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DEPARTMENT OF ENERGY, LABOR & ECONOMIC GROWTH
PUBLIC SERVICE COMMISSION

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June 16, 2010

Honorable Jennifer Granholm
Governor of Michigan

Honorable Members of the Senate Energy Policy and Public Utilities Committee
Secretary of the Senate

Honorable Members of the House Energy and Technology Committee
Clerk of the House of Representatives

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 purpose of this report is to describe the status of competition in telecommunications services 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 as well as services provided via diverse telecommunications technologies, such as wireless and Voice over Internet Protocol (VoIP). The report also contains information regarding high speed Internet lines in Michigan and the latest developments pertaining to broadband from the American Recovery and Reinvestment Act of 2009 (ARRA) programs including our recently launched Michigan broadband map.

In a trend that began in 2002, the total number of wirelines in Michigan has again decreased. For 2009, the total number of wirelines in Michigan decreased by over 400,000 lines from the previous year. In 2005, 2006 and 2008 as noted in earlier reports, there was a decrease in the percentage of lines served by competitive providers, however in 2009 the competitive providers' market share increased. For 2009, the competitive providers' share was 24.2 percent.

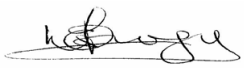
While competitive providers can offer service to customers through a variety of methods that use the incumbent providers' networks, in 2009 we again saw a significant increase, from 32.5 percent to 34.5 percent, in the percentage of competitive lines served via the competitive providers' own facilities. This growth suggests that the competitive network infrastructure continues to shift toward facilities-based competition versus competition reliant solely on the incumbents' networks. As in 2008, this trend is more evident in residential lines, as almost three fourths of the lines provided via competitive providers' facilities are residential customers. For the first time since the year 2000, competitive providers serve more business lines than

residential lines. The increase in business lines trend began in 2003 and it is more evident in the lines provisioned via the incumbents' network where two thirds of the lines are business lines. Though the competitive market share is still below the 2004 high of 27.5 percent, the continued network investment by competitive providers, along with the recent increased market share for competitive providers, is a very positive trend.

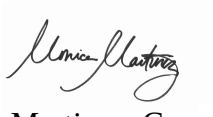
While the Commission does not have jurisdiction over most types of advanced and non-wireline telecommunications, additional data available to the Commission allows for the monitoring of developments in these markets. The number of wireless subscriptions in Michigan continues to increase; the FCC reports that there are over 7.8 million wireless subscriptions in Michigan as of June 30, 2008. The high speed Internet connections reported to the FCC for the 12 month period between December 31, 2007 and December 31, 2008 was 2,881,000. This ranks Michigan 12th in the country. Along with monitoring FCC data regarding high speed lines in Michigan, the Commission has taken an active role in the proceedings surrounding the broadband provisions of the ARRA. The Commission, along with other state departments, has been involved in the analysis, planning and review of the federal broadband applications that pertain to Michigan. Over $50 million in federal grants and grant/loan combinations were awarded to entities in Michigan. The Commission was instrumental in Michigan's efforts to receive a $1.8 million grant from the federal government on December 22, 2009 to launch a comprehensive broadband mapping initiative, Connect Michigan, which will help enable the state to collect data and develop a detailed map of existing broadband availability.

The *Status of Telecommunications Competition in Michigan* report for 2009 shows that, while the total number of wirelines continues to decrease, competitive providers market share increased to 24.2 percent. Additionally, competitive providers are serving more lines via their own facilities. This represents continued investment in Michigan's competitive telecommunications infrastructure and serves as an indication that the provider has the intent of remaining in the marketplace in the long term. The Commission will continue to strive to meet its obligations under the MTA to ensure a just and reasonable primary basic local exchange service rate; enforce basic consumer protections, including prohibitions against slamming and cramming; and 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 also apprise the Governor and the Legislature of any future developments that may warrant action.

