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Policy on Calculation of Interconnection Charges Based on the Revised LRIC Model

-- Overview of the Report by the Telecommunications Council --

On September 13, 2002, MPHPT received a report from the Telecommunications Council (Chair: Mr. AKIYAMA Yoshihisa) in response to the inquiry of March 27, 2002, about the "Policy on Calculation of Interconnection Charges Based on the Revised LRIC Model." This report was compiled based on the results of hearing conducted by the Council from August 1 through 30, 2002.

MPHPT, paying due respect to the report, will take necessary measures for amending relevant ministerial ordinances, etc.

The outline of the report is as follows:

1. Evaluation of the revised LRIC model

- The Telecommunications Council respects the assessment of the study group on the LRIC model as transparency and fairness of the process was ensured. The revision of the LRIC model was conducted mainly focusing on the items indicated by the former report and the points collected through the public comment procedure. Additionally, important logic and input data were reviewed not only by domestic and foreign telecommunications carrier participants in the Working Groups of the study group but also through the workshop and meeting with foreign organizations and agencies.

The economic lifetime of the transmission equipment, about which comments were given, was revised from 6 years to 8.4 years considering the current circumstances of telecommunications carriers.

2. New Interconnection Charges

- When to start application
 - Interconnecting carriers have already finished submitting applications for

installing GC and ZC interconnection lines. Accordingly, applying the revised LRIC model from FY2002 could force interconnecting carriers to modify their business plans to a large extent. Therefore, the approved interconnection charges should be applied in FY2002 and the revised LRIC model should be applied from FY2003.

(2) Period of application

- In the near future, the structure of PSTN might change due to advances in technology based on IP, and the market structure of telephony services might also change based on the diffusion of IP telephony. Therefore, the application period of the revised LRIC model should be shorter than that of the current model: it should be two years (FY2003 and FY2004).

(3) Replacement of input data

- Input data including traffic volume should be fixed for the application period because the level of interconnection charges are predictable to facilitate the business plans of interconnecting carriers and give carriers an incentive to achieve rationalization and increase traffic volume.
- The traffic volume for calculation of interconnection charges should be forecasted data for the application

period. Input data for the current model is fixed because it was the first time to introduce the LRIC methodology, and the steep reduction of GC and ZC interconnection charges could adversely influence incumbent carrier management policy. At present,

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however, GC and ZC interconnection charges have already been reduced according to the current model, and many participants in the public hearing predict that the volume of traffic will decline. Therefore, the model should be applied based on its principle.

In the case where it is difficult to forecast traffic volume, the most recent traffic volume should be used.

- The other input data also should be updated as much as possible to be consistent with the traffic volume data.
- (4) Cost recovery method (treatment of NTS costs)
- In Japan, feeder RT (FRT) and other costs have been recovered through traffic-dependent charges because the functions of FRT and other facilities were originally provided by local switching equipment, then later separated as technology advanced and because it has been based on our pricing policy to reduce the cost basis of the monopolistic basic user-line fee and to lower the fee.
 - However, from the viewpoint that the costs should be recovered more directly, NTS costs should be recovered based on the number of subscriber lines, not as part of traffic-dependent charges. In this case, however, as mentioned in the former report, "it is necessary to accept certain requirements while seeking a solution to the problem of recovering feeder RT cost". Two methods can be considered for recovering NTS costs based on the number of subscriber lines: i) recovering from the basic user-line fee and ii) recovering from the flat-rated interconnection charges.
 - As for method i), raising the basic user-line charge through the transfer of FRT costs needs further discussion and is considered to be very difficult as far as reaching a social consensus is concerned because of the continuing deflationary trend. In addition, consumer groups oppose increasing the basic user-line fee, which must be paid independently of usage.
 - As for method ii), though it would be useful for the interconnecting carriers to set the user fees more flexibly, comments supporting this method were not submitted for public comment. There is also the technical

problem of how to allocate the costs to each carrier. Thus, this cannot be considered a fundamental solution for recovering NTS costs. If this problem is solved, however, this method could be another candidate if the time limit of application of the flat-rated interconnection charges is clarified and other ways of recovering NTS costs are implemented and acceptable for users.

