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June 1, 2012

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The enclosed annual report, *Status of Telecommunications Competition in Michigan*, is submitted on behalf of the Michigan Public Service Commission (Commission) in accordance with Section 103 of the Michigan Telecommunications Act (MTA). This report, as well as reports from previous years, is available on the Commission website at www.michigan.gov/mpsc. The report describes the status of competition in telecommunications service in Michigan, including, but not limited to, the toll and local exchange markets in the state. The report includes information on the traditional wireline industry in Michigan, as well as information specific to Michigan on mobile wireless, Voice over Internet Protocol (VoIP), and broadband.

For 2011, Michigan continued to experience a decrease in the total number of wirelines. The data for 2011 shows the total number of wirelines provided in Michigan was 3,344,139. This accounts for a decrease of about 283,000 lines from 2010 which aligns with the average annual loss of lines over the past 13 years. However, the Commission continues to license new providers, and as of the end of 2011, competitive providers were providing 30.7 percent of the wirelines provided to customers in Michigan. This not only represents an increase from last year and continues the trend of increasing competitive market share over the last three years, but it also was a new high for the competitive wireline market share in Michigan. As in recent years, the trend of facilities-based competition continues to be more evident in residential lines.

While the Commission does not have jurisdiction over most communications services that are not traditional wireline telecommunications, additional public data allows for the monitoring of developments in these markets. Federal Communications Commission data shows that the number of wireless subscriptions in Michigan continues to grow. As of December 31, 2010, in the FCC's most recent data, it is reported that there are 8,861,000 wireless subscribers in Michigan. In addition to the mobile wireless voice service, the Commission has continued to believe that VoIP subscriptions were an increasingly large portion of the telecommunications market in Michigan. According to FCC data, as of December 31, 2010 Michigan had 81 providers of interconnected VoIP serving just over 1.2 million interconnected VoIP lines.

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Broadband Internet service provides customers not only with the opportunity to use VoIP service, but numerous additional benefits as well. While the Commission does not have authority over broadband, it does seek ways to support the availability and adoption of this important technology. One way the Commission is encouraging this development is in partnership with non-profit Connected Nation on the Connect Michigan project. The Connect Michigan project has made available an interactive broadband availability map, launched May 20, 2010, as well as research results on broadband adoption and barriers to adoption specific to both Michigan residences and businesses. These are all available at www.connectmi.org. Michigan continues to see growth in the number of high speed Internet connections, with 4,665,000 such connections reported to the FCC as of December 31, 2010. Each technology platform continues to see growth in the number of lines served, though the most dramatic increase is in the number of high-speed Internet access lines provisioned with mobile wireless, the number of which increased by almost 250 percent between December 2008 and December 2010 according to the FCC.

The *Status of Telecommunication Competition in Michigan* report for 2011 shows that, while the total number of wirelines continues to decrease, competitive providers' market share has increased substantially, especially if all VoIP lines reported to the FCC are included. Competitive providers continue to serve about a third of their lines via their own facilities. This continues to represent an investment in Michigan's competitive telecommunications infrastructure and continues to serve as an indication that the provider has the intent of remaining in the marketplace in the long term. Additionally, as in past years, alternative services – mobile wireless and VoIP – continue to see strong growth, leading to a diverse communications marketplace. The Commission will continue to strive to meet its obligations under the MTA to ensure that all Michigan citizens have access to telecommunications services and to resolve disputes that arise under the MTA. At the same time, the Commission is committed to monitoring developments in the wireless and broadband realms and any resulting impacts on the competitive landscape in Michigan. The Commission will continue to apprise the Governor and the Legislature of any future developments that may warrant action.

Very truly yours,

John D. Quackenbush, Chairman

Orjiakor N. Isiogu, Commissioner

Greg R. White, Commissioner

The Status of Telecommunications Competition in Michigan

June 2012

Submitted by the Michigan Public Service Commission
Michigan Department of Licensing and Regulatory Affairs
In Compliance with Public Act 179 of 1991 as Amended



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Introduction

Section 103 of the Michigan Telecommunications Act (MTA) as amended (MCL 484.2103), directs the Michigan Public Service Commission (Commission) to submit an annual report describing the status of competition in telecommunications service in Michigan, including, but not limited to, the toll and local exchange service markets in the state. The MTA requires providers to submit to the Commission all information necessary for the preparation of the annual report under this section.¹ This twelfth report filed by the Commission includes information on the traditional wireline industry as well as other telecommunications technologies.

The telecommunications industry in Michigan continues to experience the same technological changes as the rest of the nation. The *Status of Telecommunications Competition in Michigan* report for 2011 finds that incumbent providers have continued to experience a decrease in their traditional wireline customer lines, a trend that began in the year 2002, while competitive providers have experienced a slight decrease in their overall lines after three years of increasing wirelines. Competitive providers appear to be relying less on the incumbents' network and more on provisioning their lines over their own networks. At the same time, alternative technologies, such as wireless and voice over Internet protocol, continue to add subscribers. The broadband market also continues to experience growth, especially in mobile wireless customers.

Revisions to the Michigan Telecommunications Act

Public Act 58 of 2011 (Act 58)² went into effect June 14, 2011, and amended various sections of the Michigan Telecommunications Act (MTA). Some of the most significant changes are: eliminating the requirement for providers to offer primary basic local exchange service, removing the requirement for providers for automatic delivery of a printed white pages directory

¹ Wireless service is not regulated by the Commission pursuant to Sec. 401 of the MTA and as such wireless providers are not required to report this information to the Commission.

² <http://www.legislature.mi.gov/documents/2011-2012/publicact/pdf/2011-PA-0058.pdf>

to customers, rescinding service quality rules as well as rules for privacy standards and billing standards, removing provisions regarding predatory pricing for retail services, changing the terms and process for providers to discontinue basic local exchange and toll service to customers in a given area, and adding interconnected voice over Internet protocol service (VoIP) as a service that the Commission does not have authority over. As these revisions are still relatively recent, the impact of these changes on competition in the telecommunications market in Michigan is not yet known.

Toll Markets

Long distance service is technically referred to as toll service and the providers of such services are referred to as interexchange carriers (IXCs). IXCs that own their own facilities are required to provide very little information to the Commission related to their operations. The Commission does not license IXCs. They are required only to file tariffs with the Commission that are consistent with the provisions of the MTA. IXCs providing toll service via resale³ are exempt from even this tariff filing requirement. As a result, there is limited information available regarding market share, customer numbers, or revenues for IXCs.

In 2000, the FCC detariffed the interstate, domestic, interexchange services of nondominant IXCs. Detariffing means that long distance companies are no longer required to file a document called a “tariff” for purposes of notifying the FCC about the rates, terms and conditions of long distance service offerings. The FCC concluded that detariffing would enhance competition among providers of interstate, domestic and interexchange services, and promote competitive market conditions. After the transition period was completed, IXCs began providing

³ Resale is buying long distance phone lines in quantity at wholesale rates and then selling them to the end user for a profit.

service without filing tariffs with the FCC. They currently provide information to consumers via other means, such as their websites.

While the reselling of toll services is unregulated, the Commission has a registration process pursuant to MCL 484.2211a. Under this program, 228 carriers registered as resellers of toll service in Michigan for 2011. Although this is a self-registration process and is not subject to verification, it does indicate that there are numerous providers of this service. Additional information is available in the latest report the FCC issued in September 2010, *Trends in Telephone Service*. The FCC report indicates that between 1999 and the end of 2003, the FCC has approved all the section 271 applications by the Bell Operating Companies (BOCs) to provide in-region interLATA⁴ service throughout the United States.⁵ In Michigan, this process was completed in September 2003. The FCC reports that more than 1,400 companies now offer wireline long distance service nationwide. These carriers remain subject to the FCC's jurisdiction. The FCC has chosen to rely on competition, rather than regulation, as much as possible. Thus, the FCC forbears from regulating most aspects of long distance service.