Very truly yours,



Orjiakor N. Isiogu, Chairman



Monica Martinez, Commissioner

Greg R. White, Commissioner

The Status

of

Telecommunications

Competition

in

Michigan

June 2010

Submitted by the Michigan Public Service Commission
Michigan Department of Energy, Labor & Economic Growth
In Compliance with Public Act 179 of 1991 as Amended

Table of Contents

Introduction

Section 103 of the Michigan Telecommunications Act (MTA), as amended in November of 2005 (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, except wireless carriers, to submit to the Commission all information necessary for the preparation of the annual report under this section. This tenth report filed by the Commission includes information on the traditional wireline industry as well as other telecommunications technologies.

The telecommunications industry in Michigan has remained relatively stable the last couple of years. This year, the Recovery and Reinvestment Act of 2009 affected many aspects of the economy including the broadband sector. 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 incumbents' obligation to provide the unbundled network element platform[1] (UNE-P) to competitors at a regulated cost-based price. Under the current MTA, telecommunications services are now largely affected by FCC requirements and market forces; the 2005 MTA revisions created a single form of retail local service subject to rate regulation, primary basic local exchange service.[2] The *Status of Telecommunications Competition in Michigan* report for 2009 finds that incumbents have continued to experience a decrease in their traditional wireline customer lines, a trend that began in the year 2002, while the competitive providers have experienced a slight increase in their overall lines. Competitive

[1] 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.

[2] Primary Basic Local Exchange Service (PBLES) is defined in the MTA as the provision of one primary access line to a residential customer for voice communication and shall include (i) not fewer than 100 outgoing calls per month (ii) not less than 12,000 outgoing minutes per month and (iii) unlimited incoming calls.

providers appear to be relying less on the incumbents' network and provisioning their lines over their own networks.

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 resale[3] 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 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, 288 carriers registered as resellers of toll service in Michigan for 2009. Although this is a self-registration process and is not subject to verification, it does indicate that there are numerous providers of this service. The

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

Commission's website provides a link for rate comparisons among providers. Additional information is available in the latest report the FCC issued in August 2008, *Trends in Telephone Service*. The FCC report indicates that from the end of 1999 to the present, the FCC has approved all the section 271 applications by the Bell Operating Companies (BOCs) to provide in-region interLATA[4] service throughout the United States.[5] In Michigan, this process was completed in September 2003. The FCC reports that more than 1,600 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 protocol[6] (VoIP) have 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 services include wireless, Internet access services and video, commonly known in the marketplace as quadruple play.

[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 in the Emerging Technologies section of this report.

Basic Local Exchange Market - Wireline

The staff of the Commission conducts annual surveys of AT&T Michigan, Verizon, the smaller incumbent local exchange carriers (ILECs) as well as 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 190 CLECs in the state of Michigan that were licensed as of December 31, 2009. The data collected through this survey is for the year ended December 31, 2009. The information gathered assists the Commission in evaluating the scope of local competition in Michigan.

The results of this survey are presented as aggregated to total CLEC numbers to maintain the confidentiality of the individual company numbers. The surveyed companies consider some of the information requested to be confidential. For 2009, all of the ILECs responded to the ILEC survey and 129 of the 190 CLECs and ILECs that have CLEC operations filed a response to the CLEC survey. From this group of CLECs, 91 reported that they are actually providing local service.

The data for 2009 shows the total number of wirelines provided by ILECs and CLECs in Michigan was 3,907,129. This accounts for a decrease of almost 300,000 lines from 2008 which aligns with the average annual loss of lines over the past decade. From the data compiled for 2009, staff found that the number of lines provided by CLECs via their own facilities, through

unbundled network element loops (UNE-L),[7] through local wholesale arrangements (LW), and through resale of incumbent providers' services was 947,068. CLEC lines accounted for 24.2 percent of the total lines in 2009. AT&T Michigan's share was 60.8 percent (2,375,014 lines)[8] while Verizon's share was 10.7 percent (417,292 lines). The small independent telephone companies represented the remaining 4.3 percent (167,755 lines) of the total lines in Michigan (Figure 1).

