

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter of the application of)	
AMERITECH MICHIGAN for approval of)	
new TSLRIC studies for interim number)	Case No. U-11155
portability.)	
_____)	

In the matter of the application of)	
AMERITECH MICHIGAN for approval of)	
new TSLRIC studies for unbundled loops)	Case No. U-11156
and local traffic termination.)	
_____)	

At the December 12, 1996 meeting of the Michigan Public Service Commission in Lansing, Michigan.

PRESENT: Hon. John G. Strand, Chairman
Hon. John C. Shea, Commissioner
Hon. David A. Svanda, Commissioner

ORDER

In its June 5, 1996 order in Case No. U-10860, the Commission ordered Ameritech Michigan to file new total service long run incremental cost (TSLRIC) studies and tariffs for unbundled loops, number portability, and local call termination. In addition, the Commission ordered Ameritech Michigan to file a tariff and supporting cost study for the provision of unbundled ports as defined in 1991 PA 179, as amended by 1995 PA 216 (the Act), MCL 484.2101 et seq.; MSA 22.1469(101) et seq.

On August 5, 1996, Ameritech Michigan filed an application for approval of a new TSLRIC study and a tariff for interim number portability, Case No. U-11155, and an application for approval of new TSLRIC studies and tariffs for unbundled loops and local call termination, Case No. U-11156. If approved, the applications would have resulted in rate revisions for those services. In addition, on July 5,

1996, Ameritech Michigan submitted Advice No. 2438A to establish a rate for unbundled ports.¹

¹Until January 1, 1997, the Act requires that rates for unbundled loops and ports, number portability, and local call termination be set at the TSLRIC of providing those services. MCL 484.2352; MSA 22.1469(352) and MCL 484.2359; MSA 22.1469(359). Until the Commission approves new cost studies for unbundled loops, number portability, and local call termination, the rates for those services set in the Commission's February 23, 1995 order in Case No. U-10647 remain in effect. *Id.* Because the rate for unbundled ports was not set in Case No. U-10647, Ameritech Michigan could file and use a tariff (with supporting cost data) that is consistent with the law. U-11155 and U-11156

On September 12, 1996, the Commission issued an order finding that the cost studies submitted by Ameritech Michigan on August 5, 1996 were not consistent with guidelines established in the Commission's September 8, 1994 order in Case No. U-10620, among other things. As pointed out by the Commission, Case No. U-10620 required all cost studies of a service provider like Ameritech Michigan to incorporate the same total cost of each network element used in the provision of a particular service. Ameritech had abandoned this requirement by varying the assumptions used to develop annual cost factors² to correspond with the perceived competitiveness of the service being studied. According to the Commission, that change in approach was so significant that an adequate review of Ameritech Michigan's studies would not be possible until the company submitted a corrected version. September 12, 1996 order in Cases Nos. U-10860, U-11155, and U-11156, p. 3. The Commission therefore ordered Ameritech Michigan to refile its TSLRIC studies once they were reformulated to comply with the Commission's order in Case No. U-10620.

On September 26, 1996, Ameritech Michigan filed amended applications in Cases Nos. U-11155 and U-11156, as well as revised Advice No. 2438B, in which the company submitted its reformulated cost studies. Following a review of those cost studies conducted pursuant to a protective order, responses to the amended applications were filed on November 12, 1996 by AT&T Communications of Michigan, Inc. (AT&T), MCI Telecommunications Corporation (MCI), the Michigan Cable Telecommunications Association (MCTA), Attorney General Frank J. Kelley (Attorney General), and the Commission Staff (Staff). Reply comments were filed on November 19, 1996 by Ameritech Michigan, AT&T, MCI, the MCTA, and the Attorney General.

