

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter of the application of	)	
<b>CHAPIN TELEPHONE COMPANY</b>	)	
for authority to offer expanded local calling and	)	Case No. U-14438
to adjust rates for basic local exchange service.	)	
_____	)	

At the May 18, 2005 meeting of the Michigan Public Service Commission in Lansing, Michigan.

PRESENT: Hon. J. Peter Lark, Chairman  
Hon. Robert B. Nelson, Commissioner  
Hon. Laura Chappelle, Commissioner

**OPINION AND ORDER**

History of Proceedings

On February 17, 2005, Chapin Telephone Company (Chapin) filed an application pursuant to Sections 203 and 304 of the Michigan Telecommunications Act (MTA), MCL 484.2101 *et seq.*, for approval to implement expanded local calling and to implement rates related to the provision of such expanded local calling for its Chapin exchange. Chapin proposes to expand the local calling area of customers in the Chapin exchange to the adjacent or nearby Ovid, Elsie, Owosso, Merrill, and Ashley exchanges of Verizon North Inc. (Verizon), and the adjacent Chesaning and Brant exchanges of CenturyTel Midwest-Michigan, Inc.

The application also sought authority to increase Chapin’s monthly basic local exchange rate in the amount of \$10.00 to its residential and business rates, as shown below:

<u>Class of Service</u>	<u>Current Monthly Rate</u>	<u>Monthly Rate After Increase</u>
Residence-One Party	\$12.06	\$22.06
Business-One Party	\$16.06	\$26.06

Chapin explained that it does not charge separate rates for dialing parity services, intrastate end-user common line (EUCL) service, or touchtone service. Under the rate structure set forth above, each of Chapin’s customers would receive a monthly 2,000 minute calling allowance for calls placed into the specified exchanges, with additional minutes in excess of the monthly allowance charged at 5 cents per minute of use (MOU). Local calls occurring entirely within the Chapin exchange would not count against the 2,000 minute allowance. Even with the proposed rate increase, Chapin’s shareholders will absorb approximately \$180,824, or 74% of the cost of the plan. Further, according to Chapin, many of its customers that subscribe to Verizon’s \$15.00 per month adjacent exchange toll calling plan (AETCP) for unlimited calling, will actually see a net reduction in their telephone bills of at least \$5.00 per month.

If approved, Chapin’s customers will be able to make toll-free calls to the exchanges noted above. Chapin’s application states that it is seeking to recover the lost originating toll access revenue and the costs associated with terminating local traffic in these exchanges. The application states that the proposed rates will not increase net income to a level higher than the levels that existed prior to the implementation of expanded local calling.

Finally, Chapin’s application requests that, in order to enable it to accomplish its expanded local calling, the Commission grant Chapin the authority to increase its rates for basic local exchange service as described above, block 1+ toll calls to the specified exchanges, and pay local termination rates as proposed.

On March 7, 2005, the Commission Staff (Staff) directed Chapin to issue a notice of opportunity to comment regarding its application. Pursuant to that directive, on March 10, 2005, Chapin mailed each of its customers a notice of its proposal to implement expanded area calling.

Seventy-eight customers provided support for expansion of their calling areas as proposed by Chapin, either through individual comment (1) or via submission of petitions (77). Six customers sent individual comments opposing the proposal.

On April 15, 2005, the Staff filed comments that endorsed Chapin's application, with one modification. Noting that the Commission had previously ordered the phase-in of rate increases associated with the implementation of the expanded area calling plans of The Winn Telephone Company and Blanchard Telephone Association, Inc., which involved requests for \$10.00 and \$9.00 per-line, per-month increases, respectively, the Staff recommended that the Commission order Chapin to phase in its \$10.00 per-line, per-month increase over the course of two years. Specifically, the Staff stated that the Commission should approve an initial increase of \$8.00 in the first year of the implementation of expanded local calling, with an additional \$1.00 increase in each of the two years following the initial increase.

The Staff also pointed out that Chapin was a party to Case No. U-12582 in which 35 small basic local exchange providers requested exemptions from Section 304, pursuant to Section 304(10). On October 6, 2000, the Commission issued an order in that case and determined that the requesting providers (including Chapin) qualified for exemption under Section 304(10). As a result, Chapin is presently exempt from complying with the requirements of Section 304(11) of the MTA.