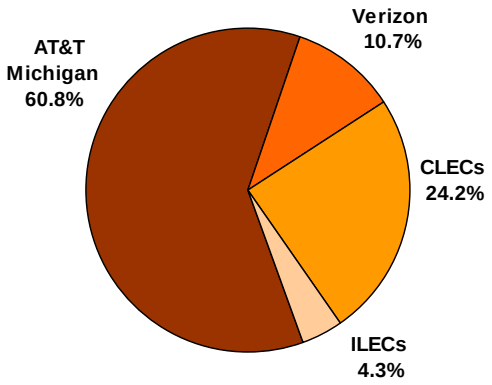


Figure 1: Michigan Market Share in 2009

The Commission continues to license new CLECs, and as of the end of 2009, CLECs were providing service to 24.2 percent of the wirelines provided to customers in Michigan. This is a significant increase from last year. On July 23, 2009, the FCC released its latest report to date on *Local Telephone Competition: Status as of June 30, 2008*. For the Michigan companies that are required to report this data to the FCC, the ILECs reported 3,718,987 lines[9], and the CLECs reported 927,291 lines, for a total of 4,646,278 lines. From the most recent data available from the FCC, the CLECs' share of Michigan's lines was 20 percent as of June 30, 2008. Eighty two providers reported data to the FCC, 27 ILECs along with 55 CLECs. The provider participation with the FCC in compliance with the FCC reporting requirements was again slightly increased this year.

[7] 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.

[8] 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.

[9] 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.

The chart of the Michigan survey results, Figure 2, categorizes the CLECs according to the number of customer lines that they served in 2009. The data indicates that of the 129 CLECs reporting, 50 (39 percent) were serving no Michigan customers in 2009. A second group of 31 CLECs (24 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 31 CLECs (24 percent), and the last group of CLECs served over 10,000 lines each and represents 17 CLECs (13 percent).

CLECs With No Lines	50	39%
CLECs With 1 – 1,000 Lines	31	24%
CLECs With 1,001 – 10,000 Lines	31	24%
CLECs With over 10,000 Lines	17	13%
Total CLECs Responding to Survey	129	100%

Figure 2: The 2009 Michigan Survey Results

Figure 3 represents the data gathered by the Commission over the past 11 years.

Year	Licensed CLECs	CLEC Replies	CLECs with Lines	CLEC Lines	Total Michigan Lines	CLEC %	AT&T Michigan %	Verizon %	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

Figure 3: Michigan Public Service Commission CLEC Survey Results

As is shown in Figure 3, 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. Along with the increase in market share for CLECs, competitive business lines increased accounting for more than half the total competitive lines. This is the first time since the year 2000 that CLECs as a total serve more business lines than residential lines as is reflected in Figure 4. The increase in business lines trend began in 2003 and it is more evident in the lines provisioned via the incumbents' network where two thirds of the lines are business lines. The residential lines provisioned over the CLECs' own facilities account for almost three fourths of the total facilities based lines.

