STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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**

COMMENTS OF THE STAFF OF THE MICHIGAN PUBLIC SERVICE COMMISSION

On August 25, 1999 Ameritech Michigan filed an application to revise its rates for an optional toll calling plan it provides entitled the Adjacent Exchange Toll Calling Plan (AETCP). AETCP entitles subscribing customers to make calls to adjacent exchanges not in their local calling area under one of three options: AETCP-30 permits a customer to call adjacent toll exchanges for up to 30 minutes per month for a flat rate amount with calls in excess of 30 minutes rated at a 30% discount from current message toll rates; AETCP- 120 permits calling to adjacent exchanges for up to 2 hours per month with the same 30% discount in toll rates applicable to calls in excess of the 2 hour block; and finally, AETCP-Unlimited permits unlimited calling to adjacent exchanges for a flat monthly charge. AETCP-30 and AETCP-120 are available to both residential and business customers; AETCP-Unlimited is only available to residential customers.

In its application, Ameritech Michigan proposes to increase the rates for each residential calling block as follows:

	PRESENT RATES	PROPOSED RATES
AETCP-30 - per residence line - per business line	 $1.25 $1.75	 $1.75 $1.75
AETCP- 120 -per residence line -per business line	 $5.00 $7.00	 $7.00 $7.00
AETCP-Unlimited -per residence line	$15.00	$35.00

The block rates for business customers would remain unchanged as would the 30% discount from toll rates applicable for calls beyond the 30 or 120 minute blocks and the non-recurring charge assessed upon service initiation. In addition, however, Ameritech has proposed that a $.02 monthly surcharge presently assessed on all toll users be increased to $.07 "to allow Ameritech Michigan to recover as much of the impact of offering AETCPs as possible."[1]

On August 27, 1999, the Executive Secretary of the Michigan Public Service Commission (Commission) required that an opportunity to comment by October 25, 1999 be provided. In compliance with that Notice, the Staff of the Commission (Staff) herein files its comments on Ameritech Michigan's proposal.

I. The legislative-mandated Adjacent Exchange Toll Calling Plan addresses an inequity in the size of local calling areas.

The Adjacent Exchange Toll Calling Plan was implemented in 1991 by order of the Commission in Cases No. U-9568 and U-9569. Ameritech Michigan and GTE, as the primary toll providers, were required to make this discount toll offering available to all customers in the state for calls to adjacent exchanges where calls were rated as toll. The requirement was the result of an extensive inquiry by the Commission initiated in 1988 into the scope of local calling.

[1] 'Ameritech Michigan's Application, p. 6.

The inquiry included not only a request for comments from providers but also a solicitation of comments from customers throughout the state in a series of eleven consumer forums held by the Commission. Over 600 people attended the forums and nearly 90 people, including a number of state legislators, made public statements regarding extended area service and the size of local calling areas. Another 150 customers completed written statements which were submitted at the forums.* The need for such an inquiry was brought about by ongoing requests to expand local calling areas which had been expanded in the 1950s and 1960s but had, for the most part, remained unchanged since then. Expansion of local calling areas in the 1950s and 1960s had both increased revenue and reduced cost for providers; subscribership and usage increased but companies were no longer providing operator intercept service to determine toll billings for these calls. After the advent of automatic toll ticketing, however, cost savings for conversion of toll to local calling disappeared and the end result of converting toll calling to local was the loss of toll revenue. Requests by providers to expand local calling areas, therefore, ceased.

However, as the population grew and communities of interest expanded, customers' desires to expand the size of their local calling areas did not end. Although the size of the local calling areas of urban residents had increased during the 1950s and 1960s, the size of the local calling areas of the suburban and rural areas had been largely frozen, since increases in the size of local areas had ceased by the time these more outlying areas began to grow. Data obtained at the time of the 1988 inquiry demonstrates these differences. Although the average number of access lines in the local calling area of an Ameritech Michigan customer was over 88,000 at that time, the average number of access lines in the local calling area of the more rural Michigan Exchange Carrier Association (MECA) companies was less than 12,000 access lines. Although customers of nearly 95% of the Ameritech Michigan exchanges could call customers of at least

[2]Staff's January 20, 1989 Initial Recommendations in Case No. U-9153, p. 12.

one other exchange as local calls, customers of only 70% of MECA exchanges had similar calling privileges.[3] The size of the local calling areas of incumbents has remained virtually unchanged since that 1988 inquiry.

The Commission looked at a number of alternatives as a part of the inquiry. In weighing both customer desires and needs along with potential impact on providers, the Commission determined that existing local calling areas should not be expanded as they had in the past. However, the Commission did require Ameritech Michigan and GTE to offer an optional discount toll calling plan for calling to adjacent exchanges which were presently not included in the customer's local calling area. AETCP did not permit free calling to these adjacent areas as was available for those who had large local calling areas. However, it did allow that customers calling these non-local adjacent areas at least had the option to subscribe to a calling plan where additional charges for calling these areas were substantially reduced.