While observing that Chapin's application is silent on forfeiting the Section 304(10) exemption, the Staff noted that approval of Chapin's proposal should include forfeiture of that

exemption. Further, the Staff noted that MCL 484.2304(1) would require institution of blocking of 1+ calling. Finally, the Staff noted that, although Chapin did not request an affirmative statement by the Commission to indicate that Chapin would be entitled to pay local access for the termination of calls within its new local calling area (as opposed to toll access charges), the Commission has already determined this issue. Citing the June 25, 1997 order in Case No. U-11340, the Staff maintained that calls within a local calling area should be compensated with local termination rates and not toll access charges.

On April 21, 2005, Chapin filed a reply to the Staff's comments. In so doing, Chapin stated that it would agree to the rate increase phase-in proposal proffered by the Staff.

### Discussion

The Commission finds that Chapin's application for expanded local calling areas should be approved, as modified by the Staff's phase-in proposal. Chapin's application is in the public interest because it offers Chapin's customers the benefit of expanded local calling areas with a reasonable rate increase. Chapin's application is also substantially similar to recent Commission precedent for expanded local calling areas. *See*, the June 29, 2004 order in Case No. U-14105 and the February 28, 2005 order in Case No. U-14381. The Commission also finds that the excess usage charge of \$0.05 per MOU is reasonable.

Chapin's testimony indicates that even with a \$10.00 per line per month increase, the company will not recover all of its costs. The cost to Chapin of implementing its proposed plan will be significant, with the company's shareholders absorbing 74% of such costs. Further, Chapin points out that even after the full \$10.00 increase (which Chapin has agreed to phase in), the resulting \$22.06 rate for single-party residential customers, which is inclusive of touchtone and dialing parity charges, will not be subject to a separate EUCL charge and will be on a par with the

rates available from nearby providers. Finally, the Commission notes that the \$15.00 per month cost of Verizon's AETCP is significantly more expensive than the EAS proposed by Chapin. The Commission, after thorough review, appreciates that these costs are higher than some of the other EAS costs approved, yet appropriate. Nevertheless, the Commission wishes to reiterate its reluctance in future proceedings to approve sizable per-line, per-month rate increases in the absence of compelling testimony indicating that the provider has explored and taken all feasible measures to mitigate and lessen the effect of the rate increase on its customers.

The Commission also finds that the blocking of 1+ dialing to the new local calling areas is appropriate. All such calls must be blocked in order to effectively implement the expanded local calling areas. As mentioned by the Staff, the Commission has previously determined that calls to these expanded areas must be either local or toll, but cannot be both. Consequently, all calls within the new local calling areas shall be considered local.

Additionally, the Commission finds that Chapin is currently exempt from the requirements of Section 304 of the MTA, as recognized in the October 6, 2000 order in Case No. U-12582. However, the exemption will be extinguished upon the granting of this application because of the rate increases that Chapin seeks to implement. *See*, MCL 484.2304(1)(b).

Finally, the Commission reiterates its position that Chapin shall pay local access charges for the termination of calls within its new local calling area. As noted by the Staff, the Commission has already decided this issue in the June 25, 1997 order in Case No. U-11340.

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, 1999 AC, R 460.17101 *et seq.*

b. Chapin's February 17, 2005 application for authority to offer expanded local calling from its Chapin exchange is in the public interest, and should be approved.

c. Chapin's proposed rate increase of \$10.00 per month to its lines is just and reasonable, and should be approved, subject to the phase-in proposal proffered by the Staff.

THEREFORE, IT IS ORDERED that:

A. The February 17, 2005 application filed by Chapin Telephone Company for authority to offer expanded local calling from its Chapin exchange is approved, as modified by this order.

B. The proposed rate increase of \$10.00 per line per month to the Chapin Telephone Company's lines is approved, subject to the phase-in proposal proffered by the Commission Staff.

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 E A L )

/s/ J. Peter Lark  
Chairman

By its action of May 18, 2005.

/s/ Robert B. Nelson  
Commissioner

/s/ Mary Jo Kunkle  
Its Executive Secretary

/s/ Laura Chappelle  
Commissioner

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Its Executive Secretary

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