# The Review of the Universal Service Fund System

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Current System
 Background
 Summary
 Scope
 Costing
 Contributions

# **Outline of Presentation**

Current System
 Background to the Review
 Summary to the Review
 Scope of Universal Service
 Cost Calculation Methodology

Contribution Methodology





# **Current System**



The current system was introduced in June 2002.

### Universal Service:

Should ensure the provision of telecommunications services nationwide which are indispensable for people's daily lives.

("Universal services" are stipulated in the applicable ministerial ordinance of the MIC.)

The telecommunication carriers shall make efforts to provide such services appropriately, impartially and stably.

### Scope of Universal Service:

Subscriber telephone services

(Subscriber line access, local calls, calls to remote islands under special tariff, emergency calls)

Type 1 public telephone services

(Local calls, calls to remote islands under special tariff, emergency calls)



## **Current System**



After the USF system was introduced in June 2002, the fund has not been activated yet since there have been no deficits in the universal services.



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# Background to the Review



Promoting competition throughout voice services

- The penetration of mobile phones has exceeded that of fixed telephones. The rapid penetration of IP telephony.
- Further competition in subscriber telephone services
- Start of "dry Copper dedicated line" services

Transfer NTS cost to the basic fee cost



#### Background to the Review

#### Transition of subscribers with respect to fixed telephone, mobile phones and broadband services





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#### Start of "dry Copper dedicated line" services

NCC also has facilities that have equivalent functions to NTT East/West facilities



### Transfer NTS cost to the basic fee cost





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# Summary of the Review

Scope of Universal Service
 Cost Calculation Methodology
 Contributions Methodology



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# Scope of Universal Service



- Subscriber telephone services (Subscriber line access, special calls to remote islands, emergency calls)
  - Type 1 public telephone services (local calls, calls to remote islands under special tariff, emergency calls)

(Services NOT supported by the fund...)

- Local calls: Promoted competition among carriers after carrier pre-selection ("My Line") introduced.
- **Mobile phones**: Improvement of Networks through the competition among carriers
  - Rates are relatively high (almost double that of fixed phone call rate)
  - Requires huge capital investment to cover entire area

#### □ Broadband Services:

- Improvement of Networks through competition among carriers
- Still in the process of penetration although accessible household are increasing





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# **Cost Calculation Methodology**



### Costs might increase as NTT East/West price fall

If 300 billion yen of NTS cost is transferred to the basic fee cost, it is possible that NTT East/West will incur a deficit regardless of the area. However, all losses can be covered by the fund.





Number of subscriber lines  $\rightarrow$ 



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- Subject of cost calculation :
  - Support differences between the national average costs and the costs incurring from subscriber lines (4.9%). The threshold of the calculation will be 2 standard deviation above average cost of NTT East/West subscriber lines.
- Cost calculation methodology:
  - Use a Long Run Incremental Cost model to eliminate the inefficiencies of NTT East/West
- Estimates for support payment:
  - FY05 11 billion to 17 billion yen
  - FY06 19.5 billion to 27.5 billion yen
  - FY07 28 billion to 38 billion yen



#### Costing

### New Cost Calculation Methodology

#### Earning Cost Method (Offset type) **Benchmark Method Telephone Number Basis Revenue Basis** Costs per line for NTT East/West revenue/costs per line For NTT East/West Support the cost of Surpluses in profitable areas cannot "High Cost" area cover losses in unprofitable areas therefore support provided. average costs Red revenue cost Black cost Number of subscriber lines → Number of subscriber lines $\rightarrow$ Changes in circumstances surrounding **Telecommunication Business** 4.9% O Promoted competition in urban areas ⇒Decrease of revenue caused by price reductions O Transfer of NTS costs ⇒Increase the cost

### Subscriber density vs cost per line

Cost per line vs number of lines





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### Cost of Lines by Areas



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# **Contribution Methodology**



### Current system

- Beneficiary-pay principle
- Contribution basis: related revenues of telecommunications carriers
- Issues in Current system
  - Difficulty in grasping the related revenues accurately
  - Requires huge outlay (ex. System renovation) to fully understand the related revenues
- New method: based on usage of telecommunications numbers
  - Contributions decided based on usage of telecommunications numbers allocated to each carrier.



- Scale of carriers contribution and upper limit of contributions
  - Receive contributions only from telecommunication carriers that have profits exceeding 1 billion yen
  - The amount of contribution should not exceed 3% of telecommunications revenue
- Information Disclosure to Users
  - The contributions of carriers will ultimately be covered by user revenue
  - It is preferable to indicate that the contributions are being conducted properly by having the carriers disclose information to users concerning their contributions to the fund



# Thank you for your attention.



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