Again this year, the effects of competition in the toll markets is evidenced by the number of optional toll package alternatives available, the number of providers who offer them and the declining prices for higher usage customers who do not utilize basic toll rates. Bundling of services and new pricing plans, as well as voice over Internet protocol⁶ (VoIP) has blurred the distinction between toll and local services. Many providers are offering unlimited local and long distance services, plus unregulated features, at one combined price. In some cases, these bundled

⁴ InterLATA service means telecommunications between a point located within a LATA (local access and transport area, also known as a service area) and a point geographically outside that area.

⁵ Section 271 of the Federal Telecommunications Act of 1996 describes the conditions that a Bell Operating Company (BOC) must satisfy to enter the market to provide interLATA services, long distance in particular, within the region where it operates as the dominant local telephone service provider.

⁶ VoIP is the technology used to transmit voice conversations over a data network using the Internet protocol. VoIP is discussed further elsewhere in this report.

services include wireless, Internet access services, and video, commonly known in the marketplace as quadruple play. At this time, it is not apparent whether the elimination of the requirement that toll service be available to all will result in any major changes to the competitive toll market. The Commission will continue to monitor this area.

Basic Local Exchange Market – Wireline

The Commission conducts annual surveys of AT&T Michigan, Frontier,⁷ the smaller incumbent local exchange carriers (ILECs), and all licensed competitive local exchange carriers (CLECs) in order to obtain an accurate depiction of the competitive marketplace in Michigan for basic local exchange service. This survey includes ILECs that also operate as CLECs in Michigan as those lines provided in another ILEC's territory are considered competitive lines. CLECs are providers that compete in the same geographic area as ILECs. This year's survey was sent to the 40 ILECs and 206 CLECs in the state of Michigan that were licensed as of December 31, 2011. The data collected through this survey is for the year ended December 31, 2011. The information gathered assists the Commission in evaluating the scope of local competition in Michigan.

The results of this survey are presented as aggregate CLEC numbers to maintain the confidentiality of the individual company numbers. The surveyed companies consider some of the information requested to be confidential. For 2011, all of the ILECs responded to the ILEC survey and 161 of the 206 CLECs and ILECs that have CLEC operations filed a response to the CLEC survey. From this group of CLECs, 109 reported that they are actually providing local service.

As a historical perspective, in 2005 the Federal Communications Commission (FCC) and the courts overturned portions of the FCC's Triennial Review Order and eliminated the

⁷ Frontier includes the former Verizon North Inc. and Contel of the South, Inc., d/b/a Verizon North Systems.

incumbents' obligation to provide the unbundled network element platform⁸ (UNE-P) to competitors at a regulated cost-based price. Because rate regulation has been removed from retail local service under the current MTA, telecommunications services are now largely affected by FCC requirements and market forces.

The data for 2011 shows the total number of wirelines provided by ILECs and CLECs in Michigan was 3,344,139. This accounts for a decrease of about 283,000 lines from 2010 which aligns with the average annual loss of lines over the past 13 years. From the data compiled for 2011, the number of lines provided by CLECs via their own facilities, through unbundled network element loops (UNE-L),⁹ through local wholesale arrangements (LW), and through resale of incumbent providers' services was 1,026,006. CLEC lines accounted for 30.7 percent of the total lines in 2011. AT&T Michigan's share was 54.4 percent (1,819,415 lines)¹⁰ while Frontier's share was 10.8 percent (362,824 lines). The small independent telephone companies represented the remaining 4.1 percent (143,696 lines) of the total lines in Michigan (Figure 1).

⁸ UNE-P is an unbundled network element platform or UNEs combined into a complete set in order to provide an end-to-end circuit. Some providers have opted to pay market-based rates for UNE-P until they have alternative arrangements in place to move those residential customers.

⁹ UNE-L is an unbundled network element loop and is a common strategy used by facilities-based CLECs. A CLEC owns the local switch and leases the local loop from the ILEC. Unbundled network elements (UNEs) are defined as physical and functional elements of the network, *e.g.*, Network Interface Devices, local loops, switch ports, and dedicated and common transport facilities.

¹⁰ This is the number of lines as reported by AT&T Michigan, which includes the lines of the former AT&T Communications of Michigan, Inc. and TCG Detroit Holdings I, Inc.

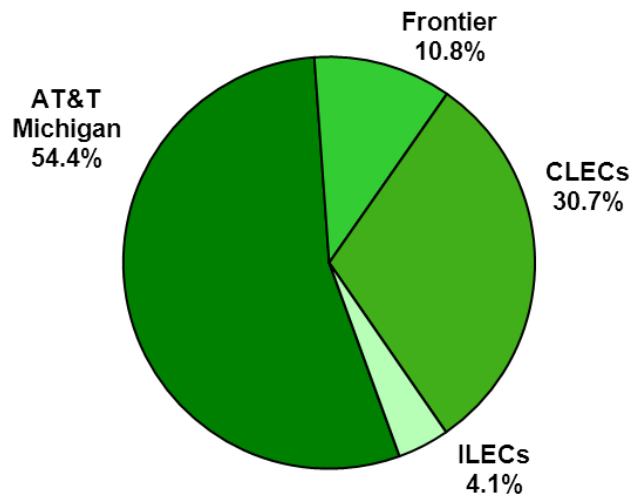


Figure 1: Michigan Market Share in 2011

The Commission continues to license new providers, and as of the end of 2011, CLECs were providing service to 30.7 percent of the wirelines provided to customers in Michigan. This represents an increase from last year and continues the trend of increasing CLEC market share over the last three years. On October 7, 2011, the FCC released its latest report to date on

Local Telephone Competition: Status as of December 31, 2010. For the Michigan companies that are required to report this data to the FCC, the ILECs reported 2,595,000 switched access lines and 162,000 voice over Internet protocol (VoIP) lines for a total of 2,757,000 lines,¹¹ while the CLECs reported 489,000 switched access lines and 1,083,000 VoIP lines which amount to 1,573,000 lines, for a total of 4,330,000 lines. From the most recent data available from the FCC, the CLECs' share of Michigan's lines including interconnected VoIP was 36 percent as of December 31, 2010. One hundred thirty-two switched providers reported data to the FCC, 26 ILECs along with 114 CLECs, and 81 interconnected VoIP providers.

¹¹ The total lines reported by the ILECs to the FCC differ from the lines reported to the Commission due, in part, to the difference in the date the lines were reported and due to the difference in the reporting by VoIP providers to the FCC and the state.

The chart of the Michigan survey results, Figure 2, categorizes the CLECs according to the

CLECs With No Lines	70	43%
CLECs With 1 – 1,000 Lines	40	25%
CLECs With 1,001 – 10,000 Lines	33	21%
CLECs With over 10,000 Lines	18	11%
Total CLECs Responding to Survey	161	100%
Figure 2: The 2011 Michigan Survey Results		

number of customer lines that they served in 2011. The data indicates that of the 161 CLECs reporting, 70 (43 percent) were serving no Michigan customers in 2011. A second group of 40 CLECs (25 percent) served between one line and 1,000 lines. A third group served

between 1,001 and 10,000 lines each and is comprised of 33 CLECs (21 percent), and the last group of CLECs served over 10,000 lines each and represents 18 CLECs (11 percent).