In preparing these new studies, Ameritech Michigan asserts that it changed its cost of capital and depreciation life assumptions to correspond with those currently used in the TSLRIC studies for its retail services. The company goes on to note that it did not change the fill factor assumptions initially proposed in the present cases. Instead, it revised the fill factor assumptions in the TSLRIC studies of its retail

²Annual cost factors include items like the cost of capital, depreciation, and the fill factor (the expected percentage of facility usage which may affect the computation of cost for a given network element).

services. According to Ameritech Michigan, it makes no difference which set of assumptions is altered so long as the Commission's request for consistency is satisfied. Moreover, Ameritech Michigan argues that the revision of its retail service fill factors is supported by the Federal Communications Commission's (FCC) August 8, 1996 order in Docket No. 96-98, where it was suggested that telecommunications providers need only use reasonably accurate fill factors when computing the total element long run incremental cost that the FCC uses to review the reasonableness of unbundled rates.

AT&T contends that Ameritech Michigan's most recent filing is incomplete and inconsistent with information provided by the company in other proceedings, including Case No. U-11148 (an Ameritech Michigan rate restructuring case). It also contends that Ameritech Michigan has again provided inadequate support for its cost study assumptions and results. AT&T therefore urges that the company be required to undertake a comprehensive study covering the cost of all network components. According to AT&T, the resulting consistently studied collection of network component costs could then be used to develop the cost of individual offerings (whether they be retail services or unbundled network components) by assembling the components required to provide the specific offering or service. AT&T's comments, p. 2.

Likewise, the Attorney General claims that Ameritech Michigan's revised cost studies continue to be plagued by significant problems, such as the absence of critical supporting documentation regarding computation of the company's cost of capital and depreciation rates, as well as its treatment of shared and common costs. Attorney General's comments, p. 4. He therefore contends that Ameritech Michigan's amended applications should be rejected and that the company should be instructed to file fully supported, revised cost studies in a new docket. In the interim, the Attorney General suggests that the Commission set rates for Ameritech Michigan at the lower of (1) those established by the arbitration panel in Case No. U-11138 [an arbitration case involving Ameritech Michigan and TCG Detroit], (2) the proxy rates computed pursuant to the FCC's August 8, 1996 order in Docket No. 96-98, plus or minus 10%, or (3) the rates developed by the company's most recent TSLRIC study less all shared and common costs.

MCI contends that, although they represent an improvement over the company's previous cost

analyses, the TSLRIC studies included in Ameritech Michigan's amended applications are still inflated significantly. MCI's comments, p. 16. In support of its contention, MCI asserts that these studies overallocate shared, joint, and common costs to Ameritech Michigan's basic unbundled loops. It further claims that costs for the company's nonrecurring charges are not least-cost and do not reflect forward-looking technologies. For these and other reasons, MCI requests that the Commission reject Ameritech Michigan's revised TSLRIC studies.

Similarly, the MCTA asserts that the information submitted in support of Ameritech Michigan's cost studies was incomplete and insufficient to compute accurately the unbundled costs covered by the amended applications in Cases Nos. U-11155 and U-11156. According to the MCTA, these TSLRIC studies still do not fully comport with the Commission's requirements regarding submission of a cost study, particularly with regard to the computation of shared and common costs. The MCTA further claims that the company's studies continue to overstate Ameritech Michigan's cost of capital and understate the depreciable lives of its digital switches, digital circuit equipment, and several types of cable. It therefore contends that the Commission should reject these TSLRIC studies and, among other things, set interim rates for number portability at 10¢ per remote line.

Although it accepts two of the changes reflected in Ameritech Michigan's most recent filing, the Staff disagrees with the company's proposed computation of the fill factors. Specifically, the Staff asserts that insufficient information was offered to support a change in the fill factors applied to Ameritech Michigan's retail services. The Staff further contends that fill factors based on actual results or used to reflect stranded investment are not forward-looking, as required by the Act and prior Commission orders. Moreover, the Staff notes that vastly different loop costs and prices have been requested (and, in some cases, approved for use) by Ameritech Michigan in the following proceedings over the last two years: Case No. U-11156 (the present case); Case No. U-10647 (the City Signal, Inc., interconnection case); Case No. U-11178 (the interconnection case involving Brooks Fiber Communications of Michigan, Inc.); Cases Nos. U-11151, U-11152, and U-11168 (the AT&T and MCI arbitration cases); and Cases Nos. U-11104, U-11203, and U-11224 (the competitive checklist compliance case, the Sprint Communications Company L.P. arbitration case, and Ameritech Michigan's unbundled network elements

and interconnection services case, respectively). These differences have arisen despite the fact that, in each case, Ameritech Michigan claimed that the prices and costs were based on the application of TSLRIC principles.

