STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter of the Application of Michigan Bell Telephone Company d/b/a Ameritech Michigan for modification of the requirement to provide adjacent exchange toll calling plans.	)))))	Case No.: U-12077

APPLICATION

Ameritech Michigan[1] respectfully submits this Application to the Michigan Public Service Commission ("MPSC" or the "Commission") seeking issuance of an order modifying the adjacent exchange toll calling plan ("AETCP") requirements set forth in the Commission's June 19, 1991 Opinion and Order in Case No. U-9569 (the "1991 AETCP Order," attached hereto as Exhibit A), and codified in § 312(4) of the Michigan Telecommunications Act, 1995 PA 216; MCL § 484.2101 et seq; MSA 22.1469(101) et seq (hereafter, the "MTA"). Ameritech Michigan is not presently recovering its lost revenue as a result of providing the AETCP to subscribers. Consequently, for the reasons stated herein, the requirements of the Commission's 1991 AETCP Order should be modified to allow Ameritech Michigan to increase its AETCP such that the revenue recovery authorized by the Commission in its 1991 Order can be achieved.

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[1] Michigan Bell Telephone Company, a Michigan Corporation, is a wholly owned subsidiary of Ameritech Corporation, which owns the former Bell operating companies in the states of Michigan, Illinois, Wisconsin, Indiana and Ohio. Michigan Bell offers telecommunications services and operates under the names "Ameritech" and "Ameritech Michigan" (used interchangeably here), pursuant to assumed name filings with the State of Michigan.

1. The MPSC has jurisdiction and authority over this Application pursuant to Sections 201(1), 203 and 312(4) of the MTA; MCL § 484.2101 et seq; MSA 22.1469(101) et seq.

2. Over a decade ago, on July 19, 1988, the Commission, on its own motion, initiated a proceeding in the nature of a legislative inquiry to solicit data and views on whether or not to revise the then-existing policies regarding the scope of local calling and extended area service ("EAS"). (MPSC Case No. U-9153).

3. At that time, Ameritech Michigan (as Michigan Bell Telephone Company) and GTE North, Inc. ("GTE") were the two primary exchange carriers in Michigan, serving both local exchange and intraLATA toll customers.

4. The Commission's inquiry was in response to the concerns of customers who, due to their proximity to the borders of local exchange boundaries, paid long distance charges for calls placed to neighboring exchanges, though the recipient of the call may be geographically close to the customer initiating the call.

5. The result of this inquiry was an Opinion and Order in MPSC Case No. U-9153 dated September 26, 1989 (the "EAS Order"), which, among other things, sought to address the issue of calling to adjacent exchanges without the expansion or revision of existing EAS arrangements. Pursuant to the EAS Order, Ameritech Michigan and GTE were required to file proposals for optional discount toll plans for calling to adjacent exchanges.

6. GTE's filing in response to the EAS Order was docketed as Case No. U-9568. Ameritech Michigan's filing was docketed as Case No. U-9569. The two applications

were consolidated for hearing, although a separate record was maintained for the two proceedings.

7. On June 19, 1991, the Commission issued a single Opinion and Order for both Case No. U-9568 and Case No. U-9569 (the "1991 AETCP Order"). Because Ameritech Michigan was not a party to Case No. U-9568, this Application does not seek to alter or vacate the requirements of the 1991 AETCP Order insofar as they pertain to GTE.

8. The 1991 AETCP order required Ameritech Michigan and GTE to offer their customers the option of purchasing adjacent exchange toll calling plans pursuant to the following monthly rates:

	One-half Hour*	Two Hours*	Unlimited Calling
Residential	$1.25	$5	$15
Business	$1.75	$7	Not Applicable
Non-recurring misc. Service charge	$8.35	$8.35	$8.35

*Under the block-time plans, customers are also given a 30% discount off of the prevailing message toll service rates for all additional calls placed to adjacent exchanges beyond the allotted time blocks.

See 1991 Order at 19.

9. Ameritech Michigan has taken the position before this Commission (in Case No. U-11525), and still believes that the AETCP described above is both discriminatory and anti-competitive because, among other things, it fixes telecommunication prices below market rates, unfairly burdens only two providers of telecommunications service in a rapidly expanding competitive marketplace for telecommunication services, is substantially funded by ratepayers that do not benefit from the service, and is not funded on a competitively neutral basis. However, Ameritech Michigan promptly complied with the 1991 AETCP Order and

continues to comply with it. See, Exhibit B. Ameritech Michigan reserves the right to address its concerns regarding the continued existence, format and discriminatory application of the AETCP at a later point in time. This Application is filed for the limited purpose of requesting changes to the rates for the existing AETCP, as contemplated by Section 312(4) of the MTA.