Figure 3 represents the data gathered by the Commission over the past 13 years. As is shown, while total wirelines have consistently decreased since 2001, the actual number of CLEC providers and CLEC lines in Michigan grew over the first six years that this information was gathered; the CLEC market grew from a four percent share to a peak of 27.5 percent share at the end of 2004. However, for 2005, 2006 and again in 2008, Michigan experienced decreases in CLEC lines. In 2009, Michigan's competitive lines rebounded and grew to slightly under a million lines. For 2010, the increasing competitive lines trend continued due, in part, to the higher interconnected VoIP provider participation in the 2010 data request. In 2011, there was a slight decrease in CLEC lines; however the CLEC market share reached a new high of 30.7 percent of the wireline market in Michigan.

Year	Licensed CLECs	CLEC Replies	CLECs with Lines	CLEC Lines	Total Michigan Lines	CLEC %	AT&T Michigan %	Frontier %	ILECs %
1999	120	59	23	268,385	6,726,971	4.0	81.0	11.5	3.5
2000	167	69	31	446,164	6,901,813	6.5	78.0	12.0	3.5
2001	173	102	42	896,023	7,014,263	12.8	72.2	11.5	3.5
2002	219	113	54	1,447,176	6,668,124	21.7	62.9	11.9	3.6
2003	192	112	70	1,677,423	6,334,114	26.5	57.7	11.2	4.5
2004	202	127	77	1,681,173	6,103,250	27.5	56.9	11.8	3.7
2005	188	142	78	1,158,550	5,471,708	21.2	62.6	12.3	3.9
2006	210	116	63	961,460	5,260,443	18.3	65.5	12.3	3.9
2007	202	146	94	1,013,897	4,904,384	20.7	63.5	11.8	4.0
2008	203	122	67	859,370	4,286,071	20.0	64.2	11.5	4.3
2009	190	129	79	947,068	3,907,129	24.2	60.8	10.7	4.3
2010	190	132	74	1,032,595	3,627,513	28.5	57.1	10.5	3.9
2011	206	161	91	1,026,006	3,344,139	30.7	54.4	10.8	4.1

Figure 3: Michigan Public Service Commission CLEC Survey Results

For the last five years, competitive telecommunications companies reliant on the incumbent's network to provide service, whether it be via resale, wholesale or UNE-L provisioning, have increasingly focused on the business side of the telecommunications marketplace as is represented in Figure 4. From the total lines provided in conjunction with the incumbent's network in 2011, over three quarters are business lines and a little under a quarter are residential lines. In contrast, the

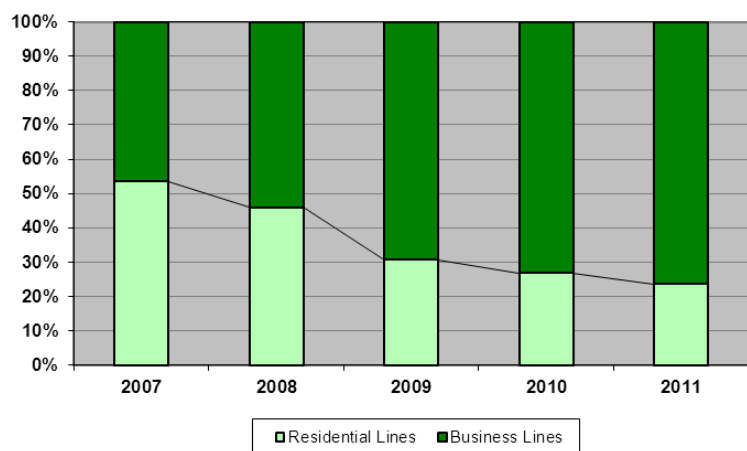


Figure 4: Competitive Residential and Business lines via ILEC.

lines provisioned over the CLECs' own network represent the opposite combination of residential and business lines. The competitive lines provisioned over their own network without



Figure 5: Competitive Residential and Business Lines

relying on the incumbent's infrastructure continue to be more predominant in the residential telecommunications marketplace in Michigan as is shown in Figure 5.

In 2009, CLECs as a total served more business lines than residential lines for the first time

since the year 2000. The increase in business lines trend began in 2003 and it was more evident in the lines provisioned via the incumbents' network where two-thirds of the lines were business lines. The residential lines provisioned over the CLECs' own facilities accounted for almost three-fourths of the total facilities-

based lines. However, as shown in Figure 6, in 2010 and again in 2011 the percentage of residential competitive lines is slightly higher than the percentage of business competitive lines.

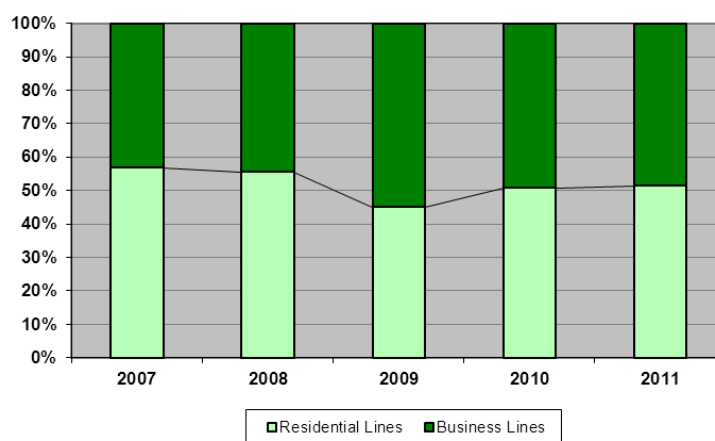


Figure 6: Total Residential and Business Competitive Lines.

In 2011, the number of CLEC lines provided using their own facilities continued to increase while the lines provisioned over the incumbents' network

slightly decreased. The increase in competitive lines provisioned over CLECs' own facilities began in 2005 and this trend has continued over the last 6 years, as show in Figure 7.

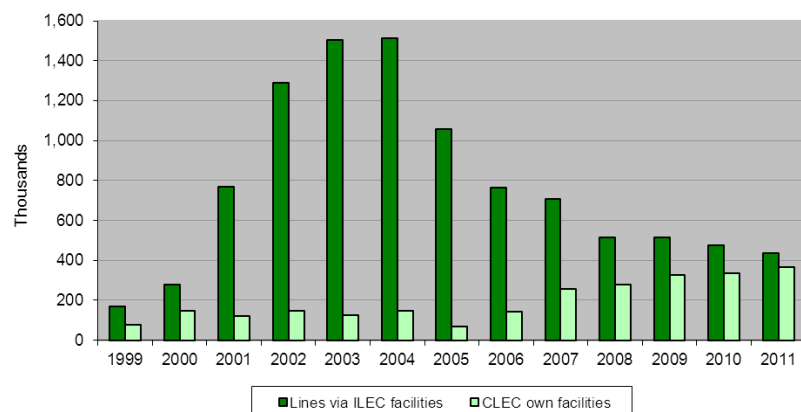


Figure 7: Competitive Lines

The existence of this type of provisioned lines is an indication that the provider has the intent of remaining in the marketplace for the long term as the initial investment to provision those lines is higher than the investment

necessary to provision those same lines utilizing the incumbent's network. While there has been a slight loss of competitive lines for 2011, a portion of those lines were recovered due, in part, to the continued investment by the CLECs in deploying their own network facilities. As reported in previous years, a similar trend was also seen in 2008. This investment by the CLECs represents important economic activity that benefits Michigan and points toward further stabilization of Michigan's competitive telecommunications market.

