

Interconnection Committee — 107th Meeting  
Summary of Minutes

1. Date and Time

Monday, March 17, 2008; 14:00–16:00

2. Location

Auditorium (Basement 2)

3. Attendees (honorifics omitted)

(1) Committee Members

Toukai (Chair), Sakai (Vice Chair), Aida, Sato, Fujiwara

(2) MIC Representatives

Takeuchi (Director-General, Telecommunications Business Department),  
Taniwaki (Director, Telecommunications Policy Division), Furuichi (Director, Tariff  
Division), Muramatsu (Senior Planning Officer, Tariff Division), Iimura (Deputy Director,  
Tariff Division), Secretariat

[Meeting summary]

1. Interconnection Rules Pertaining to Next Generation Networks (Draft Report)

- The Ministry of Internal Affairs and Communications (MIC) explained the following items, after which deliberations were held: the Draft Amendment to the Draft Report, with consideration given to the results of opinion invitation; and the Draft Opinions and Concepts Regarding the Draft Report.
- As a result of the above, it was decided that the Draft Report would be amended on the basis of the deliberations of the Committee and that the amended Draft Report would be deliberated at the next Committee Meeting (scheduled for March 21).

2. Authorization of Changes to the Interconnection Tariffs Concerning Category I Designated Telecommunications Facilities of Nippon Telegraph and Telephone East Corporation and Nippon Telegraph and Telephone West Corporation (Revision of Interconnection Charges Pertaining to Subscriber Optical Fiber Networks in and after FY 2008) (Draft Report)

- MIC explained the following items, after which deliberations were held: an outline of the Draft Changes to the Interconnection Tariffs; and the Draft Report to be submitted to the Telecommunications Business Sub-Council of the Telecommunications Council.
- As a result of the above, it was decided that this matter be deliberated together with the Draft Report in Item 1 above.

[Major opinions, etc.]

[Matters related to the interconnection rules pertaining to next generation networks (hereinafter referred to as NGNs) (excluding establishment of subscriber dark fiber network interconnection charges for individual branch terminal line types)]

Sakai (Vice Chair): I think that the Draft Report itself is satisfactory. What follows concerns Opinion 87 (NGN interconnection charges should be established without adhering to the telephone-era idea of making calculations on the basis of cost. These charges should be set by attaching importance to market prices so that progress will be made in the penetration of screen image delivery services.). Interconnection charges should be considered on the basis of not only cost, but usefulness as well. It is true that it is impossible to disregard cost, but in the case of interconnection charges for screen image delivery services etc., failing to also consider usefulness is not good.

MIC: As stated in Concept 108, we are planning to conduct studies on cost drivers by considering the opinions of academic experts and the like. In our studies, we would like to include investigating the feasibility or infeasibility of establishing interconnection charges by using cost drivers in which usefulness is reflected to some extent, as distinct from the practice where these charges are set by simply performing the allocation of packet amounts.

Toukai (Chair): The matter pointed out by Committee Member Sakai should be taken into consideration by how interconnection charges should be calculated from now on. For example, it is impossible to calculate these charges by disregarding the relationships to other fixed networks. It is true that cost is important when consideration is given to efficiency, but cost is not the only factor.

Aida (Committee Member): It is possible that concepts such as those of LRIC will be introduced. Be that as it may, I think that interconnection charges for functions regarding NGNs will end up being based on cost, although there is an issue of burden ratios for individual service types. If high-cost networks are built in the name of NGNs, however, it will be a problem.

Sato (Committee Member): The President of Nippon Telecom Corp. once said, "NTT establishes charges by adding up costs. However, it is the market that sets charges." I think that there is some truth in this statement. It is also a good idea to reduce costs by estimating demands through the seven-year future cost method, as was performed in calculating current interconnection charges pertaining to subscriber optical fiber networks, thereby increasing demands. The issue of usefulness is understandable. Be that as it may, if costs cannot be

covered by income from such services, then it will turn out that users will bear the costs.

Therefore, caution should be used. Instead of a method whereby all costs are covered, there can be a method where at least additional costs are covered.

[Matters related to revision of interconnection charges pertaining to subscriber optical fiber networks in and after FY 2008 (including establishment of subscriber dark fiber network interconnection charges for individual branch terminal line types)]

Sato: The service life of optical fiber networks, which is 10 years at present, is changed to 21 years in the application filed this time. In this regard, I had the impression that considering the increase in the service life, there was no significant reduction in interconnection charges. I would like to confirm the influence of the increased service life on interconnection charges.

It is desirable that there be no great discrepancy between predicted values and actual values. The last time, there were differences between estimated data and actual data. It is necessary to verify the reasons why actual values differed from predicted values when the current interconnection charges were calculated, so that in the estimation of demands for calculation of interconnection charges this time, such differences will not arise due to reasons similar to those that existed the last time. We would also like to give consideration to the following matters, among others: what will be recovered, in what way, by the differential amount adjustment system; whether or not incentives will arise if traffic is estimated at a low level; and how incentives will take place.

