, basically, the installation and consolidation of line concentration devices will not be done anymore, and more and more flat-rate systems will be adopted. Also, consideration for grades or distances will no longer be made.

Mr. Sakai, Deputy Chair: The conventional concept has been to reduce basic charges as much as possible, and increase communication fees. In step with the transition to IP-based networks, however, more and more flat-rate systems will be adopted. On the other hand, the universal service is the service provided to users in the high-cost regions who hardly use phones, so the option to increase basic charges is not valid. It is necessary to respond to these issues on a case by case basis. As to TS costs, it cannot be said that if traffic decreases by half, facilities will also decrease by half, and it is unlikely that the cost structure will change dramatically in the low traffic regions.

Mr. Toukai, Committee Chair: Do you mean that what you just remarked should be reflected on interconnection charges in and after FY2008?

Mr. Sakai, Deputy Chair: My recognition is that the present situations have to be sorted out to some extent before we draw a conclusion.

Mr. Fujiwara, committee member: The review of the method for calculating the amount to be compensated for in the universal service system is to reduce the amount to be compensated for, and judgment on this issue is to be made by the Telecommunications Business Division. So discussions inconsistent with this direction should be avoided in the Interconnection Committee meeting. However, if I may give my personal view, NCC's argument seems to be a desirable one considering that the conventional concept was to exclude NTS costs from interconnection charges as much as possible.

Mr. Aida, committee member: How are the interconnection charges of dry copper phone lines calculated?

MIC The interconnection charges of dry copper phone lines are calculated on the basis of actual costs.

Mr. Toukai, Committee Chair: The LRIC model itself will not be changed in the review this time. Taking into account the request that the amount to be compensated for in the universal service system be reexamined by the whole Council, the upper limit of the amount to be compensated for will have to be lowered. The Interconnection Committee needs to set out a response to that. In doing so, if we proceed as proposed by NTT East and NTT West, we need to rethink the logic itself. The conclusion is not likely to be drawn in the discussions this time. In sorting out points at issue, we need to discuss whether we should extend the deduction period of NTS costs or whether we should cover the costs with interconnection charges in a new way by cutting out a specific transmission between RTs and GCs.

2. Applicable Period of the New Model

Mr. Toukai, Committee Chair: How long is the transitional period of NTS costs according to the present schedule?

MIC Until 2009.

Mr. Toukai, Committee Chair: What should be discussed now?

MIC We cited four points as points at issue on page 10 of Reference Material 1. They are:

- (1) How long can we maintain the validity of the new model as a cost calculation model with the rapid transition to IP-based networks?
- (2) What is the time frame required for conducting a drastic review of the method for calculating interconnection charges?
- (3) Until when can we maintain the validity of the calculation of interconnection charges based on the new model from the viewpoint of the level of interconnection charges?
- (4) How should we evaluate the stability of the system?

Mr. Naoe, committee member: IP networks are incorporated in LRIC though PSTN is the base.

What is important is when the relationship will be reversed.

Mr. Sakai, Deputy Chair: In 2010, PSTN will be still dominant. In terms of areas, PSTN will be accounting for 70-80%.

Mr. Naoe, committee member: In 2010, the relationships will have been reversed in urban areas, but PSTN will be still dominant in rural areas. Then it will become difficult to design networks.

Mr. Toukai, Committee Chair: Taking into account the present market environment and handling of NTS costs, it will be appropriate to view three years as a landing site for the time being, but, instead of using the new model in a rigid manner, I think we should start the process of reviewing it in two years from now.

3. Points at Issue in General

Mr. Toukai, Committee Chair: The basic method for calculating interconnection charges is explained on page 32 of Reference Material 2. Could you define the bottom-up LRIC and the top-down LRIC?

MIC The bottom-up LRIC is a method for calculating interconnection charges by dividing the costs incurred when lines are constructed most efficiently using the latest facilities by the number of actual subscribers.

Mr. Toukai, Committee Chair: I have some doubt as to whether the bottom-up LRIC should be viewed within the framework of LRIC. My recognition is that we only had top-down LRIC. The concept of LRIC is unique to Japan. It is necessary to check the possibility of new calculation methods every year when a new environment is being created.

Mr. Naoe, committee member: All the operators are contemplating building networks which are the most efficient at any given point of time responding to the change of the environment. I think it will be all right if we keep watching the actual network for a while. In some cases, actual costs are lower than LRIC. I think this is because efforts to reduce costs are made in a new way, and not because new investments are not made?

Mr. Sakai, Deputy Chair: It will be necessary to present some opinions on the disparity in interconnection charges between NTT East and NTT West. It used to be all right to take the view that the charges should be different between NTT East and NTT West since they are separate entities. But considering the matter of universal service, uniform charges may be all right. I don't think there are such big differences in costs between East and West.

Mr. Naoe, committee member: If the charges are different between NTT East and NTT West, operators that have marketing areas in the West area only may not be able to do business.

Mr. Toukai, Committee Chair: We should call this disparity a disparity between regions instead

of a disparity between East and West.

Mr. Aida, committee member: This disparity is the one in the case where the calculation is made on the basis of the LRIC system. Conditions will be different if the calculation is made on the basis of actual costs, won't they?

Mr. Toukai, Committee Chair: It seems that the different charges between NTT East and NTT West are not argued for so strongly now as before. Considering the matter of reviewing the universal service system, approval of the different charges between NTT East and NTT West will make the situation more complicated, won't it? I don't feel the need for the different charges between NTT East and NTT West at least during the applicable period of 2-3 years.

END