The evolution of Michigan lines in the last 13 years is represented in Figure 8. The chart indicates growth for the CLECs during the first six years while at the same time declining market share for AT&T Michigan. This inverse correlation occurred while UNE-P, an economical method of provisioning lines to customers, was available. However, for 2005, 2006 and 2008, CLEC lines decreased while market share for AT&T Michigan grew slightly. The decrease of competitive lines in 2008 was not anticipated to continue long term; hence in 2009 and again in 2010, a recovery of those competitive lines was experienced. In 2011, competitive lines once

again experienced a slight decrease; however the CLEC overall market share increased for the third straight year. The Commission is encouraged that the facilities-based competition in Michigan will continue to maintain a stable competitive environment.

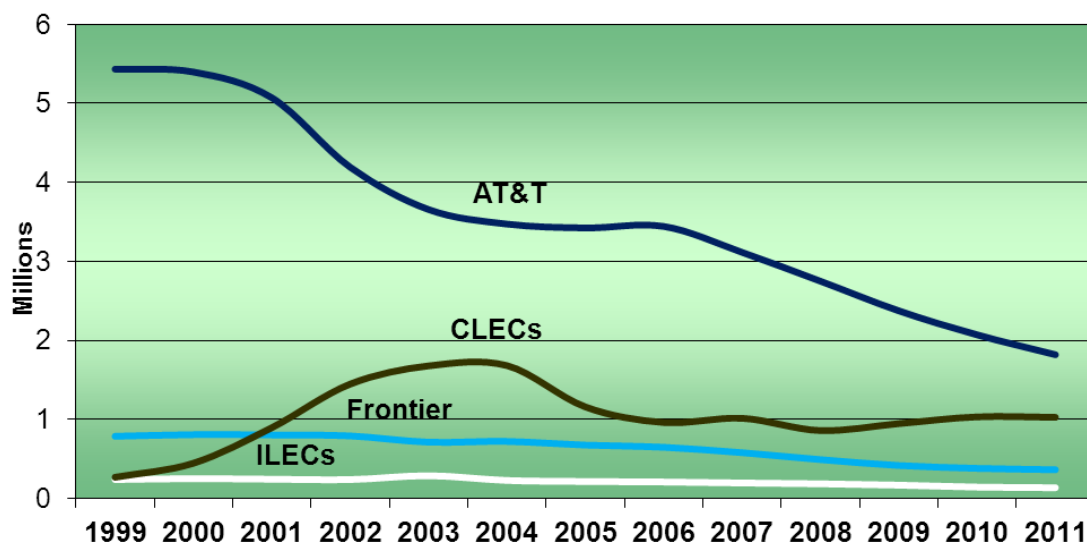


Figure 8: Michigan Lines Evolution

As reflected in Figure 8, over the last five years, Frontier and AT&T Michigan have experienced a steady decrease in their reported lines while the small ILECs experienced a moderate decrease of lines over the same period.

The total number of customers served via wireline technology continues to decrease following a trend that began in 2002. Historically, providers have asserted that the decline in total wirelines was due to the increase in mobile wireless users¹² and the use of other types of telephony including VoIP, as well as a movement away from using dial-up Internet to high-speed connections. The Commission believes there is merit in this argument, although it is worth noting that many telecommunications companies are offering one or more of these additional services (wireless, VoIP, Internet connections) provided through their own company or an affiliate which

¹² For example, see the Mobile Wireless Market section of this report, which discusses the increasing number of wireless only households.

does not necessarily report to the Commission. As such, some of the lost wireline customers may represent customers migrating to VoIP and/or wireless with the same provider and not actually customers lost to that provider.

Mobile Wireless (Voice)

Pursuant to the MTA, the Commission does not regulate mobile wireless providers. Consequently, in preparing this report the Commission must rely on wireless data obtained from other sources.¹³ The FCC prepares a semiannual Local Telephone Competition Report that includes data on the number of mobile wireless telephone providers and subscribers in Michigan. The data from the FCC's most recently released report, *Local Telephone Competition: Status as of December 31, 2010*, is current through the end of 2010 and shows that Michigan continues to see an increasing number of mobile wireless subscriptions (see Figure 9). According to this

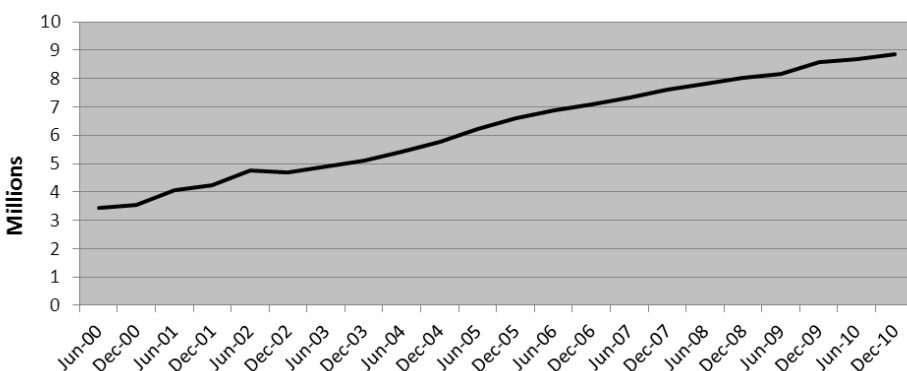


Figure 9: Number of Mobile Wireless Subscriptions in Michigan. FCC Data

FCC data, there were approximately 8,861,000 mobile wireless telephone subscribers in Michigan as of December 31, 2010.

Michigan continues to experience steady growth in the number of mobile wireless subscriptions, though that growth is no longer at the peak levels Michigan experienced from 2000 through December 2005 (see Figure 10).

¹³ While this report discusses the potential impact of the wireless market on wireline competition, the Commission maintains its position that mobile wireless service is not a functional equivalent to wireline service for all citizens in Michigan due to issues related to coverage, ability for 911 operators to locate callers, and communications during power outages.

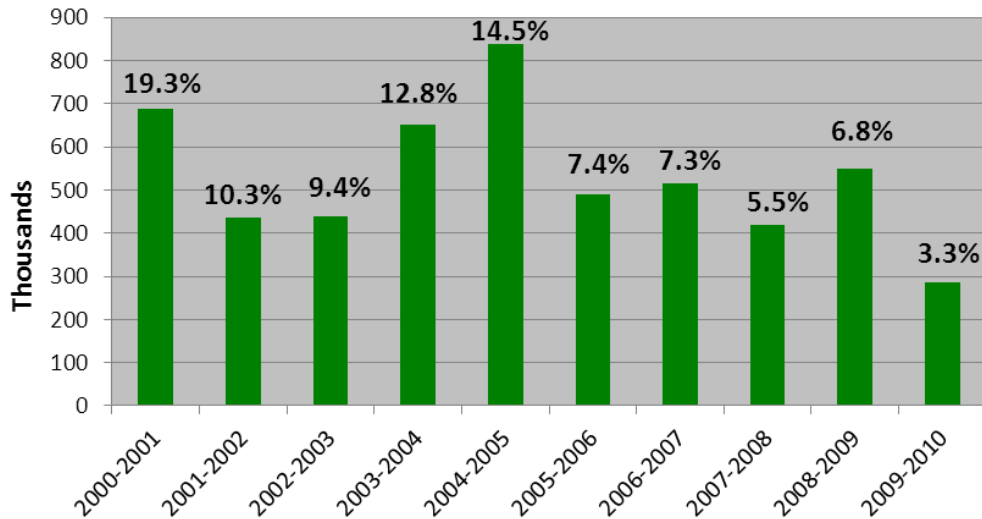


Figure 10: Change in Mobile Wireless Subscriptions in Michigan. FCC Data

The Centers for Disease Control and Prevention’s National Center for Health Statistics (NCHS), released its most recent data on wireless substitution in the report *Wireless Substitution: Early Release of Estimates from the National Health Interview Survey, January – June 2011*. The NCHS data shows that 31.6 percent of American households, representing approximately 69 million adults and 27 million children, had at least one wireless phone but no landline telephone during the first half of 2011. The report notes the continuing trend of increasing numbers of wireless-only households nationwide. The report also provides evidence that younger adults are much more likely to “cut the cord” than older adults. For example, for the January – June 2011 period, the NCHS reports that more than half (58.1 percent) of U.S. adults aged 25-29 lived in a wireless-only household while only 7.9 percent of adults aged 65 and older did.