Furthermore, risks are supposed to be reduced by the differential amount adjustment system. If risks can be lowered, comparisons should be made between interconnection charges based on the three-year calculation period mentioned in the applications and those based on the five-year calculation period, thereby adopting lower-level interconnection charges, so that these charges will be set at levels that are as low as possible.

I would like to confirm the influence that will be exerted on interconnection charges by the fact that risks regarding equity capital cost will be eliminated by the introduction of the differential amount adjustment system.

The Draft Report on NGNs refers to the establishment of subscriber dark fiber network interconnection charges for individual branch terminal line types. Realistically, I think it is difficult to pass judgment on this matter at this time. In this connection, the Report should state why it is difficult to pass judgment at present and what we ought to do six months from now and one year from now.

With regard to the idea of sharing OSUs, the third paragraph on page 48 of the Draft Report says, "at present, it cannot be said that this matter is indispensable." When will it be possible to say that this matter is indispensable, or what should be done to make it possible to say so? In this connection, if alternative measures are intended to be taken in such a way as to

reduce interconnection charges pertaining to subscriber optical fiber networks and then to observe market trends, ingenuity should be exercised in improving the wording.

As regards the idea of making exclusive use of OSUs, the Draft Report makes no mention of whether studies will be conducted on appropriate basic charge levels. The Draft Report simply says that “it is difficult to conduct such studies” and that, as an alternative idea, interconnection charges pertaining to subscriber optical fiber networks will be reduced.

As for the idea of imposing interconnection charges on functions pertaining to B FLET’S, it is impossible to decide what we should do at present and why we should take such actions. Thus we cannot see what will happen if subsequent steps are taken. If things are left as they are, there is a possibility that no decision can be made now, nor next year, nor the year after next.

Furthermore, interconnection charges pertaining to subscriber optical fiber networks are going to be reduced. The Draft Report calls this move an alternative idea. On the part of the Interconnection Committee, interconnection charges should be based on cost. It is a matter of course that, irrespective of this argument, interconnection charges pertaining to subscriber optical fiber networks should be made as low as possible and within reasonable limits. The current wording allows the interpretation that the policy goal is to reduce interconnection charges pertaining to subscriber optical fiber networks and that NTT East Corporation and NTT West Corporation are required to reduce these interconnection charges. However, if the policy goal is to have competition come into play in the FTTH market, thereby requiring interconnection charges to be reduced within reasonable limits, then it is necessary to exert ingenuity in improving the wording.

Toukai: About four issues were pointed out by Professor Sato. It is necessary to exercise ingenuity in improving the wording of the Draft Report on NGNs.

Sakai: I am referring to Item 4) on page 5 of the Draft Report on Interconnection Charges Pertaining to Subscriber Optical Fiber Networks. Demands are a function of charges. Therefore, if charges are established, demands are decided. I think that the Draft Report means to say that demands should be decided in such a way as to aptly predict the function environment. It is possible to require costs to be changed in such a way as not to cause obstacles to competition in other facilities. Be that as it may, predicted demands are the results of straightforward estimation. It is therefore impossible to revise predicted demands by paying attention to not causing such obstacles. If it turns out that impediments are caused to competition in other facilities, then things will end with the issue of charges, and thus the wording causes a sense of incongruity. I would therefore like to request that careful consideration be given.

Fujiwara (Committee Member): I am referring to the statement in Item 3) on page 48 of the Draft Report on NGNs. The meaning of the expression “cases where alternative measures can be

taken” is not clear. I presume that the term “alternative measures” means the reduction of interconnection charges pertaining to subscriber optical fiber networks. Such an explicit expression should be used.

Aida: Page 51 of the Draft Report on NGNs and Item 6) on page 3 of the Draft Report on Interconnection Charges Pertaining to Subscriber Optical Fiber Networks both contain the expression, “the idea of making exclusive use of OSUs, which is considered to be the most effective idea.” I cannot understand the point at which the idea is effective. The current expression leads me to make the interpretation that, as regards the idea of making exclusive use of OSUs, there is no decisive factor for the basic charge portion, thus preventing further steps from being taken, and therefore, the subsequent action is intended to be replaced with reduction of interconnection charges pertaining to subscriber optical fiber networks. I cannot form the interpretation that this idea is the most effective one.

Furthermore, measures that NTT East Corporation and NTT West Corporation are required to take, as well as deadlines, are mentioned to a significant degree in other portions of the Draft Report. By giving consideration to this fact, I presume that, with regard to the idea of sharing OSUs and the idea of imposing interconnection charges on functions pertaining to B FLET’S, it is advisable to make a more explicit statement such as “opportunities will be created for making studies with the attendance of persons including academic experts” instead of simply stating that “studies will continue to be made.”

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