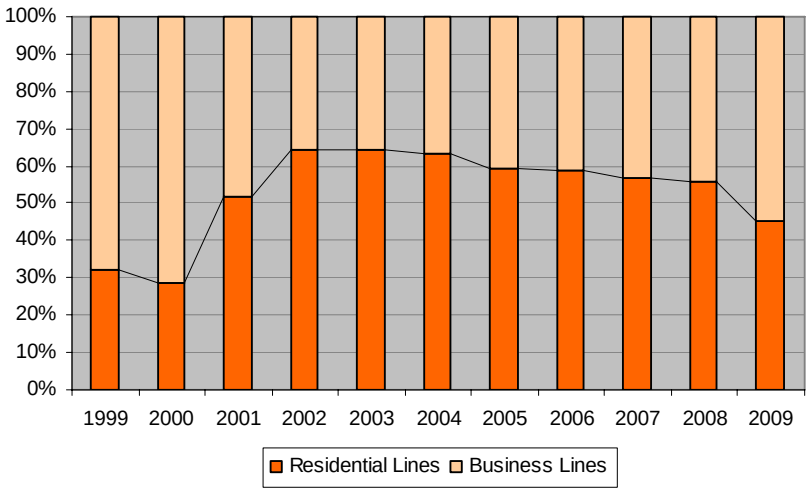


Figure 4: Competitive residential versus business lines

In 2009, the number of CLEC lines provided over their own facilities continued to increase while the lines provisioned over the incumbents' network remained constant, as reflected in Figure 5. The increase of competitive lines provisioned over CLECs' own facilities began in 2005. The existence of this type of provisioned lines is an indication that the provider

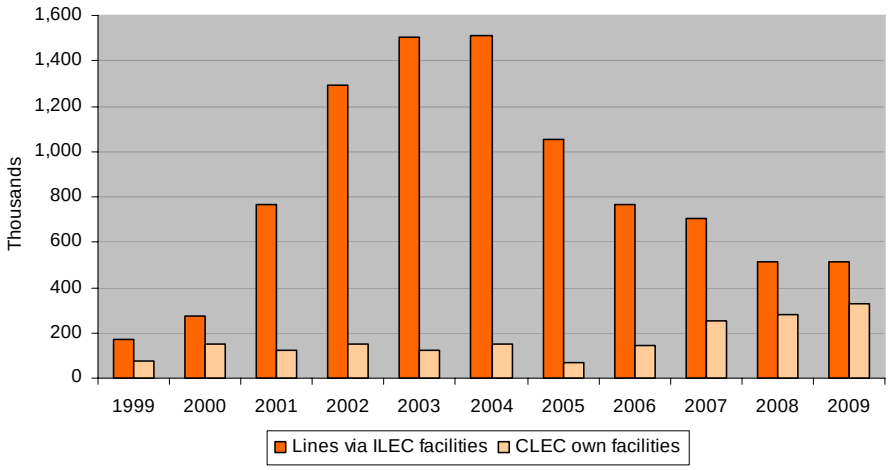


Figure 5: Competitive lines provisioned via CLECs' facilities.

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. In accordance with the information reported last year, even though there was a slight loss of competitive lines for 2008, a portion of those lines were recovered due, in part, to the continued investment by the CLECs in developing their networks which represents an 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 eleven years is represented in Figure 6. 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 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 a recovery of those competitive lines was experienced. The Commission is encouraged that the facilities based competition in Michigan will continue to maintain a stable competitive environment.

As reflected in Figure 6, over the last four years, Verizon and AT&T Michigan have experienced a steady decrease in their reported lines where the lines for the small ILECs experienced a moderate decrease of lines over the same period.