While the Commission does not yet consider mobile wireless to be a complete functional equivalent to wireline service for all customers, mobile wireless is a truly competitive alternative to wireline service for an increasing number of Michigan customers. The NCHS has not yet released its updated modeled state level estimates on the distribution of household telephone status of adults and children for 2011. Therefore, updated household telephone status estimates for

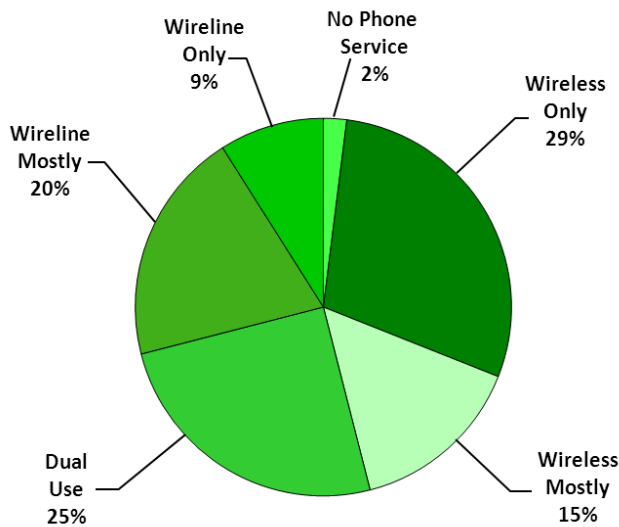


Figure 11: Estimates of the Percent Distribution of Household Telephone Status for Adults in Michigan July 2009-June 2010. National Center for Health Statistics Data.

Michigan are not available. The data presented in last year's report is reproduced in Figure 11 for convenience.

The FCC released its Fifteenth Annual Report and Analysis of Competitive Market Conditions with Respect to Commercial Mobile Radio Service (CMRS Report) on June 27, 2011.

The FCC information in this report is at the level of Economic Areas (EA), which are regional areas defined by the U.S. Department of Commerce. Due to the large geographic area encompassed by each EA, the FCC's data only allows for generalized conclusions about wireless service in Michigan.¹⁴ According to the FCC data, wireless penetration rates have continued to increase in 2009 for all six of the EAs containing Michigan counties. This represents an increase in wireless subscriptions in both the urban and rural areas of the state.

Michigan counties make up all or part of six Economic Areas. Below is a list of which counties are contained in each Economic Area that covers Michigan:

EA 57

Alcona, Iosco, Ogemaw, Gladwin, Arenac, Clare, Isabella, Midland, Bay, Saginaw, Huron, Gratiot, Tuscola, Sanilac, Clinton, Shiawassee, Genesee, Lapeer, St. Clair, Eaton, Ingham, Livingston, Oakland, Macomb, Jackson, Washtenaw, Wayne, Hillsdale, Lenawee, Monroe

¹⁴ For example, some of the areas include parts of other states and/or combine urban and rural areas.

EA 58

Chippewa, Luce, Mackinac, Emmet, Charlevoix, Cheboygan, Presque Isle, Montmorency, Alpena, Oscoda, Crawford, Roscommon, Otsego

EA 59

Keweenaw, Houghton, Baraga, Ontonagon, Gogebic, Iron, Marquette, Dickinson, Menominee, Delta, Alger, Schoolcraft . . . also includes portions of Wisconsin

EA 61

Leelanau, Antrim, Kalkaska, Grand Traverse, Benzie, Manistee, Wexford, Missaukee, Mason, Lake, Osceola

EA 62

Oceana, Newaygo, Mecosta, Montcalm, Muskegon, Ottawa, Kent, Ionia, Allegan, Barry, Van Buren, Kalamazoo, Calhoun, Branch

EA 65

Berrien, Cass, St. Joseph . . . also includes portions of Indiana

The penetration rate for each of these six Economic Areas is listed in Figure 12 below.¹⁵

Figure 12: Wireless Penetration Rate

Source: FCC Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth CMRS Reports

Economic Area	2005 (based on US Census 2000 population data)	2006 (based on US Census 2006 population estimates)	2007 (based on US Census 2007 population estimates)	2008 (based on US Census 2008 population estimates)	2009 (based on US Census 2009 population estimates)
57	85%	96%	100%	105%	114%
58	41%	56%	65%	*	78%
59	63%	72%	85%	92%	82%
61	58%	66%	71%	77%	83%
62	63%	68%	73%	78%	84%
65	59%	67%	74%	78%	81%
Nationwide	71%	80%	86%	90%	93%

* Data withheld to maintain firm confidentiality.

¹⁵ As noted in previous years, the penetration rates for 2006 through 2009 are not directly comparable to 2005 due to the FCC's use of U.S. Census 2000 actual population data to calculate 2005 penetration rates, whereas for the 2006, 2007, 2008, and 2009 penetration rates, the FCC used the U.S. Census 2006, 2007, 2008, and 2009 *estimated* population numbers, respectively.

As noted in previous years' reports, wireless penetration rate is not evidence of coverage in all areas. The FCC's CMRS Reports include updated maps showing wireless coverage for 2009. Based on these maps, it appears that as in previous years, many areas in the Lower Peninsula have several options available for customers to choose their wireless provider while wireless competition is not as prevalent in the Upper Peninsula and some northern areas of the Lower Peninsula. However, the Commission finds that the best indicators of wireless coverage are the interactive provider coverage maps available on mobile wireless providers' websites. Many of these maps can show detail of coverage at the level of individual street addresses and are updated frequently as providers roll out additional towers or new technologies.

In addition to wireless voice service, mobile wireless can provide customers with other services including texting, multimedia messaging, email, Web browsing, and numerous other applications. Broadband service via mobile wireless is discussed in more detail in the Broadband section of this report. Data on mobile wireless consistently show that this technology continues to be a driving force in the telecommunications marketplace. While state-level data is difficult to obtain, the Commission will continue to the best of its ability to monitor and report on the impact of mobile wireless voice service on telecommunications services in Michigan.

Voice over Internet Protocol

Voice over Internet Protocol is both a technology and a service. There are two main types of VoIP service: interconnected VoIP technology, which allows a customer to make and receive calls from the public switched telephone network (PSTN); and non-interconnected VoIP technology in which calls do not use the PSTN. Aside from companies that offer only VoIP service, VoIP service is also often available from cable companies, some traditional telephone companies, and providers of broadband internet services. Marketing literature available from a

cross-section of these different types of providers shows that VoIP service offerings include residential and business local and long distance calling, as well as features such as international calling, voicemail, and call forwarding. However, while VoIP service is in many ways similar to traditional wireline service, two significant differences are important to highlight. VoIP customers may need to provide location or other information to their VoIP providers, and update this information if they change locations, for their VoIP 911 service to function properly.¹⁶ Additionally, VoIP services typically entail the use of equipment that requires electricity. Therefore, VoIP service may not function during an electrical outage while traditional wireline telephone service typically would. Some VoIP providers include a backup battery that would allow service to continue during short duration electrical outages, however during a longer term outage service could still be disrupted. Even though the MTA categorizes VoIP as an unregulated service, the MTA does include a registration requirement for providers of VoIP services. The Commission maintains an online registration system, the *Intrastate Telecommunications Service Provider Registry*, to help providers meet this requirement.