AETCP was later codified into Section 312(5) of 1991 PA 179 (Act 179) and the codification of AETCP was continued as Section 312(4) in the 1995 amendments to Act 179. Although regulated toll rates may now be altered upon one day's notice without Commission approval, the provisions of Act 179 require that any changes in AETCP be approved by the Commission.

Continued legislative interest in the scope of local calling has been demonstrated in other statutory requirements as well. The 1991 Act, for example, required the Commission to report to the legislature the "feasibility of establishing a local calling area for residential customers which is 25 miles in all directions from the person's dwelling."[4] Similarly, the 1995 amendments to

[3]Staff's January 20, 1989 Initial Recommendations in Case No. U-9153, p. 18.

[4]Sec. 202(f)(vii) of 1991 Act 179.

Act 179 required that the Commission report to the legislature and the governor on "matters that have impact on the basic local exchange calling activities of all residential customers in the state."[5] Finally, the concern of the legislature about charges for accessing Internet Service Providers is demonstrated in its requirements that the Commission conduct a study of intemet access provider locations "to determine which exchanges can reach the nearest location only by making a toll call." The legislature also requested a recommendation from the Commission regarding "steps needed to allow all local exchange customers to access an intemet provider by making a local call."[6]

The effect of toll charges on short-haul calling continues to be of concern to legislators and customers alike and considerable differences between the sizes of local calling areas continue to exist for various customers in the state. AETCP addresses some of the local calling inequity between customers. AETCP also appears to be a very important alternative to many customers in the state, as is demonstrated by the fact that subscription to this program continues to increase over time. It is with this backdrop in mind that a review of Ameritech Michigan's proposal to adjust the rates for AETCP should be undertaken.

II. Present AETCP rates already cover AETCP costs.

Ameritech Michigan supports its application for rate increase by referencing a $17 million to $34 million shortfall attributable to AETCP.[7] Staff notes that the shortfalls identified by Ameritech have nothing whatever to do with any revenue to cost deficiency which the Michigan Telecommunications Act requires be addressed. Instead, the referenced "shortfall"

[5]Sec. 202(f).

[6]Sec. 202(g).

[7]Ameritech Michigan's Application, p. 5.

computed by Ameritech Michigan results from a comparison of present AETCP revenues' to the revenue which Ameritech Michigan might otherwise have received if it provided toll service to these customers under message toll rates or some other optional toll calling plan not designed with these particular short-haul calling needs in mind. Thus, Ameritech Michigan's comparison does not compare revenue to cost but rather revenue to revenue. In so doing, Ameritech Michigan attempts to create a "revenue wash" situation.

It is Staffs position that shortfalls (in this case for AETCP) are properly determined by comparing rates to costs. While comparing one set of rates to another is an interesting and informative analysis, the result can hardly be construed as a shortfall to justify an increase in rates. Even Ameritech acknowledges, if AETCP revenues are compared to AETCP costs, there is no shortfall at all in the provisioning of AETCP even under current rates.[9] Confidential Exhibit 1, attached to these Staff comments, compares present AETCP block rates to approved Ameritech Michigan costs. No shortfall exists when comparing these rates and costs. In addition, Ameritech Michigan presently receives toll surcharge and directory assistance revenues which have been permitted in association with AETCP funding.[10] These additional revenue sources add to the profitability of AETCP even under existing rates. If Ameritech Michigan's

[8]Present AETCP revenues, according to Ameritech Michigan, include AETCP revenues paid by AETCP customers, the $.02 toll surcharge paid by all Ameritech toll users and certain directory assistance revenue increase permitted by the Commission in 1993 to assist in the funding of AETCP.

'Ameritech Michigan's Application, p. 9.

[10]The cost information submitted by Ameritech Michigan in its confidential Exhibit F did not include Commission approved cost information. Instead, Ameritech Michigan utilized the results of an imputation study conducted for toll services earlier this year. In Staffs confidential Exhibit 1, cost information approved by the Commission in Case No. U-l 1280 was utilized in the comparison. It is Staffs belief that it is in precisely these types of situations, when a demonstrated calculation of the cost of a service is required, that cost studies approved by the Commission must be utilized. Present AETCP rates exceed costs either as Staff has calculated them or as Ameritech Michigan has calculated them.

proposed rate increases for AETCP are approved, this will merely result in increasing the profits from an already profitable service offering.