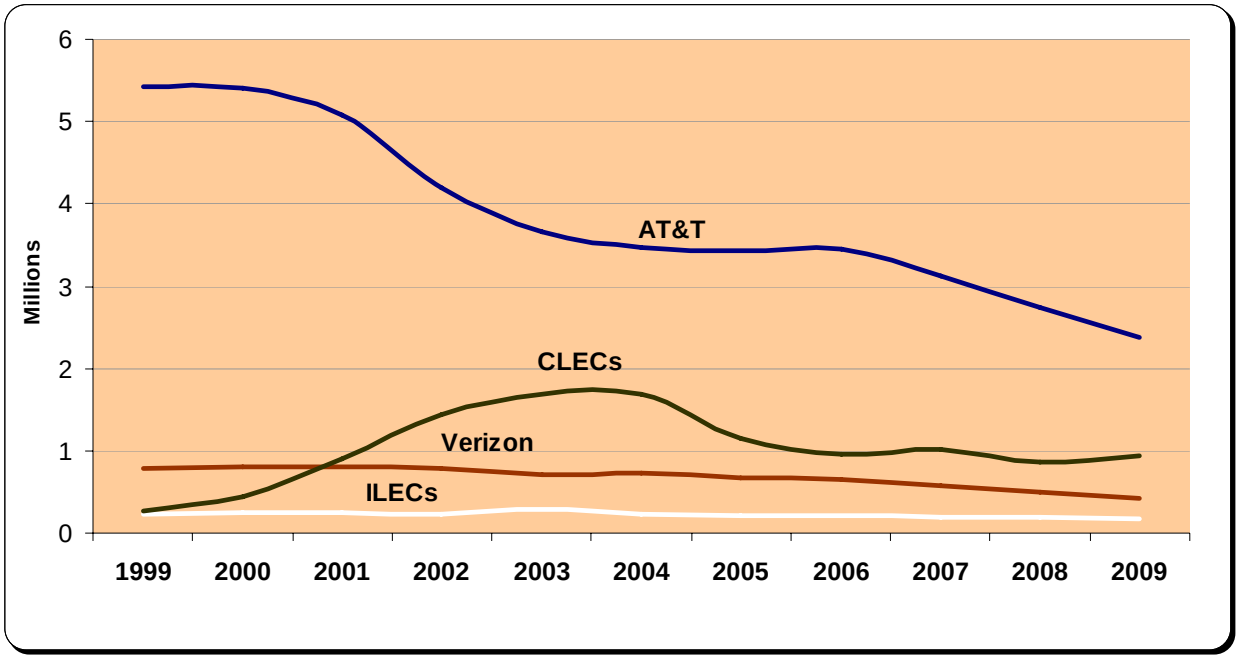


Figure 6: Michigan Lines Evolution, 1999-2009

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 users[10] 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. We note again this year, the Commission believes there is merit in this argument, however the Commission again notes 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 does not necessarily report to the Commission.

[10] For example, see the Wireless Market section of this report, which discusses the increasing number of wireless only households.

Mobile Wireless (Voice)

The MTA does not provide the Commission jurisdiction over wireless providers. Consequently, in preparing this report the Commission must rely on wireless data obtained from other sources.[11] One such source is the FCC's semiannual Local Telephone Competition Report. This report includes Michigan-specific data on the number of mobile wireless telephone providers and subscribers. Unfortunately, the data from the FCC's most recent report is only current through June 30, 2008. The FCC's *Local Telephone Competition: Status as of June 30, 2008* shows continued growth in the number of mobile wireless telephone subscriptions in Michigan (Figure 7). The FCC reports that there were 7,820,609 mobile wireless telephone subscribers in Michigan as of June 30, 2008. While the growth in mobile wireless telephone subscribers remains strong, it is no longer at the peak levels Michigan experienced between 2004 and 2006 (Figure 8). Nevertheless, it is obvious that mobile wireless telephone service continues to be a strong force in the telecommunications market today.

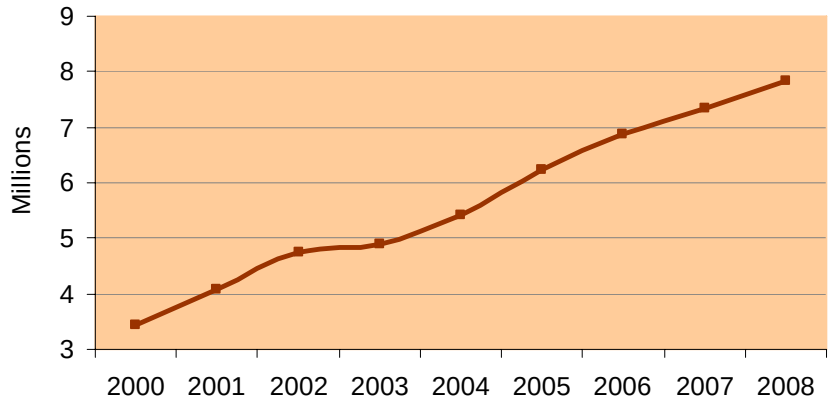


Figure 7: Number of Mobile Wireless Subscriptions in Michigan. FCC Data.