The Commission's survey collects information on the number of VoIP lines provisioned by licensed CLECs and the data shows an increasing use of this technology as a method for serving customers. Providers reporting VoIP lines on the CLEC survey reported 199,755 VoIP lines for 2011, representing a slight increase over the lines reported in 2010. However, as noted in past reports, the Commission is aware of certain companies (some cable companies, un-licensed subsidiaries of licensed CLECs, other types of providers) that offer VoIP but do not report these lines on the Commission's CLEC survey. Previously, the Commission did not have a method to

¹⁶ The FCC has a Consumer Advisory, available at <http://www.fcc.gov/cgb/consumerfacts/voip911.pdf>, that explains important information regarding VoIP service and access to 911 emergency services.

determine the number of these lines, but in recent years has estimated the number to be in the several hundred thousands.

The FCC, however, has expanded its reporting requirements and began mandating reporting by interconnected VoIP providers in December 2008. The greater response of providers offering VoIP on the Commission's CLEC survey may be, in part, due to the fact that the FCC has required providers to report the number of VoIP lines they are provisioning. The FCC data, available in the *Local Telephone Competition* report, confirms our estimations in previous years that the number of VoIP lines in Michigan was significant. In fact, the FCC reports that as of December 31, 2010, there were 81 providers of interconnected VoIP serving over 1.2 million interconnected VoIP lines in Michigan. Interconnected VoIP is increasingly becoming a competitive option for some customers (with the caveats about 911 service and service during electricity outages), not just in Michigan, but nationwide. The FCC shows that nationwide the number of interconnected VoIP service subscriptions has increased by approximately 46 percent from December 2008 to December 2010, while traditional retail switched access lines decreased 17 percent.

There are many issues of interest to the Commission related to VoIP, including federal universal service funding, 911 functionality and funding, and compensation for traffic exchange between providers. These topics are under the primary jurisdiction of the FCC and debate on these topics continues at the federal level. Some of these issues are addressed in the FCC's universal service and intercarrier compensation reform order.¹⁷ However, that order is currently the subject of multiple legal challenges and the end result as it relates to VoIP service is not yet known. More on universal service and intercarrier compensation reform can be found later in this report. The Commission continues to follow this and other developments at the federal level and

¹⁷ http://transition.fcc.gov/Daily_Releases/Daily_Business/2012/db0206/FCC-11-161A1.pdf

monitor any effects of federal policy regarding VoIP service on telecommunications competition in Michigan.

Broadband

The Commission monitors the development of broadband technologies, but does not have regulatory authority over these types of services. As such, the Commission must rely on external data sources when analyzing the state of broadband in Michigan. As reported in 2010, the FCC has made significant revisions to its process for collection of broadband data. These changes include expanding the number of broadband reporting speed tiers, requiring providers to report numbers of broadband subscribers by Census Tract, further broken down by speed tier and technology type, and specifying additional requirements to improve the accuracy of information collected regarding mobile wireless broadband deployment. The FCC has begun reporting the results of the enhanced data collection efforts in its Internet Access Services Reports. These reports replace the *High-speed Services for Internet Access* reports that covered 2000-2008 data. The most recent of these reports, *Internet Access Services: Status as of December 31, 2010* compiles broadband data submitted on the FCC's Form 477 through the end of 2010.

According to the FCC's *High-speed Lines Report*, Michigan now ranks 11th in the country in the number of Internet access lines offering at least 200kbps in at least one direction, with 99 different providers reporting 4,665,000 lines as of December 31, 2010 (see figure 13).¹⁸ Residential connections represent 78 percent of the total connections with speeds of at least

¹⁸ As explained in previous years, with the modifications to the types of data collected with Form 477, the data shows a one-time decrease (2008-2009) in the reported number of high-speed Internet access service connections. In previous reports, the FCC counted a device that was capable of sending or receiving data as a mobile wireless high-speed Internet connection. However, this did not take into account that some customers with these types of devices do not subscribe to mobile wireless broadband service. The revised Form 477 considers a person to have a mobile wireless broadband connection if they have a capable device and subscribe to a plan that allows for transferring data to and from Internet sites and excludes subscribers with plans that only allow for content that is for viewing on a mobile device such as text messaging.

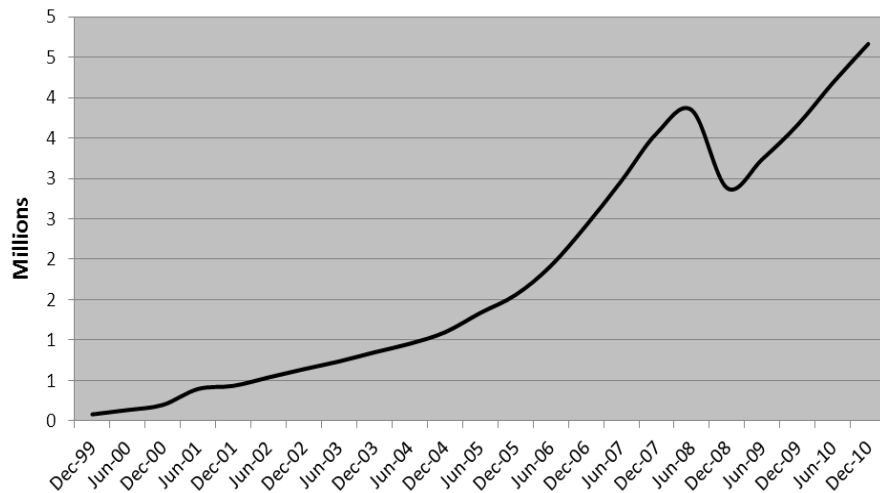


Figure 13: Number of High-speed Internet Lines in Michigan. (FCC Data)

200kbps in one direction in Michigan, with business connections comprising the remaining 22 percent. The FCC estimates that DSL service is available to

75 percent of Michigan residences where ILECs offer local telephone service and that cable modem service is available to 98 percent of residences where cable providers offer cable television service. This compares with nationwide percentages for DSL and cable broadband availability of 84 percent and 97 percent, respectively.

Figure 14 represents the growth in Internet access lines offering speeds of at least 200kbps in at least one direction by technology type for the five reporting periods since the FCC changed its data collection methodology. As the figure shows, each technology platform continues to see growth in the number of lines served, though the most dramatic increase is in the number of high-speed Internet access lines provisioned with mobile wireless, the number of which increased by almost 250 percent between December 2008 and December 2010.