10. In order to offset the additional cost and net revenue loss of providing AETCPs, the 1991 AETCP Order allows Ameritech Michigan to impose a $0.02 monthly surcharge on its local exchange customers and a $0.02 surcharge on its toll customers residing in MECA exchanges, provided such MECA customers actually incur toll charges. The Commission derived this surcharge by assuming a 10% subscription level (of those eligible to participate) for the AETCP and dividing Ameritech Michigan's estimated net revenue reduction, which it determined to be $8.2 million based on assumptions regarding usage levels, by the total toll access lines. 1991 Order, pp. 27-30. Ameritech Michigan continues to collect these surcharges in accordance with the 1991 AETCP Order. See, Exhibit B.

11. The 1991 AETCP Order also directed Ameritech Michigan to file a report setting forth the actual results of the plan's first year of operation, which Ameritech Michigan did. See, Exhibit C. The purpose of this 'true-up' filing was to "determine the need for a revenue offset." See, 1991 Order at 11.

12. The results of the first year of the AETCP were that (i) the program was very popular; (ii) the funds generated through the surcharge came close to covering the cumulative costs for the first year; and (iii) the revenue for the next year would not cover the costs for providing the plan in 1993. Ameritech Michigan suggested proposals for future funding and proposed to work informally with the Commission Staff to assess implementation of funding options.

13. Later that year, in Case No. U-10283 regarding local directory assistance, Ameritech Michigan proposed and received Commission approval to offset a $3.2 million AETCP shortfall with part of an increase in directory assistance rates. This was the last time Ameritech Michigan has received relief due to shortfalls in AETCP funding. See, Affidavit of David Sorenson, attached hereto as Exhibit D, ¶ 4.

14. As explained by Mr. Sorenson, Ameritech Michigan has continued to incur shortfalls for the AETCP every year from 1994 through the present. Sorenson Aff. ¶ 5. However, Ameritech Michigan in this application is not seeking to recover past shortfalls, but rather is only seeking to address shortfalls on a going forward basis.

15. For 1999, Ameritech Michigan estimates its revenue shortfall attributable to the AETCP to range from $17 million to $34 million. Sorenson Aff. ¶ 7.

16. The high end of the revenue shortfall range is based upon applying March 1999 intraLATA MTS rates to the AETCP usage statistics. Sorenson Aff. ¶ 7.

17. Recognizing that some users would opt to subscribe to recently introduced discount toll calling plans instead of paying prevailing MTS rates for toll service, however, Ameritech Michigan has estimated its present revenue shortfall using 1994 MTS rates for toll service. As discussed in ¶ ¶ 8 -10 of the Affidavit of David Sorenson, application of the more conservative 1994 MTS rates yields an approximate revenue shortfall of $18.8 million.

18. Ameritech Michigan now requests modification of the AETCP rate structure in order to allow it to recover some of its current revenue shortfall.

19. Specifically, Ameritech Michigan submits the following two-part proposal for consideration by the Commission:

AMERITECH MICHIGAN'S AETCP RATE INCREASE PROPOSAL

PART ONE: Raise the residential rates to equal the business rates for the block-time calling plans, as follows:

	One-half Hour	Two Hours	Unlimited Calling
Residential	$1.75	$7	*See Below*
Business	$1.75	$7	Not Applicable

PART TWO: Increase the monthly surcharge and the Unlimited Calling Plan price in some combination that would allow Ameritech Michigan to recover as much of the impact of offering AETCPs as possible, per the following schedule:

Revenue Shortfall Schedule

(in millions, after taking into account the revenue recovery from the implementation of Part One)
*(an * denotes complete revenue recovery)*

	Unlimited Plan Price					
Surcharge	$15	$25	**$35**	$45	$55	$65
$0.02	$18.6	$14.9	$11.3	$7.6	$3.9	$0.2
$0.05	$16.6	$13.0	$9.3	$5.6	$2.0	*
$0.07	$15.3	$11.7	**$8.0**	$4.3	$0.6	*
$0.12	$12.1	$8.4	$4.7	$1.1	*	*
$0.22	$5.6	$1.9	*	*	*	*
$0.30	$0.4	*	*	*	*	*

20. As explained by Mr. Sorenson, the residential rate increase for the block-time plans is necessary to partially offset the losses sustained on those plans, which presently approximate $380,000.00. Sorenson Aff. ¶ 11. The proposed increases are not substantial, and Ameritech Michigan would not alter the additional 30% discount off of prevailing message toll rates for the block-time plan AETCP customers.