In Staffs opinion, additional caution is advised if calculations of shortfalls are made on a revenue to revenue basis. Since the number of customers subscribing to AETCP has increased over the years as has the average customer usage on the plan, the revenue "shortfall" as Ameritech Michigan has calculated it, increased. However, a third factor must also be noted which affects the revenue "shortfall" in these computations. Under Ameritech Michigan's methodology the AETCP "shortfall" would have increased even if the number of customers and their usage remained unchanged. This is so because the toll rates Ameritech Michigan utilizes in its comparison have themselves increased. Ameritech Michigan's message toll rates for residential customers in effect when AETCP was approved in 199 1 are attached as Exhibit 2; message toll rates in effect earlier this year are attached as Exhibit 3. On average Ameritech Michigan's short-haul toll rates for residential customers have nearly doubled during this period of time. Therefore, AETCP "shortfalls" in Ameritech Michigan's calculation would also double even if AETCP customer subscription and usage remained constant. In 199 1, for example, an Ameritech Michigan residential toll customer paid $ .27 for a six minute, nighttime call 10 miles from the customer's home exchange. In 1999, unless that customer subscribed to an optional toll calling alternative, the Ameritech Michigan customer would pay $1.08 for that same call - a fourfold increase over the toll rates in effect eight years earlier. If all toll rates on Exhibits 2 and 3 are compared for nearby calls up to 25 miles from the customer's home exchange, rates for six minute calls have doubled in this time frame with the rates for the shorter distance calls made in the off peak hours rising the most.

Staff concludes that a revenue to cost comparison is the appropriate methodology to utilize in determining whether a shortfall exists in Ameritech Michigan's provisioning of AETCP

or any other service offering. Ameritech Michigan has approved costs and these costs should be utilized in determining any service shortfall. On the basis of these approved costs, AETCP is already a profitable service offering and no shortfall exists.

III. Conclusion.

In its application, Ameritech Michigan has proposed to alter certain provisions of its AETCP offering. It has chosen not to address issues regarding whether more than two providers should be required to offer AETCP or whether a program of this nature should be funded on a "competitively neutral basis."" Staff is in agreement with Ameritech Michigan's decision to defer consideration of these issues to a future date, perhaps when the legislature takes up the issue of the sunset of Act 179 next year. At this time, Ameritech Michigan's proposal is limited to requesting approval for doubling its AETCP rates and more than tripling the toll surcharge presently assessed to support this program. By limiting its proposal to raising the rates for existing calling blocks Ameritech Michigan also chooses not to address the issue of the highest usage customers on the plan (presumably connecting to internet service providers) whose usage, in Ameritech Michigan's opinion, "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.'"[12]

As discussed above, AETCP addresses in part a disparity which exists today in the size of the local calling areas of various customers of incumbent local exchange carriers. AETCP

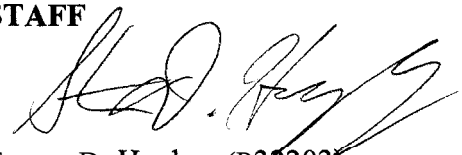
"Application, p. 3.

[12]Application pp. 7-8. Staff would note that although Ameritech Michigan utilizes its highest six users to demonstrate situations where a $15 monthly AETCP rate covers the monthly usage of 16,5 16 minutes, such disparities also exist in local calling areas where similarly a minute-of-use charge is not assessed on the highest usage customer. In either case it should be noted, however, that in total the present rates for these services recover their related costs - including those of the highest usage customer and the lowest usage customer alike.

customers may utilize this discount toll calling opportunity to diminish the charges for nearby calls which are presently provided to customers in larger local calling areas for no additional charge. As Staff has demonstrated, Ameritech Michigan's present AETCP rates already recover all costs related to this plan and no shortfall exists in the provisioning of this service. Consequently, raising AETCP rates will merely increase the profitability of this already profitable service offering. Although Staff agrees that AETCP customers would pay higher rates if AETCP did not exist, AETCP toll rates have more than doubled since the implementation of AETCP in the early 1990s. While the doubling of AETCP rates has increased "revenue losses" as defined by Ameritech Michigan, it has also increased the severity of the disparity between customers in large local calling areas and customers in small local calling areas. Staff believes that Ameritech Michigan's proposal to double the rates for AETCP for residential customers and to more than triple the surcharge for all toll users is unwarranted and should be denied by the Commission.

Respectfully submitted,

MICHIGAN PUBLIC SERVICE COMMISSION STAFF



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DATED: October 25, 1999
9956428/Comments

	PRESENT AETCP RATES[3]	AETCP TSLRIC[4]
AETCP-30	$ 1.25 per residence line $ 1.75 per business line	$ ***
AETCP-120	$ 5.00 per residence line $ 7.00 per business line	$ ***
AETCP-Unlimited	$15.00 per residence line	$ ***

[3]The rates reflected represent revenue received from AETCP customers for the block of time portions of the plan alone. Additional revenues are also received, for example, from the $.02 monthly surcharge assessed on all Ameritech toll users.

