

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

In the matter, on the Commission’s own motion,)
to examine the total service long run incremental)
costs of the **MICHIGAN EXCHANGE CARRIERS**)
ASSOCIATION COMPANIES, including **ACE**)
TELEPHONE COMPANY, BARRY COUNTY)
TELEPHONE COMPANY, DEERFIELD)
FARMERS’ TELEPHONE COMPANY, KALEVA)
TELEPHONE COMPANY, LENNON TELEPHONE)
COMPANY, OGDEN TELEPHONE COMPANY,)
PIGEON TELEPHONE COMPANY, the UPPER)
PENINSULA TELEPHONE COMPANY,)
and **WALDRON TELEPHONE COMPANY.**)
_____)

Case No. U-14781

At the March 11, 2008 meeting of the Michigan Public Service Commission in Lansing, Michigan.

PRESENT: Hon. Orjiakor N. Isiogu, Chairman
Hon. Monica Martinez, Commissioner
Hon. Steven A. Transeth, Commissioner

ORDER

On July 5, 2007, the Commission issued an order resolving certain issues related to cost studies filed by Upper Peninsula Telephone Company (UPTel) and the Michigan Exchange Carriers Association on behalf of certain other of its members. The July 5 order directed UPTel to file a cost study corrected to conform to the findings and conclusions of the order, including a mapping of costs to resulting rates, within 30 days. The order also provided that parties could file

objections within 45 days following the compliance filing, and within 30 days of any objections, the Commission Staff (Staff) should review the matter and file a response.

On August 3, 2007, UPTel filed its new cost study. On September 17, 2007, AT&T Michigan and commercial mobile radio service (CMRS) providers, Verizon Wireless, T-Mobile USA Inc., T-Mobile Central LLC, and Alltel Communications Inc. (collectively, the CMRS providers) filed objections to UPTel's compliance filing. On October 17, 2007, the Staff filed its response to the objections.

On November 8, 2007, the Commission issued an order resolving most of the issues presented, but directing UPTel to file no later than November 30, 2007, additional comments and explanations concerning two issues: (1) the appropriate mapping of costs associated with measurement and mediation services to its reciprocal compensation rate and (2) the appropriate numerical value of the conversion factor. The order provided for filing no later than December 14, 2007, response comments limited to these two issues. Finally, the order provided that the Staff review and summarize the comments filed pursuant to this order and make a recommendation for Commission resolution by January 4, 2008.

On November 20, 2007, UPTel filed in response to the Commission's order, second supplemental testimony of Douglas Duncan Meredith. AT&T Michigan and the CMRS providers filed response comments on December 14, 2007. On January 4, 2008, the Staff filed its summary and recommendation for resolving the remaining issues.

Measurement and Mediation Costs

In his second supplemental testimony, Mr. Meredith identifies six cost categories included in UPTel's measurement and mediation costs as follows: (1) interexchange carrier (IXC) activities, (2) revenue accounting-message processing; (3) revenue accounting-other billing and collection,

(4) payment and collection, (5) end-user inquiry, and (6) primary interexchange carrier (PIC) change.

Categories (1) through (4)

Mr. Meredith asserts that costs falling in the first four categories are legitimate costs associated with traffic termination, and reflect UPTel's costs related to contacts and correspondence with IXCs, local exchange carriers (LECs), and CMRS providers regarding toll access service and local transport and termination service. These costs are treated together because UPTel does not have direct interconnection trunks for the exchange of local traffic with other LECs and CMRS providers. Mr. Meredith states that UPTel receives both local transport and termination traffic and toll access traffic on common trunks. Therefore, it cannot distinguish between them for purposes of these cost categories. He indicates that billing issues arise less frequently for toll access than for local transport and termination service. Additionally, Mr. Meredith points out that local transport and termination billing issues are not controlled by tariff (as is toll access service), but rather by interconnection agreement, and are more labor intensive to resolve.

AT&T Michigan argues that none of costs in the first four categories should be allocated to reciprocal compensation. It argues that the measurement and mediation costs are actually billing and collection activities that do not fall within the definition of transport or termination. Rather, AT&T Michigan asserts, these costs are associated with establishing relationships with other carriers, which results in other unaccounted for services beyond local transport and termination.

AT&T Michigan further argues that UPTel has allocated portions of these costs to each minute of switch use, without demonstrating that the costs vary with increased switch usage.

AT&T Michigan asserts that most of these costs should have been categorized as shared wholesale

or common costs. In AT&T Michigan's view, UPTel's method permits double recovery of these costs.

The CMRS providers agree with AT&T Michigan that none of the costs in the first four categories should be included in the reciprocal compensation rate. Citing 47 CFR 51.505(d), the CMRS providers argue that UPTel is prohibited from including costs of marketing, billing, collection, and other costs associated with offering retail telecommunications services to subscribers who are not telecommunications carriers. They argue that UPTel divided its revenue accounting costs into two parts, one associated with billing other carriers, the other associated with billing end user customers. The former are included in the calculation of Carrier Access Billing System (CABS) costs. However, the CMRS providers argue, UPTel then allocated a portion of the latter cost category to the reciprocal compensation rate. They argue that these costs should be removed and UPTel should be required to file a new compliance study.