- As for the treatment of NTS costs, study groups should be held immediately to fundamentally and systematically revise the current telecommunications fee system including the basic user-line fee.
- (5) Treatment of expenses for installation of interconnection lines and trunk port costs
- In cases where establishing traffic-dependent charges may lead to inefficient installation of equipment, such costs should be imposed on responsible carriers, even though they have been treated as basic functions. But first of all, carriers should address this matter to reduce the excess lines. As for expenses for installing these lines, they should be imposed individually.
- (6) Establishment of Separate Interconnection Charges for NTT East and West
- Three methods were considered for separate interconnection charges for NTT East and West: (A) applying the average value between East and West estimated by the revised LRIC model, (B) applying a separate value estimated by the revised LRIC model individually for NTT East and West, and (C) applying the estimated value for NTT East and the average value for NTT West.
 - As a result, based on the fact that NTT East and West are separate companies, the method (B), applying the separate values estimated by the revised LRIC model, is appropriate.
 - However, it is necessary to take into account that immediate application of the actual value estimated by the LRIC model may adversely damage NTT East management policy and increase user fees in the NTT West area. Therefore, some appropriate measures should be taken, such as a phased application.

3. New Functions to be included in the range of application

- (1) Subscriber line transmission function
- The problem indicated in the former report has been resolved due to the fact that the logic on estimating underground cables was revised. Therefore, the revised LRIC model is an appropriate method to be applied to subscriber line transmission functions (for Personal Handyphone System cell stations).
- (2) Directory assistance function and public telephone function
- At present, NTT East and West have reduced their investment for the current PSTN. On the other hand, one of the assumptions of the LRIC model is that the facilities are constantly renewed. Therefore, the model should not be applied.
- (3) Exclusive-use interoffice transmission function
- The charges of exclusive-use and shared-use interoffice transmission functions are quite different because they are calculated in different ways. From the viewpoint to correct this situation immediately, during the revision of the LRIC model, some logics were added and modified. Therefore, it is appropriate to apply the revised LRIC model to the calculation of the corresponding function.
- ### 4. Policy on Calculation of Interconnection Charges in the Future
- Current and revised models are based on the assumption that investment for facilities would continue even after the economic lifetime of these facilities comes to an end. Therefore, the LRIC method cannot achieve its original purpose when investment for renewal is suppressed and the value of most of the network facilities has reached zero.
 - Therefore, other methods would need to be considered when the validity of the calculated results of the LRIC model could be lost. In such cases, however, the method should be able to eliminate inefficiencies; possible options could be a method to correct the accounting data or price-cap regulations. Depending purely on the historical cost is inappropriate.

FY2001 Survey Results on Price Variances between Domestic and Overseas Telecommunications Services Compiled

MPHPT has compiled the results of "FY2001 Survey on Price Variances between Domestic and Overseas Telecommunications Services" on a commission basis.

The outline of the survey results is as follows:

1. With regard to charges of flat-rate

continuous access services to the Internet in Japan, declining trends are progressing, and the prices in Tokyo for ADSL and cable Internet reached the lowest level around the world.

2. In addition, telephone charges in general are becoming lower, for example,

charges for daytime local calls have become the lowest in the world. Although few portions remain at high levels, as a whole, telephone charges in Japan are comparable to those in the U.S. and Europe.

Note: Circumstances surrounding telecommunications tariffs differ on a country-by-country basis, and for the following reasons, it is not necessarily appropriate to make sweeping statements about gaps being large or small.

- a) There are various tariff structures in existence, from ordinary charges, discount ones, etc.
- b) There can be differences according to region within the same country.
- c) Fluctuations in the foreign exchange rates cause considerable impact charges.

Consequently, it would be appropriate to take these points into consideration and regard these survey results as indices.

For details refer to the Japanese web site

http://www.soumu.go.jp/s-news/2002/020911_1.html

The Fifth Japan-Sweden Policy Dialogue Held

On September 19 and 20, 2002, the Fifth Japan-Sweden Policy Dialogue was held at the head office of the Swedish National Post and Telecom Agency (Post- och Telestyrelsen: PTS), Stockholm, Sweden.

Participants to the dialogue were as follows:

From the Japanese side: Mr. MORI, Director-General, International Affairs Department, MPHPT; and others.

From the Swedish side: Mr. Nils Gunnar BILLINGER, Director-General, PTS; and others.

[Topics and outcomes of the dialogue]

1. Pro-competitive policy

The Swedish side presented their policies through explanations on: i) historical development of relationships between the EU Directives and Swedish domestic laws, and ii) Swedish bill to be enacted by July 2003 in accordance with the EU Directives. One of the features of the new bill, compared with the cur-

rent law, is the delegation of regulatory authority (including that concerning asymmetrical regulations) to PTS.

The Japanese side explained i) trends in pro-competitive policy, ii) the current status of the Japanese telecommunications markets, iii) amendments to the Telecommunications Business Law, and iv) the outline of the final report of the "Special Department for Desirable Pro-Competitive Policies in the Telecommunications Business Field for Promoting the IT Revolution," the Telecommunications Council.

At the Q&A session, both sides actively exchanged opinions on future issues, such as new competition frameworks, the current status of consumer protection and frameworks for consumer protection administration. In succession to the opinion exchanges, the two countries reached a conclusion that both sides shall make concerted efforts to further promote fair competition.