The Staff suggests a two-step approach to remedying these problems. First, it recommends that the Commission initiate a proceeding to study the TSLRICs associated with each of Ameritech Michigan's unbundled network elements, interconnection services, and resold services. When completed, that proceeding would result in a set of TSLRIC values that would supplant existing tariff and interconnection bases for pricing. Second, the Staff recommends that interim rates should be established for use until completion of that proceeding. Moreover, the Staff contends that those interim rates should be based on the most recent TSLRIC studies submitted in Cases Nos. U-11155 and U-11156. Despite their flaws, the Staff asserts that these cost studies more closely follow the TSLRIC methods required by the Act and past Commission orders than any others submitted by Ameritech Michigan over the last two years.

The Commission concludes that the Staff's recommendations should be adopted. As noted above, Ameritech Michigan's filings over the past few years have led to a plethora of TSLRIC studies and rate proposals, many with differing results. For that reason, the Commission today issued an order in Cases Nos. U-11280 and U-11281 establishing the proceeding described in the Staff's first recommendation.

With regard to the second recommendation, the Commission finds that interim rates should be established in order to avoid further delaying the extension of competitive options to customers in Ameritech Michigan's service territory. Moreover, it agrees with the Staff that the most appropriate basis for those rates is the TSLRIC study submitted in conjunction with the amended applications in Cases Nos. U-11155 and U-11156. Although flaws still exist, the studies now at issue in these cases more closely correspond to the methodology required by the Act and prior Commission orders than those submitted previously.

Finally, in light of these decisions, the Commission concludes that the dockets in Cases Nos. U-11155 and U-11156 should be closed, and that all issues regarding TSLRIC studies and rates for Ameritech Michigan's unbundled loops, ports, interim number portability, and local call termination should be resolved in the context of the company's cost study and rate proceeding in Case No. U-

11280.

The Commission FINDS that:

a. Jurisdiction is pursuant to 1991 PA 179, as amended by 1995 PA 216, 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, 1992 AACCS, R 460.17101 et seq.

b. The cost studies and rates submitted by Ameritech Michigan on September 26, 1996 in Cases Nos. U-11155 and U-11156, as well as in Advice No. 2438B, should be approved for use, on an interim basis, in establishing the prices for unbundled loops, ports, interim number portability, and local call termination.

c. Ameritech Michigan should be required to submit revised cost studies and rates, established consistent with the Commission's September 8, 1994 order in Case No. U-10620, its December 12, 1996 order in Case No. U-11103, and applicable law, as part of the cost study and rate proceeding in Case No. U-11280.

d. The dockets in Cases Nos. U-11155 and U-11156 should be closed.

THEREFORE, IT IS ORDERED that:

A. The cost studies and rates submitted by Ameritech Michigan on September 26, 1996 in Cases Nos. U-11155 and U-11156, as well as in Advice No. 2438B, are approved for use, on an interim basis, in establishing the prices for unbundled loops, ports, interim number portability, and local call termination on its system.

B. Ameritech Michigan shall submit cost studies and rates, established consistent with the Commission's September 8, 1994 order in Case No. U-10620, its December 12, 1996 order in Case No. U-11103, and applicable law, as part of the cost study and rate proceeding in Case No. U-11280.

C. The dockets in Cases Nos. U-11155 and U-11156 are closed.

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/ John C. Shea
Commissioner

/s/ David A. Svanda
Commissioner

By its action of December 12, 1996.

/s/ Dorothy Wideman
Its Executive Secretary

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MICHIGAN PUBLIC SERVICE COMMISSION

Chairman

Commissioner

Commissioner

By its action of December 12, 1996.

Its Executive Secretary