The FCC report shows that the number of wireless telephone providers in Michigan has remained at 11. However, this number does not take into account the mergers of Verizon

[11] While this report discusses the potential impact of the wireless market on wireline competition, it is not the contention of the Commission that mobile wireless service is a functional equivalent of fixed wireline service.

Wireless/Alltel (announced June 5, 2008[12]) and AT&T/Centennial (announced November 7, 2008[13]). These mergers will decrease the number of competitors for mobile wireless telephone service. Additional information about these mergers is included in the Mergers and Acquisitions section later in this report.

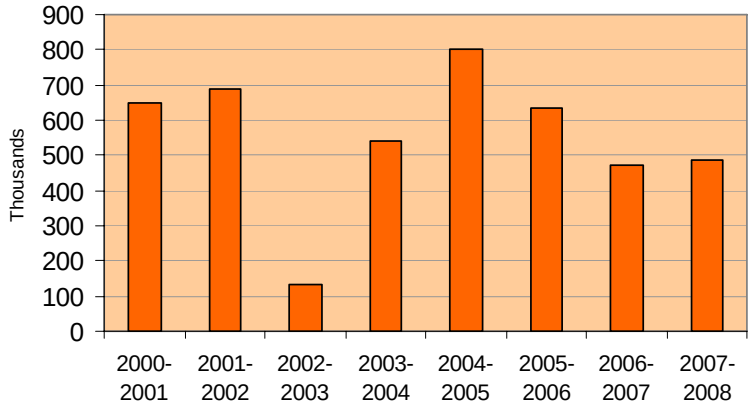


Figure 8: Change in Mobile Wireless Subscriptions in Michigan. FCC Data.

As noted in the past, the Commission does not consider mobile wireless to be a complete functional equivalent to wireline service for all customers. However, as the wireless industry grows, increasing geographical coverage and advancing developments in location technology for 911, wireless continues to act as a true competitive alternative for an increasing number of customers. The Centers for Disease Control and Prevention (CDC), released its most recent data on wireless substitution in the report *Wireless Substitution: Early Release of Estimates from the National Health Interview Survey, July –December 2009* on May 12, 2010. The CDC's data shows that 24.5 percent of American households, representing approximately 52 million adults and 19 million children, had at least one wireless phone but no landline telephone during the last half of 2009. The report notes the trend of increasing numbers of wireless-only households, up 4.3 percentage points from the last 6 months of 2008 through the last 6 months of 2009. For the July-December 2009 period, approximately 48.6 percent of adults ages 25-29 lived in a wireless-

[12] *See* Verizon Wireless press release dated June 5, 2008.
[13] *See* AT&T press release dated November 7, 2008.

only household while only 5.2 percent of adults ages 65 and older did. While it is clear that younger adults are more likely to "cut the cord," the CDC's data shows the percentage of adults in wireless-only households is increasing for all age groups over time. Even for those adults living in a household with at least one wireless phone and a traditional landline telephone, the CDC's report shows that many, 14.9 percent, receive all or most of their calls on a wireless phone. Mobile wireless voice service is becoming the sole or preferred choice of telephony service for an increasing number of Americans.

The FCC released its Annual Report and Analysis of Competitive Market Conditions with Respect to Commercial Mobile Radio Service Fourteenth Report (CMRS Report). The data in this report through December 31, 2008 shows an increasing wireless penetration rate[14] for five of the six Economic Areas (EA) containing Michigan counties for 2005-2008.[15] This represents an increase in wireless subscriptions in both urban and rural areas of the state. The FCC information is at the level of EAs, regional areas with borders defined by the Department of Commerce. Due to the large geographic area encompassed by EAs, the FCC's data only allows for generalizing about wireless service in Michigan.[16] Michigan counties make up all or part of six EAs. Below is a list of which counties are contained in each EA 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

EA 58

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

[14] That is, the percentage of the population in a given area that subscribes to mobile phone service.
[15] The penetration rate for the other Economic Area was not reported due to confidentiality concerns.
[16] Given, for example, that some of the areas overlap states and/or include both suburban and rural areas.

