Reference material

Basic Policy for the Calculation of Interconnection Charges for Optical Subscriber Lines

1. Fundamental Approach

・Interconnection charges are levied on customers to recover costs relating to facilities customers actually use, and our fundamental approach is to calculate the charges on an actual cost method. At present, however, actual costs are roughly ¥9,000 (total for NTT East and NTT West in the fiscal year ended March 31, 2007), far exceeding current interconnection charges (roughly ¥5,000).

Nevertheless, because optical services are now in a rapid growth stage, in order to further promote the use of optical broadband, in the current review of optical interconnection charges we will employ the future cost method for the three-year period from FY2008 through FY2010 and NTT East and NTT West will separately calculate charges based on the current interconnection charge rules.

With respect to demand for FLET'S HIKARI, by the end of FY2010, 9 million subscriptions (a total of 20 million for NTT East and NTT West combined) are forecasted. Interconnection charges from the fiscal year ending March 31, 2009 to the fiscal year ending March 31, 2011 are forecasted to be ¥5,048, lower than the current level (¥5,074). We intend to switch to the charges on an actual cost method as soon as feasible thereafter.

2. Main Assumptions

(1) Demand

・As for demands for FLET'S HIKARI, 9 million subscribers are forecasted by the end of the fiscal year ending March 31, 2011, and it is assumed that accommodation of core cables into devices will be carried out efficiently.

・The number of dark fiber core cables depends on the business strategies of interconnection service providers, which are matters that we can not estimate. Thus we are assuming that the proportion of dark fiber core cables to FLET'S HIKARI will remain the same as recent levels (roughly 10%).

(2) Investment

・It is forecasted that by the end of the fiscal year ending March 31, 2011 investment will be made to the extent necessary for the deployment of the minimum amount of cables for the number of core cables required for the optical fiber service area of 1,150 buildings.

(3) Expenses

・Depreciation costs are based on the projections of years of service life below. An annual efficiency improvement rate based on the results of the fiscal year ending March 31, 2009 (roughly 3%) has been factored into the facility preservation costs.

(4) Service Life

・Optical fiber service life is reviewed considering such factors as how the fiber is being used.
Currently 10 years ⇒ Underground cables, 21 years; suspended cables, 15 years; undersea cables, 13 years

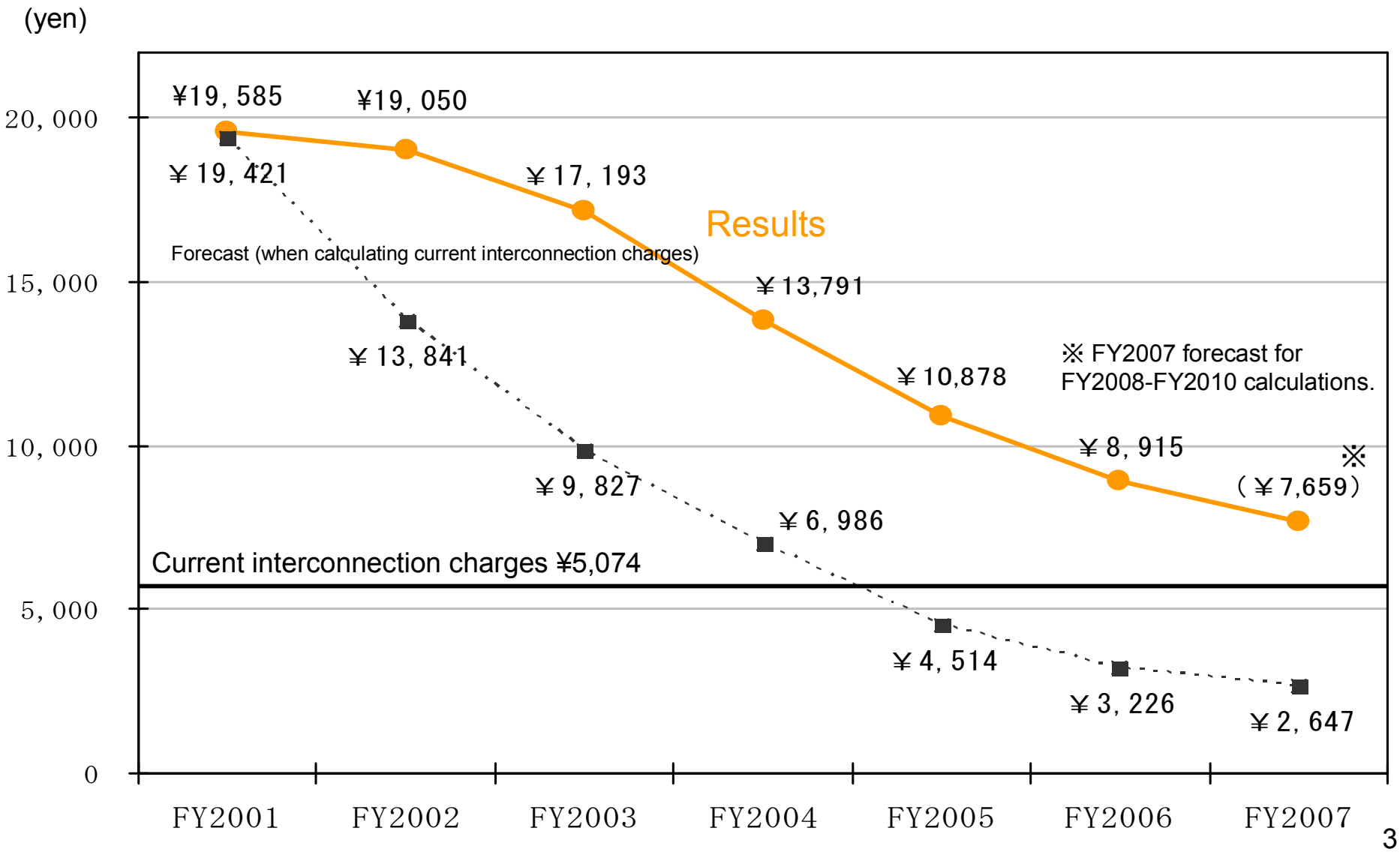
3. Adjustment of disparities between results and forecasts

