

Revision of Universal Service Fund

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1. Current USF system has been introduced in 2002.

2. Scope of the Universal Service:

1) Subscriber telephones service

(Subscriber line access, Local call, Isolated islands call)

2) Public telephones service

(Equivalent scope to subscriber telephones service)

3) Emergency calls service

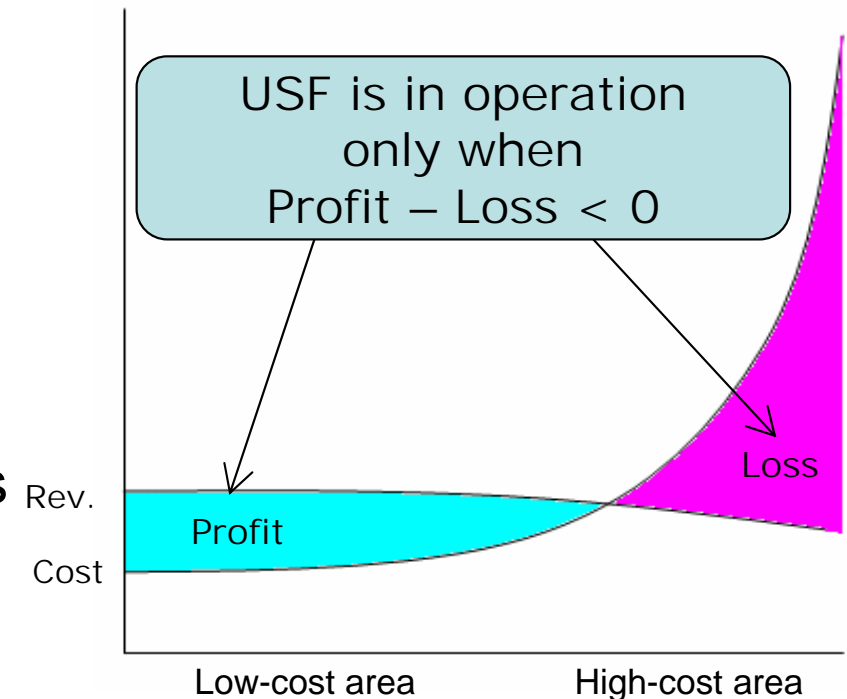
(Police, Fire department, Coast guard)

3. Current Scheme

1) Contribution to USF is allocated on revenue basis

2) Support when surplus in profitable areas not enough compensate the deficit

USF has not been in operation yet



1. Background

- The telecom market has greatly changed since USF introduced. (e.g. mobile phones grew faster than fixed lines; VoIP has gained in penetration.)
- In addition, the field of basic telephone charge has come to be exposed on the competition.
- Besides, TBL requires a review 2 years after the introduction USF.
- Therefore, MIC submitted an inquiry to the council on Nov. 2004 to review USF system.

2. Issues to be Reviewed

- 1) Range of the universal service
- 2) Calculation methods of the net cost of providing universal service
- 3) Methods for funding the cost

3. Expected Schedule of the Review

Nov 26, 2004 Inquiry to the Information and Communications Council

- 13 sessions of Universal Service Committee
- Public hearing including carriers and consumer org.

Jul 25, 2005 Invitation of Public Comments on draft report (until Aug 25)

Further investigation after the comments received.

Oct 2005 Receive the final report from the Council

Fall 2005 Review the related MIC ordinances

End of FY 2005 Implementation of revised MIC ordinances

New USF system will be applied in FY2006.

(1) Range of Universal Service

- Subscriber telephones service
- public telephones service
- Emergency calls service

Basically same as current range

(Services NOT supported by the fund...)

- **Local call service:** - Competition in local call service after carrier pre-selection introduced [Neutrality]
- **Mobile service:** - Network expansion through the competition [Neutrality]
- Premium in service price [affordability]
- **Broadband service:** - Network expansion through the competition [Neutrality]
- Lower penetration (37%) [availability] although 93% accessibility

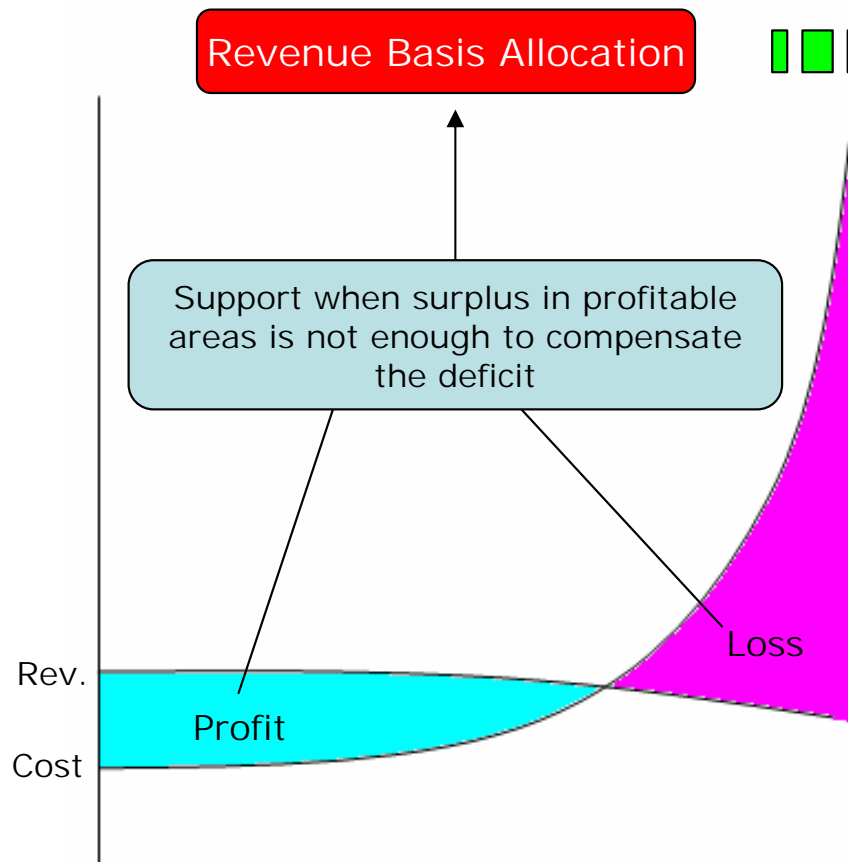
(2) Benchmarking method for cost calculation

- Detailed investigation on the historical cost data of NTT East and West (more than 7,000 buildings)
- Log-normal distribution: Statistic analysis on par-line cost by building
- Specified “high-cost” area: Two standard deviations above the average
= 4.9% of subscriber lines (benchmark)
- LRIC (Long-Run Incremental Cost) model for the calculation

(3) Telephone number basis allocation

- Amount of telephone numbers: Simplicity and Transparency in allocating operators' contribution
- Consumer Relation: Expressed statement of the contribution

Current Calculation Method



Benchmarking Method