[4]Calculations based on Ameritech Michigan's Workpaper No. 000502 filed in Case No. U-11280. The cost of a toll call on that workpaper was converted to a minute of use cost and multiplied by average minutes of use utilized for each AETCP calling block as presented by Ameritech Michigan in the subject proceeding.

Hi chigan Bell Telephone Co.
Tariff H.P.S.C. No. 3

PART II
9th Revised Sheet 1
Cancels 8th Revised Sheet 1

MESSAGE TOLL AND ASSISTED CALL SERVICE

MESSAGE TOLL SERVICE

A CHARGES

1. Basic Rate Schedule - applies to each Message Toll Service call with certain discounts as specified in 2. following.

Rate	Rate Miles	First Minute or Fraction	Each Additional Minute or Fraction
1	1 - 10	$0.14	$0.08
2	11 - 15	0.19	0.12
3	16 - 20	0.25	0.15
4	21 - 25	0.29	0.18
5	26 - 30	0.32	0.21
6	31 - 50	0.34	0.24
7	51 - 100	0.38	0.27
8	Over - 100	0.41	0.30

2. Discounts from Basic Rate Schedule

a. A 30% discount applies for any portion of a call occurring Monday through Friday and Sunday during the period from 5:00 P.M. to but not including 11:00 P.M.

b. A 30% discount applies for any portion of a call occurring during the period from B:00 A.M. to but not including 11:00 P.M. on certain holidays /a/ or their resulting holidays /b/ when said holidays fall on a weekday (Monday through Friday). When holidays fall on Saturdays or Sundays apply the holiday discount (30%) unless a larger discount would normally apply.

c. A 50% discount applies for any portion of a call occurring during the period from 11:00 P.M. to but not including B:00 A.M. Sunday through Friday, all day Saturday, and Sunday to but not including 5:00 P.M.

d. A supplemental discount of 0% applies to each Message Toll Service charge as authorized by the M.P.S.C. in Case No. U-8816, Order dated November 10, 1988. This discount may be changed by the Company upon 21 days notification. (F) (C)

3. Message Charges on Public or Semi-Public Telephones	Charge Per Call
a. Customer Dialed Station-to-Station Calls, within a radius of 20 miles, Sent Paid. For calls within the Local Service Area or the same District Exchange see Tariff M.P.S.C. No. 1.	$0.20
b. Other calls - see Part III of this Tariff.	

MICHIGAN PUBLIC SERVICE COMMISSION FILED DEC 1 1988

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IN CASE NO. U-
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/a/ The holidays are New Year's Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day.
/b/ Resulting legal holidays are legal holidays observed on a weekday because the holiday falls on a Sunday.

MICHIGAN BELL
TELEPHONE COMPANY
TARIFF M.P.S.C. NO. 20R

Ameritech
Tariff

PART 9 | SECTION 1

FART 9 - Message Toll Services
SECTION 1 - Message Telecommunications Services and Rate Schedules

5th Revised Sheet No. 3
Cancels
4th Revised Sheet No. 3

MESSAGE TOLL SERVICES **(cont'd)** (C)

A. CHARGES

1. Residence Basic Rate Schedule/1/ - applies to each Residence Message Toll Service call with certain discounts as specified in 2. following.

Description	First Minute or Fraction	Each Additional Minute or Fraction	
Basic Rates - Rate Miles ALL	.18	.18	(I)
Evenings and Holidays - Rate Miles ALL	.18	.18	(I)
Late Night and Weekends - Rate Miles ALL	.18	.18	(I)

MICHIGAN PUBLIC SERVICE COMMISSION FILED MAR 19 1998

Residence customers who are not currently subscribed to Ameritech as their intraLATA carrier will receive a credit when they select Ameritech. Customers that select Ameritech as their intraLATA carrier will be provided with a credit of $5.00 per exchange access line, up to an annual maximum, per account of $45.00, toward the intraLATA toll usage on the bill. Credits will be provided via a coupon which may be used to offset Ameritech intraLATA toll usage charges. Customers must redeem all coupons within 90 days of issuance. Coupons may not be redeemed for cash and have no value until presented to Ameritech for redemption toward the Ameritech intraLATA toll usage.

CANCELLED BY ORDER
IN CASE NO. U-
APR 0 1 1999
REMOVED BY

/1/Toll schedules apply to all Michigan Bell and MECA member company customers for whom Michigan Bell is the toll provider.

Issued under authority of 1991 PA 179 as amended by 1995 PA 216
Issued: February 27, 1998 Effective: March 1, 1998
By Paul V. LaSchiazza, Vice President - Regulatory
Detroit, Michigan