2. Mobile communications

The Japanese delegation made a presentation on i) penetration rates of mobile communications and mobile Internet in Japan, ii) the current deployment status of the third-generation (3G) mobile communications, and iii) future possibilities of 3G applications.

The Swedish officials explained i) the 3G introduction schedule for which licensing conditions were decided in March 2001, and the preparation for facilitating the roll-out of 3G networks and services to be completed by the end of December 2003, and iii) licensing conditions, such as population coverage.

As Japan started the world's first commercial 3G mobile communications services, the Swedish side actively asked a chain of questions on reasons for the differences in the numbers of subscribers to 3G services of NTT DoCoMo, Inc. and KDDI Corp., revenue sharing between content providers and mobile carriers, etc. The Japanese side asked the

counterpart about the licensing procedures and detailed licensing conditions. Finally, both sides agreed that further collaborative R&D efforts on mobile communications between the two at Yokosuka Research Park should be encouraged toward the future.

3. IT policies

The Swedish side explained its IT policies, including i) how "e-Europe" is introduced into Swedish IT policies, ii) its countermeasures against IT security/privacy problems through the establishment of relevant projects, iii) as efforts to promote broadband for people with disabilities, policies of the Swedish government that purchases from the private sector services contributing to the promotion of IT among people with disabilities, and iv) the implementation status of frameworks for e-signature and e-certification in line with the EU Directives.

According to the "e-Japan 2002 Pri-

ority Program," Japan explained the progress and targets of its IT policies that are vigorously implemented under the "e-Japan Strategy."

At the Q&A session, the Japanese side made questions on reasons for the world's highest penetration rate of the Internet, the Swedish side listed the backgrounds including i) the penetration speed being faster because of its small population and narrow national area, and ii) IT promotion policies are employed for facilitating introduction of IT equipment through tax incentives. As a whole, forward-looking opinion exchanges were made on i) indispensable support measures for users, including people with disabilities, toward future widespread use/promotion of IT, and ii) the current status of budget allotment/policies for ensuring security and reliability. The two parties agreed that in order to realize an IT society both sides should make concerted efforts and continue to exchange opinions.

(In Sweden, the ratio of closed-captioned TV broadcast programming is 52%)

4. Digitalization of broadcasting

When opinions were exchanged on digitalization of broadcasting in both countries, the Japanese side came to know that Sweden has already started terrestrial digital broadcasting through use of unused frequencies allocated for analog broadcasting, thus there was no need to reallocate other frequencies for the existing analog broadcasting. Both parties agreed that the two countries should conduct frequent opinion exchanges taking into consideration Japan's plans to launch terrestrial digital broadcasting.

5. Next meeting

It was agreed to hold the next meeting in 2003 in Tokyo. Detailed schedules and agenda would be fixed during working-level consultations.



The Fifth Japan-Sweden Policy Dialogue

Meeting Held between Minister KATAYAMA and French Minister Delegate for Industry Nicole FONTAINE, Attached to the Minister for the Economy, Finance and Industry

On September 20, 2002, French Minister Delegate for Industry Nicole FONTAINE, Attached to the Minister for the Economy, Finance and Industry (Ministre déléguée à l'industrie, auprès du ministre de l'économie, des finances et de l'industrie), Senator Pierre HÉRISSEON of the Senate and Deputy Jacques MASDEU-ARUS of the National Assembly and others paid a courtesy visit to Minister KATAYAMA, then exchanged opinions on cooperation between the two countries in the IT field, among others.

At the meeting, Minister KATAYAMA presented a welcome address stating that a series of the Japan-France Regular Bilateral Consultations on the IT field has

been held and closer ties between the two countries have been maintained for many years. Then, Minister FONTAINE said a greeting stating that the visit to Japan this time was to participate in the Eighth International Energy Forum being held on September 21 through 23, 2002, in Osaka, and to exchange opinions with Minister KATAYAMA on the current status of Japan's information and communications, etc.

Minister KATAYAMA added an introduction of Japan's policy direction in the information and communications field (e.g., the third-generation (3G) mobile communications systems, digital broadcasting, etc.). In particular, Minister KATAYAMA stated that Japan and

France will make concerted efforts to strengthen collaborative ties concerning standardization and commercialization of the fourth-generation (4G) mobile communications systems. Minister FONTAINE replied that France will cooperate with Japan on 4G, and explained the situation of business deployments by telecommunications carriers in Europe.

In addition, the two ministers exchanged opinions on postal service reforms in both countries.

Before closing the ministerial meeting, both sides confirmed that cooperative ties between the two countries will be further promoted toward the future.



Meeting between Minister KATAYAMA (left) and French Minister Delegate for Industry Nicole FONTAINE (right)