

STATE OF MICHIGAN  
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter of the application of ) <b>FRONTIER COMMUNICATIONS OF MICHIGAN,</b> ) <b>INC.,</b> for authority to offer expanded local calling and ) to adjust its rates for basic local exchange service. ) _____ )	Case No. U-13603
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At the January 21, 2003 meeting of the Michigan Public Service Commission in Lansing,  
Michigan.

PRESENT: Hon. Laura Chappelle, Chairman  
          Hon. David A. Svanda, Commissioner  
          Hon. Robert B. Nelson, Commissioner

**OPINION AND ORDER**

On October 25, 2002, Frontier Communications of Michigan, Inc., (Frontier) filed an application for authority to expand its local calling areas and to increase its rates for basic local exchange service to recover the cost of expanded local calling, pursuant to Section 304 of the Michigan Telecommunications Act (MTA), MCL 484.2304.

The application relates to basic local exchange service that Frontier provides in the following 14 exchanges in the south central part of the Lansing LATA: Allen, Brooklyn, Bundy Hill, Cambria, Camden, Concord, Frontier, Hanover-Horton, Montgomery, North Adams, Onsted, Pittsford-Osseo, Prattville, and Ransom. Although Frontier's current service permits customers to place local calls to some adjacent and nearby exchanges, its proposal would expand local calling to

all adjacent exchanges within Michigan.<sup>1</sup> In addition, four of the Frontier exchanges would obtain expanded local calling to the Hillsdale Exchange, which does not have a common boundary with any of the four Frontier exchanges.

Frontier notes that Verizon North Inc. and Contel of the South, Inc., d/b/a Verizon North Systems, (collectively, Verizon) and SBC are the incumbent local exchange providers serving most of the exchanges that would be accessible as part of Frontier's proposed expanded local calling areas. Throughout most of those areas, SBC and Verizon customers already have the ability to make local calls to Frontier's customers, but calls going the other way, i.e., placed by a Frontier customer to the SBC or Verizon customer, incur toll charges under present service arrangements. Frontier says that one purpose of the application is to redress this disparity. In addition, Frontier's proposal would expand local calling for certain of its exchanges to two exchanges served by CenturyTel Midwest – Michigan, Inc., d/b/a CenturyTel.

Frontier proposes to implement its expanded local calling proposal by providing each of its customers' lines with a monthly 500 minute local calling allowance. It further proposes to recover the incremental costs and revenue loss attributable to the expansion of local calling<sup>2</sup> by increasing its residential and business basic local exchange rates by \$4.82 per line per month and by charging 2.9¢ per minute for calling in excess of the monthly allowance. (Calls currently being rated as local would not count against the 500 minute allowance.) It represents that the proposed rate

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<sup>1</sup> Several of the exchanges border the state line separating Michigan from Ohio and Indiana. Although existing service arrangements allow Frontier's customers in those exchanges to make local calls to some adjacent exchanges in Ohio, the expanded local calling area would not include any exchanges in states other than Michigan.

<sup>2</sup> According to the application, the conversion of toll routes to local calling means that Frontier would forgo the toll access revenues it formerly collected from interexchange carriers and pay charges to other local providers to terminate the calls. It also would incur internal network costs to accommodate the increase in traffic to the expanded local calling areas and to install direct trunks.

increase does no more than compensate for the incremental cost effects and will not boost its net income. It says that the proposed increases are justified under Section 304 of the MTA because, even after the increases, its rates will be comparable to rates charged by other providers for the same service and because it will be offering “a new function, feature, or capability . . . as a component of basic local exchange service.” MCL 484.304(7)(c). Finally, Frontier represents that its proposal offers a significantly enhanced service in response to its customers’ requests.

As required in Section 304(3), Frontier sent a notice of opportunity to comment to its customers. In addition to the positions and supporting analysis provided in the comments filed by the Commission Staff (Staff) and SBC,<sup>3</sup> the Commission also received comments by post or e-mail from more than 60 persons, most of whom were customers of Frontier. Approximately 90% opposed the application. In addition, the majority viewpoint expressed by telephone to Staff employees in the Service Quality Section of the Commission’s Communications Division overwhelmingly opposed the application.