・The future costs method that we have now employed is a method of calculation based on certain forecasts. Because actual costs and demand will be impacted by factors such as future developments in service and technology, economic conditions, consumer trends, as well as the business strategies of interconnection service providers, it is expected that structurally, deviations from the forecasts will arise.

Therefore, when employing the future costs method, it is essential to make adjustments for the risk that cost recovery may become excessive or insufficient due to the foregoing. In this interconnection charges review, adjustments of any excess or shortfall in the calculation period between the fiscal year ending March 31, 2009 and the fiscal year ending March 31, 2011 will be added to interconnection charge costs in subsequent years.

Costs per one-core cables of optical subscriber lines (NTT East and NTT West combined)

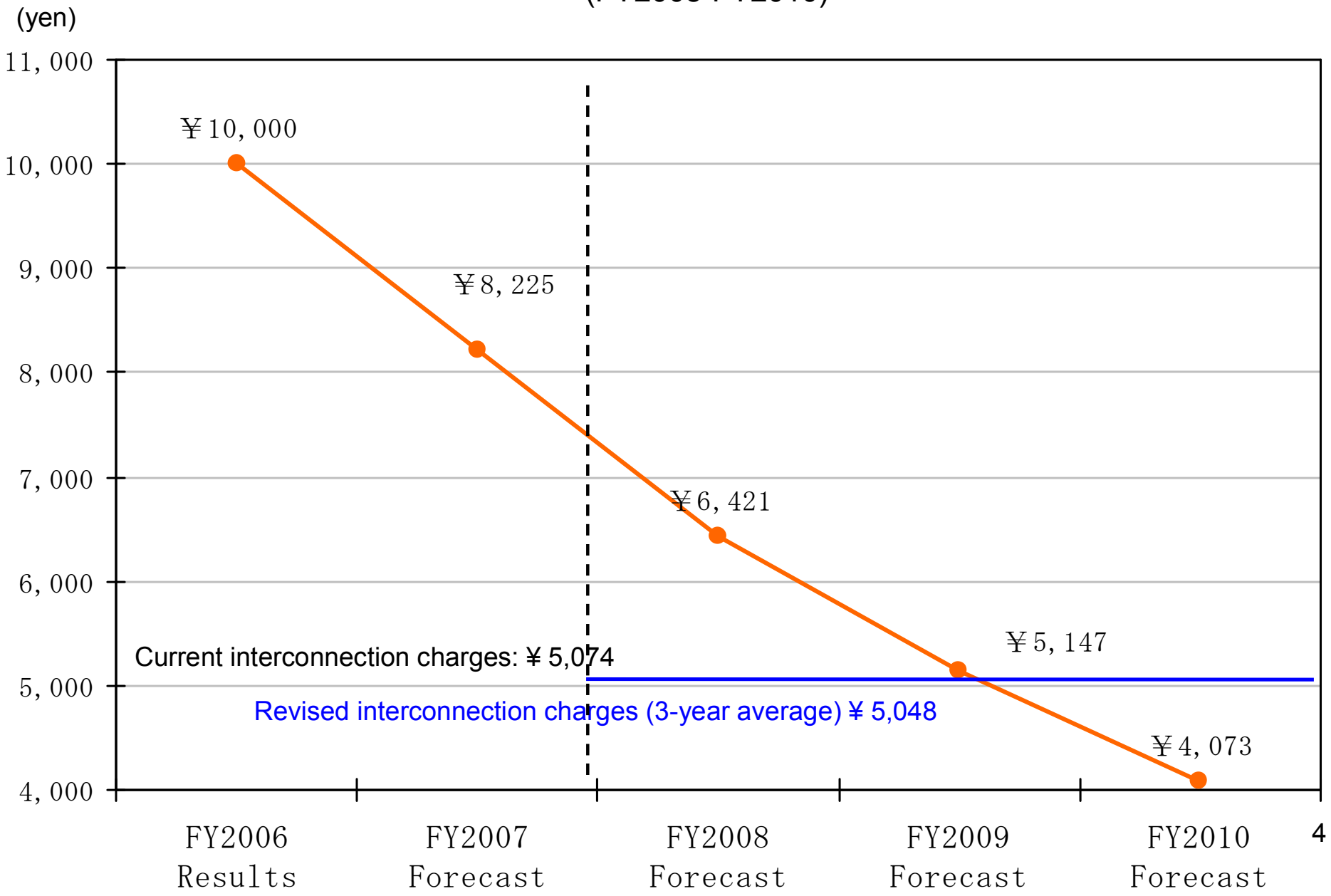
(FY2001-FY2007)



*Note: “FY” in this material indicates the fiscal year ending March of the succeeding year.

Cost forecasts per one-core cable of subscriber optical fiber (NTT West)

(FY2008-FY2010)



An Example of Interconnection Charge Adjustments

If adjustments for the 3-year calculation period are made in the following year: