

**Interconnection Committee—96th Meeting**  
**Summary of Minutes**

1. Date and Time

Tuesday, July 17, 2007; 14:00–15:45

2. Location

Conference Room 902

3. Attendees (honorifics omitted)

(1) Committee Members

Toukai (Chair), Sakai, (Vice Chair), Aida, Sato, Naoe, Fujiwara,  
Kurokawa (Chair, Universal Service Committee)

(2) MIC Representatives

Takeuchi (Director-General, Telecommunications Business Department), Taniwaki (Director, Telecommunications Policy Division), Furuichi (Director, Tariff Division), Ninomiya (Senior Planning Officer, Tariff Division), Imura (Deputy Director, Tariff Division), Teraoka (Deputy Director, Tariff Division), Suzuki (Deputy Director, Tariff Division), Secretariat

Summary of Meeting

Calculation method for interconnection charges during and after fiscal 2008

- MIC explained the Draft Report. Subsequently, deliberations were held.
- As a result of the above, it was agreed that an account of the Draft Report would be given at the Telecommunications Business Sub-Council meeting scheduled for July 23.

Details of Discussion

Calculation method for interconnection charges during and after fiscal 2008

Kurokawa: The Universal Service Committee held discussions at the request of the Telecommunications Council. Public comments were then invited. Thereafter, discussions were held on the opinions received. One of the issues was that almost all operators added the universal service cost of seven yen to their charges. If all operators do this, then it is easy enough to understand in the sense that the communication network can be recognized as “club goods,” and competition is not affected. If all parties bear certain burdens, I would say that it is permissible from the point of view of burdens associated with services. However, this will

result increased cost burdens for users. I wonder if that is permissible. The approach taken to this matter is a big issue. NTS costs were intended to be borne by a certain portion. That is, these costs were originally intended to be allocated by a simple technique whereby a certain percentage of long-term incremental costs would be allotted to universal service costs. Therefore, this issue overlaps with discussions on interconnection charges. What should be done about this? If cost burdens are within the limit of seven yen, they may be permissible. However, what should be done about the fact that this will increase from now on?

On the other hand, let us suppose a case where part of the cost of transmission between feeder points RT and GC is included in the cost of interconnection charges according to the concept based on the sum of the national average and  $2\sigma$ . Is it possible to maintain that concept even in this case? Discussions were held in the committee about what range of service cost burden per person is reasonable. As a consequence, a short-term judgment was made. It is not necessarily certain whether there was any principle behind this. Be that as it may, my understanding is that adjustment was made in such a way as not to cause big differences in burdens. Today, I received an appropriate explanation from the viewpoint of interconnection charges about what we were questioning regarding matters related to costs.

Naoe: It was mentioned that actual numbers are used, instead of model-based numbers, for the purpose of calculating costs between RT and GC. In this regard, NTS costs are generated in RT stations, which, in reality, are often established in accommodation stations that accommodated small numbers of users. Such being the case, it was found out that as a result, these costs are, for the most part, densely distributed in high cost areas. Another subject of discussion was the five years that will be spent reallocating NTS costs in stages. One of the main goals of this committee is to reduce the interconnection charges of NTT East Corporation and NTT West Corporation in as transparent a way as possible.

Aida: Models and reality don't always match up. That's just how it is. Even if feeder point RT is used in a model, there is no knowing what will actually happen in the real world. Between models and the real world, there are differences in what areas fall into the category of high cost areas. I would suggest that a decision be made that the model be used to calculate the amount of compensation for universal service costs only with the full situation being taken into account.

Kurokawa: Two years ago, when the system in question was introduced, we had NTT East Corporation and NTT West Corporation submit all cost distributions for a total of 8,800 stations, and we verified the range of these distributions. As a result, the distributions turned out to be appropriate even if standard deviations were applied. Therefore we established the system.

Sato: In the case of interconnection as well, some parts emerged where models did not agree with the reality. This must be examined to find out what the circumstances were that caused

such discrepancies. It may be that in the case of universal service as well circumstances will be such that the models differ from the reality. Therefore, some entity that can afford the time should compare model-based data against actual data, at least for some specific areas, thereby checking whether the models themselves caused problems.

Naoe: As I said at the last meeting, if the argument that NTS costs should be returned to interconnection charges is added to the universal service-related argument based on the sum of the national average and  $2\sigma$ , then the results will not purely be the sum of the national average and  $2\sigma$ . Thus I would assume that an argument can be made that only costs for services provided in very underpopulated areas should be compensated for under the universal service scheme. What do you think about this?