21. If Part One of Ameritech Michigan's AETCP Rate Increase Proposal were implemented, Ameritech Michigan projects its revenue shortfall for the block-time plans would be reduced by $240,000.00 (or approximately 63%), to yield an approximate remaining annualized revenue shortfall of $140,000.00. Sorenson Aff. ¶ 11.

22. In order to facilitate revenue recovery for the unlimited plan, Part Two of Ameritech's proposal involves raising (in some combination) both: the $0.02 surcharge paid by all Ameritech Michigan subscribers and MECA toll subscribers; and (b) the $15 Unlimited Calling Plan flat rate.

23. In fairness, the burden of funding the AETCP should fall more heavily upon the subscribers who benefit substantially from the program than on the entire base of Ameritech Michigan ratepayers, many of whom do not use the AETCP because either (i) they are not eligible to subscribe to the AETCP, or (ii) they choose not to subscribe to the AETCP.

24. Approximately $18.5 million of the remaining revenue shortfall is attributable to the unlimited plan option of the AETCP, largely due to excessive customer usage of that aspect of the AETCP and the dramatic increase in the number of subscribers to that plan in the last three years. See, Sorenson Aff., Ex. D.

25. For example, a review of six high-usage Ameritech Michigan customer accounts with the unlimited AETCP revealed that some subscribers were averaging about 205 calls a month, for an average monthly minute usage of 16,516 minutes (or 275 hours), and an average call duration of 80.6 minutes. Under the AETCP plan, these subscribers paid only $15 for usage that would cost about $2,958 under comparable toll rates. Sorenson Aff. ¶ 12.

26. This type of residential usage is inconsistent with the original goals of the AETCP, which allowed people to avoid toll rates for necessary and reasonable calls to bordering

exchanges, such as "schools, doctors and emergency services." 1991 Order at 11. Excessive residential usage also appears consistent with the increase in residential internet service access because the duration of internet calls tends to be longer than that of voice calls. Sorenson Aff. ¶ 13.

27. Accordingly, Ameritech Michigan respectfully requests the Commission to (i) increase the access line surcharge from $0.02 to $0.07 (a $0.05 increase on all Ameritech Michigan access lines and MECA toll subscribers) and (ii) increase the unlimited calling plan rate from $15.00 per month to $35.00 per month (a $20.00 increase), in accordance with the proposed tariff attached hereto as Exhibit E.

28. This proposal reflects a conservative approach to the AETCP funding problem insofar as it allows for only partial (approximately 60%) revenue recovery for Ameritech Michigan.

29. In consideration of the impact any rate increase will have on its ratepayers, Ameritech Michigan seeks only partial revenue recovery at this time. Ameritech Michigan's requested relief would still leave a revenue shortfall of approximately eight million dollars for 1999, even though the 1991 AETCP Order entitles it to obtain complete revenue recovery.

30. The proposed surcharge amount of $0.07 (per Ameritech Michigan access line and MECA toll line) is still less than the $0.09 surcharge paid by GTE customers as a result of the 1991 AETCP Order. See, Ex. A, p.36.

31. Not only is cost-shifting to the unlimited plan subscriber fair, it will also promote competition, thus encouraging the high volume user to select the toll-savings plan most closely tailored to his or her usage needs. Because nearly every long-distance carrier offers at least one kind of toll-savings plan and because such plans are generally not limited to calls

placed to adjacent exchanges, it is possible that some customers presently subscribing to the unlimited AETCP may find more economical solutions with other carriers if they are faced with an increase in the AETCP unlimited rates.

32. Even though the Commission order establishing the AETCP program, which is codified in Section 312(4) of the MTA, authorizes *revenue recovery*, not just cost recovery, Ameritech Michigan has submitted its AETCP cost studies with this Application on a confidential basis as Exhibit F. Ameritech Michigan acknowledges the present AETCP rates cover its cost of providing service, both individually and in the aggregate, as would the proposed AETCP rates sought in this Application.

33. As previously stated, Ameritech believes the existence, format and discriminatory application of the AETCP are contrary to the stated objectives of the MTA. The reality remains, however, that the Michigan legislature chose to codify the requirements of a program established in a different regulatory environment than the one present today. Until such time as the legislature revisits this issue, the revenue recovery requested by Ameritech Michigan is both authorized and appropriate.

WHEREFORE, Ameritech Michigan respectfully requests that:

1. The Commission amend the AETCP rate structure in accordance with both parts of Ameritech Michigan's AETCP Rate Increase Proposal, set forth above and in the illustrative tariff at Ex. E;

2. Such approval be granted by the Commission on an expedited (90-day) basis without a contested case proceeding; and

3. It be granted any such further relief as the Commission may deem just and proper.

Respectfully Submitted,

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