The CMRS providers also register concern about the level of computer costs included in the reciprocal compensation rate. They state that UPTel has not justified the large amount of computer investment that it assigns to CABS billing. They state that although Mr. Meredith's testimony explains mainframe investment at zero, it does not justify the large computer investment assigned to CABS. The CMRS providers take the position that the CABS billing system is an "off-the-shelf" software function, which should not result in such a large investment.

The Staff states that these costs should not be removed from the mapping process. The Staff states that these costs have already been identified through the approved cost study and the issue now is whether they may be properly mapped to reciprocal compensation. The Staff states that AT&T Michigan and the CMRS providers fail to persuade that these accounts should not be included in the calculation of reciprocal compensation rates. The Staff further states that it has

followed the multipart process used by UPTel to determine the costs that it mapped to its reciprocal compensation rates, and failed to find any double counting suggested by AT&T Michigan. The Staff recommends that the Commission permit the costs identified in these first four categories to be included in the mapping process.

The Commission finds that the Staff's recommendation should be adopted. AT&T Michigan and the CMRS providers have not demonstrated that there is in fact double counting, but merely raise the possibility. The Staff has performed a detailed analysis and determined that no double counting exists. Further, the level of costs was not an issue reserved for this portion of the case. Rather, the Commission required UPTel to explain its procedures. UPTel has explained its mapping of these costs satisfactorily to the Commission, and those costs should be approved as mapped.

Category 5

These costs identified as end-user inquiry costs are described by UPTel as costs that the company "incurs to address inquiries from its own end users on any subject, including questions pertaining to the activities of other LECs and CMRS providers." Meredith Second Supplemental Testimony, pp 8-9. UPTel represents that its end users may question whether certain calls to customers of other LECs or CMRS providers will be local, and other issues related to networks of those other providers. UPTel asserted that it appropriately allocated these costs to services in proportion to their relative minutes of use (MOU).

AT&T Michigan argues that answering questions from end users is purely a retail function, and should not be permitted recovery as wholesale costs. AT&T Michigan argues that UPTel customers would not have questions about terminating traffic.

The CMRS providers argue that UPTel should bear the financial responsibility of informing its retail customers concerning the retail services it provides. The CMRS providers argue that they cannot recover costs to answer questions from an UPTel end user customer related to the CMRS providers' services.

The Staff agrees that costs related to addressing end-user questions from UPTel's own retail customers should not be considered wholesale costs. It argues that end user cost recovery should not be a function of reciprocal compensation rates. The Staff recommends that the Commission require UPTel to remove all end user inquiry costs from its reciprocal compensation rate.

The Commission agrees. Costs to serve retail customers – current or potential – are not recoverable through wholesale rates. These costs must be recovered through retail rates.

Category 6 Costs

UPTel has agreed to remove PIC change costs from its local transport and termination rates if the Commission issues that direction. AT&T Michigan, the CMRS providers, and the Staff agree that these costs should be removed from the local transport and termination rates. The Commission agrees and directs UPTel to remove all category 6 costs from its reciprocal compensation rate.

Numerical Value of the Conversion Factor

In its compliance filing, UPTel incorporated a factor of 0.9423 equipment minutes of use to each 1 minute of use to convert equipment minutes into billable units. AT&T Michigan objected to this in its September 17, 2007 filing. In an October 17, 2007 response, the Staff generally supported the use of this type of factor to adequately compensate the carrier for all MOU.

The Staff asserts that it would prefer a detailed analysis of the forward looking nature of the cost study and ratemaking elements, rather than relying on historical data. The Staff notes that this

conversion factor was incorporated in the rate mapping process used in arbitrations that triggered this proceeding without objection. It states that the CMRS providers still do not object to use of this factor. The Staff also agrees with UPTel's position that AT&T Michigan has provided no support for the view that a "fresh look" at this conversion factor would yield different results. The Staff recommends that the Commission approve the factor proposed by UPTel for use in mapping costs to reciprocal compensation rates.

The Commission agrees with the Staff that approval of the conversion factor proposed by UPTel is appropriate in this case. AT&T Michigan provides no basis on which to conclude either that a new calculation would provide a substantially beneficial result or that using no factor is more accurate than the one proposed by UPTel.

THEREFORE, IT IS ORDERED that:

A. The mapping of mediation and measurement costs to reciprocal compensation rates proposed by Upper Peninsula Telephone Company are approved except for those costs in Categories 5 and 6.

B. The conversion factor proposed by Upper Peninsula Telephone Company is approved.

C. Upper Peninsula Telephone Company shall file no later than April 1, 2008, a cost study and resulting rates complying with the findings and conclusions of this order.

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

Any party desiring to appeal this order must do so by the filing of a claim of appeal in the Michigan Court of Appeals within 30 days of the issuance of this order, under MCL 484.2203(12).

MICHIGAN PUBLIC SERVICE COMMISSION

Orjiakor N. Isiogu, Chairman

Monica Martinez, Commissioner

Steven A. Transeth, Commissioner

By its action of March 11, 2008.

Mary Jo Kunkle, Its Executive Secretary