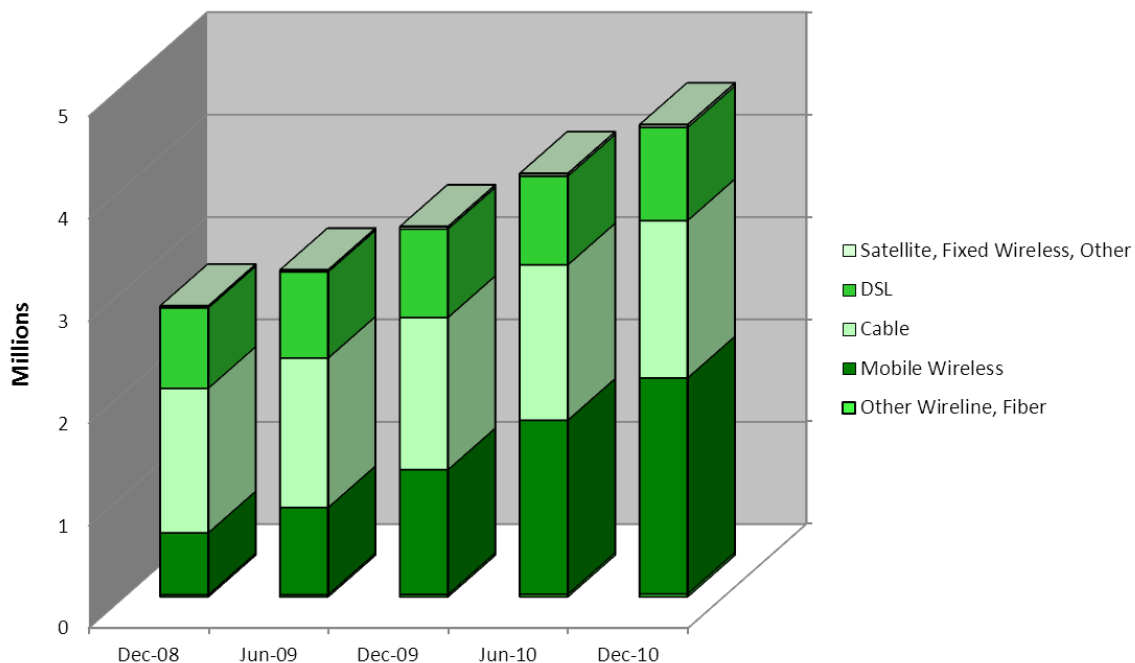


Figure 14: Number of Internet Access Lines at least 200kbps in one direction by Technology in Michigan (FCC Data).

Just as consumers are continuing to choose to use mobile wireless voice to complement or replace traditional wireline voice, expanded geographic coverage for data as well as the continued popularity of smart phones and wireless cards for computers allows consumers to supplement or replace a wired Internet connection with mobile wireless. Mobile wireless connections continued to make up the largest portion of the total lines offering speeds of at least 200kbps in at least one direction in Michigan, representing 46 percent of the total as of December 31, 2010. Cable, 33 percent, and DSL, 20 percent, make up most of the remainder. The percentage of lines offering

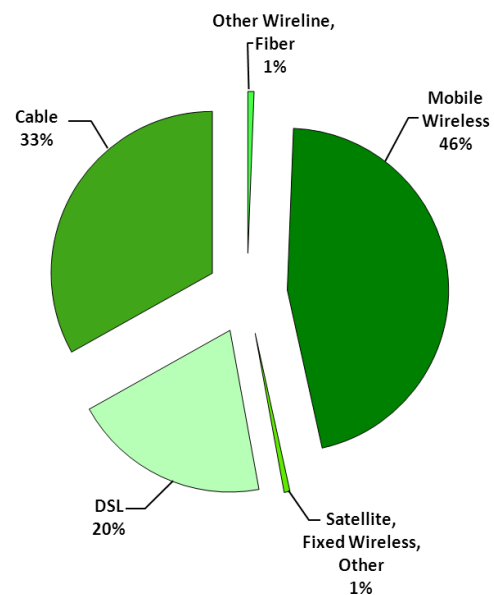


Figure 15: Percent of Michigan Internet Access Lines at least 200kbps in one direction by Technology (FCC Data).

200+kbps in at least one direction by technology is shown in Figure 15. However, for connections with greater speeds, mobile wireless loses the dominant position to cable; the FCC reports that as of December 31, 2010, 72 percent of Michigan connections with speeds of at least 3mpbs downstream/768kbps upstream are cable connections while 19 percent of these connections are mobile wireless.

In previous reports, the Commission has provided information about the one broadband over power line (BPL) provider offering service in Michigan of which it is aware, Midwest Connections, a subsidiary of Midwest Energy Cooperative. However, according to a notice to customers posted on its website the company announced in December 2011 that its partner, International Broadband and Electric Communications, was exiting the BPL business, citing financial and technological issues. Midwest Connections intends to continue to provide service until August 2012 and states that it is continuing to seek other solutions to provide broadband services to rural areas.¹⁹

The growing number of Internet access connections in Michigan show that Michigan citizens and businesses increasingly value broadband service. Understanding why individuals and businesses do or do not adopt broadband is an important factor in increasing broadband adoption rates and ensuring that this vital technology is accessible, not just physically available, to all. There are many factors that can act as a barrier to adoption, even where service is available, such as price, lack of a device with which to access the Internet, privacy or security concerns, or a lack of interest/understanding what broadband access to the Internet offers. Determining the barriers to adoption and recommending solutions to overcome these challenges is a goal of the Commission's Connect Michigan project, which is discussed in more detail later in this report. There continues to

¹⁹ Midwest Connections website accessed on May 4, 2012 showing "An Update for our Customers" regarding BPL service: <http://www.teammidwest.com/products-services/midwest-connections/broadband-over-power-lines-bpl/>

be vibrant growth in the broadband sector of the telecommunications market, and the Commission will continue to monitor the developments in this area, as well as the effects of additional broadband availability and adoption on wireline telephone competition in Michigan.

Federal Universal Service and Intercarrier Compensation Reform

As was mentioned in the previous year's report, on February 8, 2011 the FCC adopted a Notice of Proposed Rulemaking seeking comment on significant reforms to both the federal universal service fund (USF) and the intercarrier compensation (ICC) system. Since that time, the FCC has taken substantial steps forward in reforming USF and ICC. The most recent FCC rules and regulations were entered into the Federal Register on November 29, 2011.²⁰ The effective date for these new rules was December 29, 2011.

The goals of the comprehensive reform are stated in the Federal Register, and they are as follows: 1) Preserve and advance universal availability of voice service; 2) ensure universal availability of modern networks capable of providing voice and broadband service to homes, businesses, and community anchor institutions; 3) ensure universal availability of modern networks capable of providing advanced mobile voice and broadband service; 4) ensure that rates for broadband services and rates for voice services are reasonably comparable in all regions of the nation; and 5) minimize the universal service contribution burden on consumers and business.

The FCC's reform order is complex and comprehensive. At the present time, there have been several legal challenges made to the order. The challenges have been consolidated in Docket No. 11-9900 and are currently being handled by the United States Court of Appeals for the Tenth Circuit. Because of the early stage of the order, as well as the several legal challenges, it is not possible at this time to have a true understanding of the effects that this order will have on

²⁰ <http://www.gpo.gov/fdsys/pkg/FR-2011-11-29/pdf/2011-30378.pdf>

telecommunications competition. As always, the Commission will continue to monitor and participate in this and any other FCC proceedings of interest to Michigan.

