S T A T E O F M I C H I G A N

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter of the application of **AMERITECH MICHIGAN** for modification of the requirement to provide adjacent exchange toll calling plans.	)	Case No. U-12077

At the November 16, 1999 meeting of the Michigan Public Service Commission in Lansing, Michigan.

PRESENT: Hon. John G. Strand, Chairman
Hon. David A. Svanda, Commissioner
Hon. Robert B. Nelson, Commissioner

OPINION AND ORDER

On August 25, 1999, Ameritech Michigan filed an application to increase the rates for its adjacent exchange toll calling plan (AETCP) options. Under the AETCP, customers pay a monthly charge that entitles them to place calls to adjacent exchanges without paying the per-minute toll rates that would otherwise apply. Ameritech Michigan proposes to increase the rate for the residential half-hour option from $1.25 to $1.75 per month, the rate for the residential two-hour option from $5.00 to $7.00 per month, and the rate for the residential unlimited calling option from $15.00 to $35.00 per month. It does not propose to change the 30% discount on toll rates for calls beyond the half-hour and two-hour limits. After the increases, residential customers would pay the same rates as business customers for the first two options. Business customers cannot subscribe to the unlimited calling option. Ameritech Michigan also proposes to increase the AETCP surcharge from $0.02 to $0.07 per month on its toll customers residing in its own exchanges and those served by the members of the Michigan Exchange Carriers Association (MECA).

Ameritech Michigan provided notice of the proposed increases to its customers. The Commission received hundreds of comments from customers, overwhelmingly against the proposed increases. MECA and the Commission Staff (Staff) filed comments on October 25, 1999.

Ameritech Michigan offers the AETCP pursuant to the Commission's June 19, 1991 order in Cases Nos. U-9568 and U-9569. Ameritech Michigan acknowledges that current rates exceed the cost of providing the service, but says that the Commission order authorized full recovery of the toll revenue that was lost due to the implementation of the AETCP options. It says that it almost recovered its lost toll revenues only in the first year because the plan quickly proved to be more popular than expected. Further, it says that a pattern of usage is developing that is inconsistent with the original goal of the AETCP, which it describes as allowing people to avoid toll rates for necessary and reasonable calls to bordering exchanges. It says that 6 of its high usage customers pay $15 per month to make 275 hours of calls when the toll charges for those calls would be $2,958, and suggests that "excessive" residential usage is consistent with the increase in access to the Internet. Application, p. 8. It calculates that its proposed rates will recover only 60% of the current revenue shortfall and that the $0.07 surcharge will still be less than the surcharge paid by the customers of GTE North Incorporated (GTE) since 1991.[1]

[1]Ameritech Michigan also says that the existence, format, and application of the AETCP are contrary to the stated objectives of the Michigan Telecommunications Act, MCL 484.2101 et seq.; MSA 22.1469(101) et seq., but will address those issues at another time.

The Staff says that the AETCP addresses some of the disparity in local calling areas across the state by offering an alternative to authorizing new extended area service (EAS) . It notes that Ameritech Michigan is not claiming that current rates do not cover the cost of providing the AETCP, but rather is basing its application on a comparison of current AETCP revenues to the revenues that the company would receive if the same calls were handled at toll rates, which are not designed to address the needs of customers to have expanded local calling areas. The Staff says that a comparison of AETCP revenues and lost toll revenues is problematic because the number of customers subscribing to the AETCP has increased, subscribing customers have increased their usage since 1991, and Ameritech Michigan has essentially doubled its basic toll rates during that same period. Finally, the Staff notes that Ameritech Michigan has not offered a solution to the issue of the highest use customers, but instead simply proposes to increase everyone's rates.

MECA says it is important that Ameritech Michigan continue to provide the AETCP at reasonable rates as an alternative to EAS. It says that the AETCP should not be changed without a consideration of comparable changes to EAS for which it is a substitute. MECA also notes Ameritech Michigan's admission that current rates cover the cost of the service, and says that the company's request to recover its lost toll revenues has no place under the current statutory and regulatory scheme, which does not rely on revenue requirements, embedded costs, or prescribed rates of return. Finally, it asks the Commission to reaffirm that customers in MECA member company exchanges who receive toll service from Ameritech Michigan are Ameritech Michigan's toll customers and are entitled to the same level of toll service as customers in Ameritech Michigan's exchanges.

The Commission created the AETCP in its June 19, 1991 order in Cases Nos. U-9568 and U-9569. The Michigan Telecommunications Act continues the plan, and requires Commission approval for any changes:

> Adjacent exchange toll calling plans as ordered by the commission on June 19, 1991 shall remain in effect under this act until altered by order of the commission.

MCL 484.2312(4); MSA 22.1469(312)(4). The Commission concludes that it should deny Ameritech Michigan's application. There is no claim that current rates do not cover the total service long run incremental cost of the service. There is only a claim that Ameritech Michigan is entitled to recover something closer to the revenues it would receive if the AETCP calls were handled at Ameritech Michigan's toll rates. The AETCP was created as a mechanism to expand local calling areas at a reasonable cost to customers without an undue loss of toll revenues to the toll providers. Although the Commission's order that created the AETCP discussed a funding mechanism for the foregone toll revenues, revenue neutrality is not a necessary component of the plan, particularly after the enactment of the Michigan Telecommunications Act, which rejects the rate base, rate-of-return form of regulation that existed when the Commission authorized the AETCP. In any event, there is no showing that current AETCP rates are preventing Ameritech Michigan from earning a fair return. Furthermore, Ameritech Michigan's presentation does not clearly explain the derivation of its revenue shortfall calculation and does not consider alternatives to a substantial increase in the rate for the unlimited calling option. The application should therefore be denied.[2]

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[2]MECA's concern about discrimination against its customers may be overstated in this case, but the Commission agrees that the AETCP customers who receive local exchange service from MECA's members are as much Ameritech Michigan's toll customers as those customers who receive local exchange service from Ameritech Michigan.

The Commission FINDS that:

a. Jurisdiction is pursuant to 1991 PA 179, as amended, MCL 484.2101 et seq.; MSA 22.1469(101) et seq.; 1969 PA 306, as amended, MCL 24.201 et seq.; MSA 3.560(101) et seq.; and the Commission's Rules of Practice and Procedure, as amended, 1992 AACS, R 460.17101 et seq.

b. The application should be denied.

THEREFORE, IT IS ORDERED that the application of Ameritech Michigan to increase the rates for the adjacent exchange toll calling plan options is denied.

The Commission reserves jurisdiction and may issue further orders as necessary.

Any party desiring to appeal this order must do so in the appropriate court within 30 days after issuance and notice of this order, pursuant to MCL 462.26; MSA 22.45.

MICHIGAN PUBLIC SERVICE COMMISSION

/s/ John G. Strand
Chairman

(S E A L)

/s/ David A. Svanda
Commissioner

/s/ Robert B. Nelson
Commissioner

By its action of November 16, 1999.

/s/ Dorothy Wideman

Its Executive Secretary

et seq.; and the Commission's Rules of Practice and Procedure, as amended, 1992 AACS, R 460.17101 et seq.

b. The application should be denied.

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MICHIGAN PUBLIC SERVICE COMMISSION

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Chairman

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Commissioner

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By its action of November 16, 1999.

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Suggested Minute:

> "Adopt and issue order dated November 16, 1999 denying the application of Ameritech Michigan to increase the rates for the adjacent exchange toll calling plan options, as set forth in the order."