In its comments, the Staff says that Frontier’s proposal is similar to the applications approved by the Commission’s April 16, 2002 order in Case No. U-13263 (for Drenthe Telephone Company), August 20, 2002 order in Case No. U-13436 (for Allendale Telephone Company), September 16, 2002 order in Case No. U-13449 (for Deerfield Farmers’ Telephone Company), October 3, 2002 order in Case No. U-13489 (for Ace Telephone Company), November 7, 2002 order in Case No. U-13515 (for Bloomingdale Telephone Company), and December 6, 2002 order in Case No. U-13533 (for Waldron Telephone Company). The Staff further indicates that it is necessary to make an adjustment to the minutes of use used in Frontier’s rate calculations, as also

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<sup>3</sup> SBC’s comments are similar to those it made in response to Ace Telephone Company’s expanded local calling application in Case No. U-13489, as discussed in the October 3, 2002 order. It is not necessary to address its comments in light of the disposition of this order.

done in the August 20, 2002 order in Case No. U-13436. The Staff says that it and Frontier agree that this adjustment would lower the amount of the rate increase by 4¢, from \$4.82 to \$4.78 per line per month.

The Staff observes that the Commission approved a 2,000 minute cap in granting Bloomingdale Telephone Company's expanded local calling application in Case No. U-13515. In that case, the Staff further observes, the Commission added the caveat that "a cap significantly lower than 2,000 minutes per month would likely raise questions regarding whether rates charged for 'local' calls into a customer's adjacent exchanges are just and reasonable when compared to rates for calls within the customer's own exchange." Order dated November 7, 2002, Case No. U-13515, at 5. The Staff says that the 500 minute allowance proposed by Frontier would diminish the value of the expanded service to customers, relative to the proposals approved in other cases. It notes the considerable opposition that Frontier's customers have expressed in response to the rate increase. It questions whether the expressed opposition is uniform throughout Frontier's service territory or is concentrated in only some of the 14 exchanges.

The Staff suggests several alternatives to granting approval of Frontier's proposal as it stands. First, it says, the Commission could direct Frontier to offer expanded local calling on an optional basis, i.e., only those customers that want it would pay for it, although that approach would presumably require those customers to pay an indeterminate level of higher rates. Second, Frontier could make proposals for expanded local calling with respect to each of its 14 exchanges, instead of presenting them as one consolidated application. Third, the Commission could require an increase in the monthly calling allowance.

On January 2, 2003, Frontier filed reply comments, which note that the Commission's statement regarding monthly allowances of less than 2,000 minutes appeared in an order issued

after Frontier filed this application. To avoid the risk that its application could be denied, Frontier now agrees to accept a 2,000 minute allowance, with no corresponding adjustment in the amount of the rate increase. Frontier also does not contest the Staff's adjustment reducing the monthly line charge by 4¢.

Frontier discounts the customer opposition expressed in the comments. It says that it launched this proposal because it had received many customer requests to expand local calling. Comparing approximately 60 unfavorable comments filed in this case to the 24,500 access lines it serves in the 14 exchanges indicates that only 0.2% of its customer base has actually expressed opposition. It says that its decision to raise the monthly allowance to 2,000 minutes increases the customer value of its proposal.

The Commission is unable to find that Frontier's proposal should be approved at this time. While expanded local calling undoubtedly has value for customers, although more for some than others, the comments raise questions as to whether the proposed rate increase is just and reasonable, as required by Section 304. Because Frontier represents that the rate proposal would have a neutral effect on net income, it can be presumed that it is indifferent to the short-term financial consequences of the proposal. Thus, in evaluating whether the rate proposal is just and reasonable, particularly whether it is "excessive" or "unreasonably discriminatory," MCL 484.2102(y), it is even more important to focus on a comparison of the value that customers attach to expanded calling with the increased rates that they would pay.