Broadband Mapping and Planning – Connect Michigan

The National Telecommunications and Information Administration awarded a grant to Connect Michigan for broadband mapping and planning initiatives over a five-year period. Connect Michigan is a public-private partnership between the Commission and Connected Nation, a national leader in broadband mapping, to expand broadband availability, adoption and use throughout Michigan. Connect Michigan continues to update Michigan's broadband availability maps, including the newly revamped interactive version [My Connect View](#). The map allows users to see broadband availability information for the entire state, including served and unserved areas by broadband technology. Users can also input an address and see which provider(s) are offering service in that location. The interactive map also includes updated demographic information, including school district and legislative district boundaries, making it a more useful tool for a variety of policy makers and other entities. Connect Michigan is also currently working on a number of broadband planning projects through the Connected Community certification program. Through that program, Connect Michigan field representatives work directly with communities across the state on assessing the broadband needs and resources available at the community level. The community teams then work with Connect Michigan to design broadband plans to address any identified gaps in broadband availability, adoption or use. Additional information and success stories related to Connect Michigan are available on the [Connect Michigan website](#).

Mergers and Acquisitions

There is a continuing trend of significant consolidation in the telecommunications sector. The following is a discussion of the announced or completed transactions in 2011 among companies with customers in Michigan.

In January 2011, the Commission received notice regarding the Indirect Transfer of Control of the ONE entities to EarthLink, Inc. The transfer included CTC Communications Corp., US Xchange of Michigan, LLC, & Conversant Communications Resale, LLC. New Edge Networks is also a subsidiary of EarthLink. The transfer of control resulted in a change of ultimate ownership and control of the ONE entities to EarthLink and EarthLink became the ultimate parent. There were no transfers of authorizations, assets or customers that occurred to those entities as a result of the transfer of control.

In March 2011, Clinton Co. Telephone Co, Westphalia Telephone Co., Westphalia Broadband, Inc. and Westphalia Communications filed a Joint application with the FCC for transfer of control to Great Lakes Comnet, Inc. resulting in those companies becoming subsidiaries of GLC. The companies will continue to provide service to their existing customers under the same rates, terms and conditions. A FCC Public Notice granting authorization was released on May 16, 2011.

In March 2011, AT&T, the second largest wireless carrier in the country, announced its intent to acquire the fourth largest U.S. wireless carrier T-Mobile USA from Deutsche Telekom in a \$39 billion dollar deal. The transaction faced anti-trust and regulatory hurdles with the U.S. Department of Justice and the FCC as well as court challenges from other carriers. In December 2011, AT&T announced that it was ending its effort to acquire T-Mobile and would take a \$4

billion pretax accounting charge in the fourth quarter for the breakup fee it must pay to Deutsche Telekom.

In April 2011, Level 3 Communications, Inc. announced that it would acquire Global Crossing North America, Inc., Global Crossing Telecommunications, Inc., and Global Crossing Local Service, Inc. in a stock transfer. In October 2011, the merger received the necessary approvals from the FCC and the Department of Justice, and the companies completed the merger and related transactions.

In May 2011, the Board of Directors of Allendale Telephone and Drenthe Telephone approved the consolidation of Drenthe, a wholly owned subsidiary of Allendale, into Allendale, with Allendale as the surviving entity. Closing of the transaction was completed September 30, 2011. The customers of Drenthe were transitioned to Allendale.

In August 2011, the Commission received a notification regarding the transfer of telecommunications assets and Michigan customer base to Birch Telecom of the Great Lakes from Cordia Communications Corp., My Tel Co, Inc., and Northstar Telecom, Inc. The transaction was consummated in October 2011.

In August 2011, the Commission received notice of the proposed transaction between PAETEC and Windstream through which Windstream would acquire indirect control of the PAETEC Regulated Entities (Intellifiber Networks, Inc., Talk America, Inc., PaeTec Communications, Inc., LDMI Telecommunications, Inc., and McLeodUSA Telecommunications Services, LLC). The change in control did not involve a transfer of operating authority, assets or customers. PAETEC continues as the surviving corporation in the merger as a wholly owned subsidiary of Windstream. The transaction was completed in December 2011.

In October 2011, the Commission received notice of a pro forma change in corporate structure where DSLnet Communications, LLC would merge into DIECA Communications, Inc. d/b/a Covad Communications Company. The Certificate of DSLnet was not transferred to DIECA, and DSLnet requested that its certificate and tariffs be cancelled upon notification by the Parties that the transaction was completed, which occurred in December 2011.

In December 2011, the Commission received notice of the change in indirect ownership of HyperCube Telecom, LLC and the transfer of control of HyperCube to Rubik Acquisition Company, LLC & West Corporation. The company completed the transfer of control of Hypercube to Rubik and West as described in the notification received by the Commission in December 2011.

Conclusion

In 2011, Michigan's competitive wireline market share increased to 30.7 percent, due, in part, to the increased number of CLECs reporting lines and responding to the survey and also due in part to the decrease in lines reported by the incumbent providers. As noted in this report, some of the lost wireline customers may represent customers migrating to VoIP and/or wireless with the same provider and not actually customers lost to the provider. Similar to last year, facilities-based competition has continued to increase, especially in the provisioning of business service, through investment by the CLECs in developing their networks which is a positive economic sign.

The chart in Figure 16 depicts the competitive landscape in Michigan for 2011. Services provided over CLEC facilities account for 35.7 percent of the provisioning, while VoIP accounts for almost 20 percent. The remainder is accounted for by provisioning using ILEC facilities through UNE-L and resale methods.

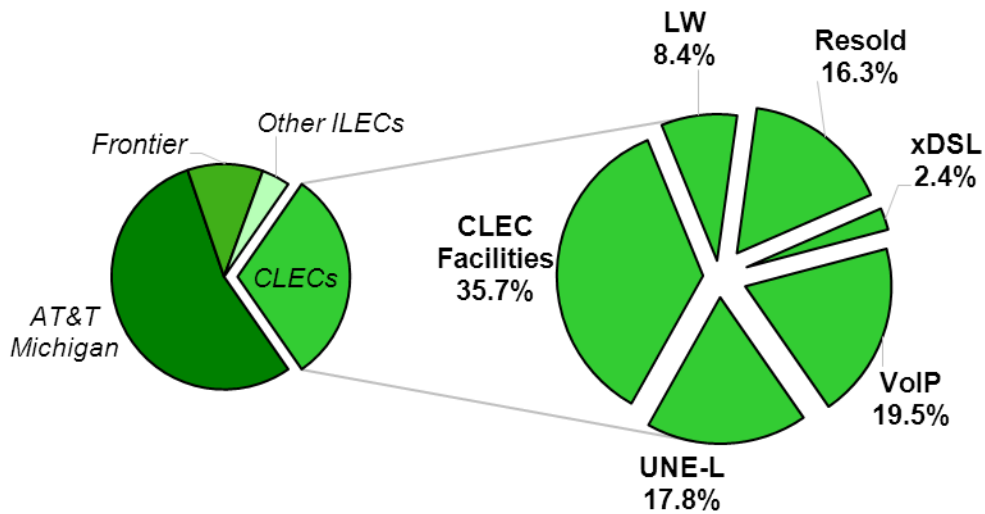


Figure 16: Michigan competitive landscape in 2011.

The competitive landscape in Michigan has significantly changed over the last several years, due largely to technological advancements. There is currently a national trend that telecommunication services provided over a traditional wireline is decreasing as VoIP and wireless become more prevalent. However, there still exists a fairly large number of consumers in Michigan using traditional wireline technology today which indicates a continued need and desire for wireline services. The Commission strives to strike a balance to position Michigan to reap the benefits of new technologies while at the same time preserving a quality wireline system for those for whom newer technologies are currently unavailable or unaffordable.

The Commission continues to carry out its duties under the MTA as well as monitoring current developments on the national level and keeping abreast of the ever changing technological developments in the industry to ensure that Michigan consumers have telecommunication service choices available to them. Should any issue arise that may warrant action, the Commission will apprise the Governor and the Legislature.