Kurokawa: Such an argument can be made. In connection with this, there is the issue of the form the burden should take. I hope that this issue will also be resolved in such a way as to be compatible with the pertinent principle.

Chair Toukai: In the Universal Service Committee, there were discussions some years ago about how to understand data in the case of PSTNs in relation to offsetting the payment balance. In connection with this, this committee thinks at present that the benchmark method is in order. In this idea, it is appropriate to pay attention to telephone numbers. New discussions have been started with regard to new deployments of universal service in the future.

MIC: The Study Group on Future Images of Universal Service Fund System is discussing future images of universal service, and a report is scheduled to be prepared before the end of this year.

Toukai: Thinking in terms of telephone numbers is based on previous ideas about universal service. However, if we assume that operators bear a burden in the form of interconnection charges, we cannot bring in telephone numbers. Furthermore, telephone numbers are directly linked to users. Therefore, there is a possibility that burdens are passed on to users. Originally, the idea of interconnection charges was based on the concept of traffic and pay-as-you-go systems.

MIC: The intention this time is to take interim measures. Since we are now in a period of transition to IP networks, it is an undeniable fact that it is very difficult to take decisive long-term measures.

Vice Chair Sakai: It is marvelous that the Universal Service Committee established a definition for the concept of universal service, which is that everyone should contribute. It's easy to see the appeal of the idea of requiring contributions by individual telephone number. Be that as it may, there is also the argument that people who use the telephone more frequently should

contribute more. This idea is not bad either. It is important to properly make this contribution known. One disadvantage is that it has already become common knowledge that everyone pays a fee of seven yen. If this amount is put into interconnection charges, it will disappear. This means that the previous way of thinking—where nobody knows what the fee is for—will make a comeback. This is regrettable, but it cannot be helped.

Sato: In a market, costing and pricing can be implemented depending on factors related to cost generation. It is good that such fundamentals and principles are maintained in our current efforts. This time, as interim measures, a portion of NTS costs will be included in interconnection charges for the time being to prevent the basic payment balance of NTT East Corporation and NTT West Corporation from deteriorating. In connection with this, it is regrettable that the principles of costing and pricing are not followed. From now on, studies on how to ensure transparency and assign names should be conducted.

MIC: We will take your comments and suggestion under consideration.

Sakai: There is no change in the total amount of universal service costs for which NTT East Corporation and NTT West Corporation will be compensated. The only change will be including the fee in the interconnection charges. I'm having trouble understanding the logic of why interconnection charges will not be raised from now on.

Naoe: Interconnection charges will be raised.

Sakai: So far, things have been easy to understand because of the uniform price of seven yen. From now on there is a possibility that pertinent costs will be added to interconnection charges and telephone call charges. In this case, such costs will not be made so widely known. Is it the case that if this method is adopted, telephone call charges will not be added to but pertinent costs will be able to be absorbed somehow or other?

Naoe: It is possible to maintain current interconnection charges, but at the very least, profits will be affected.

Sato: Depending on the traffic situation, in some cases interconnection charges can reasonably be raised in a way that everyone agrees to. There can be circumstances where charges that ought to be reduced more are lowered only a little. Current competition will be continued in circumstances where consensus on the market remains the same and where no great change occurs. Interconnection charges may be raised or lowered if there is a reasonable basis for doing so. In our capacity as committee members, we make decisions about big changes. Therefore, more objective fundamentals and principles are required.

MIC: As regards the scheme for maintaining universal service, it is theoretically correct to say that pertinent costs are recovered by interconnection costs and original universal service costs, but in practical terms, the implication is quite different. The implication of interconnection charges is different from that of burden charges that are collected under legal authorization by designating qualified telecommunications carriers. Interconnection charges are calculated strictly according to actual costs. Therefore, neither interconnection charges nor burden charges can be said to be in the category of universal service costs.

Tokai: What will the financial effects felt by NTT East Corporation and NTT West Corporation be if NTS costs are moved back from universal service costs to interconnection charges?

MIC: We are not in a position to talk about specific numbers, since they are confidential. Anyhow, it is not the case that NTT will make negative profits or fail to recover pertinent costs. We made a provisional calculation of the effects on NTT over a period of several years. As a result, in terms of financial aspects, NTT East Corporation and NTT West Corporation are expected to continue to seek improvements in efficiency to some extent even during and after 2011, when NTS costs will finally be removed. During the three years immediately before 2011, there is no choice but to similarly seek improvements in efficiency if calculations are made on an aggregate basis.

Tokai: On July 23, I would like to give an account of this Draft Report to the Telecommunications Business Sub-Council.

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