Although Frontier's proposal is similar to several other expanded local calling proposals that the Commission has recently approved, a distinguishing factor is the degree of public opposition expressed in the comments. As noted in prior Commission orders dealing with this issue, proposals to combine an expanded calling area with a rate increase have the potential to benefit

some of its customers more than others. There is a trade-off between the benefits and the added costs to customers, and the balance may vary from one customer to another, depending upon each customer's particular needs and calling patterns. In the cases approving expanded local calling proposals, there was a showing of demonstrable public support for the proposals, even though they meant increased rates. In this case, there is little indication of widespread public support, aside from Frontier's generalized representation that it developed the proposal to respond to customers' demands. There are issues in this matter as to whether the limited expansion of local calling provides enough value to Frontier's customers for them to support commensurate rate increases.

The stated explanations in the comments opposing the application are also revealing. A number of customers say that they have little interest in paying for the ability to call areas that are predominantly rural and of little interest to them. Others say that when they do have occasion to make calls to those areas, they can use a long-distance calling card, which is more economical for them, or that currently available extended area calling plans are satisfactory. The Commission attaches considerable significance to the views of persons who are willing to take the time and effort to state their comments in writing or by e-mail. Those comments suggest a more than passing concern and provide a record that explains each commenting customer's views.<sup>4</sup>

The Commission is not foreclosing Frontier from seeking to implement other expanded calling proposals in the future. However, filing an application for a proposal similar to this one could be subject to a more rigorous review in a contested case proceeding before it could be implemented. Frontier may wish to consider modifications to attract more customer support or to incorporate some of the Staff's suggested alternatives. It may be more appropriate to develop and apply for

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<sup>4</sup> In some cases, interested parties have sponsored petitions containing a brief statement drafted by the sponsor. The Commission attaches less significance to petitions, form letters, or other forms of orchestrated support or opposition.

expanded local calling for particular exchanges, instead of proposing a rate increase that applies to all exchanges. The Commission reiterates that a cap significantly lower than 2,000 minutes per month would likely raise questions regarding whether rates are just and reasonable. In any event, it will be important to demonstrate public support for expanded local calling plans when accompanied by higher rates.

The Commission is aware that comment proceedings are generally not suitable for undertaking exhaustive factfinding. It also realizes that the comments submitted by interested persons may not provide a statistically valid sample of customers' views in the aggregate or indicate whether particular subsets of customers attach more significance to expanded calling (and so would be willing to pay more for it than others that want it to a lesser degree, or not at all). In cases in which the value of expanded calling to customers and their degree of support for it or their opposition to rate increases is at issue, providers must make an effort to demonstrate the extent of customer support for their proposal. For instance, providers could send questionnaires to their customers regarding an expanded local calling proposal.<sup>5</sup>

The Commission FINDS that:

- a. Jurisdiction is pursuant to 1991 PA 179, as amended, MCL 484.2101 et seq.; 1969 PA 306, as amended, MCL 24.201 et seq.; and the Commission's Rules of Practice and Procedure, as amended, 1992 AACS, R 460.17101 et seq.
- b. Frontier's application to expand its local calling area and increase its rates should be dismissed without prejudice.

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<sup>5</sup> If a provider were to undertake a customer survey, the Commission would prefer that it work informally with the Staff to develop the survey.

THEREFORE, IT IS ORDERED that the application filed by Frontier Communications of Michigan, Inc., to expand its local calling area and increase its rates for basic local exchange service is dismissed without prejudice.

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.

MICHIGAN PUBLIC SERVICE COMMISSION

/s/ Laura Chappelle  
Chairman

( S E A L )

/s/ David A. Svanda  
Commissioner

/s/ Robert B. Nelson  
Commissioner

By its action of January 21, 2003.

/s/ Dorothy Wideman  
Its Executive Secretary

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Case No. U-13603

Suggested Minute:

“Adopt and issue order dated January 21, 2003 dismissing without prejudice the application filed by Frontier Communications of Michigan, Inc., to expand its local calling areas and to increase its rates for basic local exchange service, as set forth in the order.”