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 Economic Area that contains Michigan counties is listed in Figure 9 below. [17]

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)**
57	85%	96%	100%	105%
58	41%	56%	65%	*
59	63%	72%	85%	92%
61	58%	66%	71%	77%
62	63%	68%	73%	78%
65	59%	67%	74%	78%
Nationwide	71%	80%	86%	90%

Figure 9: Wireless Penetration Rate.
Source: FCC Eleventh, Twelfth, Thirteenth, Fourteenth CMRS Reports

As noted in previous year's reports, wireless penetration rate is not evidence of coverage in all areas. The FCC's CMRS Reports include maps showing wireless coverage. The Commission noted last year that, based on the CMRS Report, Michigan customers in the Lower

[17] As noted last year, the penetration rates for 2006 through 2008 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 and 2008 penetration rates, the FCC used the U.S. Census 2006, 2007 and 2008 *estimated* population numbers, respectively.

Peninsula appear to have decent coverage with several options for a mobile wireless voice provider, while Northern areas of the Lower Peninsula and the Upper Peninsula however still appear to lack the competition for mobile wireless service enjoyed by the southern Lower Peninsula. This continued to be the case based on the FCC's 2008 data. 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. A review of these maps supports the same conclusion as last year regarding Michigan's mobile wireless voice coverage.

A continuing trend in the mobile wireless voice market is the increasing shift away from voice toward other types of services including texting, multi-media messaging, email, and Web browsing. Mobile wireless broadband service is discussed in more detail in the Broadband Technologies section of this report, but the advancing mobile wireless technology, coupled with more customers opting not to have a landline phone continues to be a driving force in the telecommunications marketplace. While data is difficult to obtain at the state-specific level, especially given the long delays between FCC data collection and release of public reports addressing that data, the Commission will continue to the best of its ability to monitor and report on the impact of mobile wireless voice on telecommunications services in Michigan.

Voice over Internet Protocol

Michigan continues to experience growth in the services provided by Voice over Internet Protocol (VoIP) technology. There are two main types of VoIP technology: 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, for example Skype or Vonage. The MTA includes 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.

Aside from companies that offer only VoIP services, many other types of companies are incorporating VoIP into their service offerings including cable companies, CLECs, ILECs, and long distance providers. Marketing literature available from a cross-section of these different types of providers shows that VoIP offerings include residential and business local and long distance calling, as well as features such as access to 911 service, international calling, voicemail, call forwarding, etc.

The CLEC survey collects information on the number of VoIP lines provisioned by licensed CLECs, and data from that survey shows that providers continue to expand the use of this technology as a method for serving customers. The survey results show 70,801 VoIP lines in Michigan, over three quarters of which serve business customers. While these numbers show slight growth in VoIP lines, the Commission is aware of additional interconnected VoIP service provided by affiliates of licensed CLECs on other platforms, cable companies, and others. These providers do not report numbers to the Commission due to their contention that VoIP services are outside of Commission jurisdiction. The Commission has no way to determine the number of these additional VoIP lines, although there are likely hundreds of thousands.

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 and other VoIP issues are under the jurisdiction of the FCC and debate on these topics continues at the federal level. The Commission closely follows

developments at the federal level for any resulting effects on telecommunications competition in Michigan.

Broadband

The year 2009 marked the beginning of significant development in broadband policy at the national level. As discussed in further detail later in this report, the American Recovery and Reinvestment Act (ARRA) made available money for grants and loans for continued broadband infrastructure development and efforts to spur additional broadband adoption. Additionally, the Commission in partnership with Connected Nation was able to successfully apply for and receive a grant to develop a map of broadband availability for Michigan. This project, ConnectMI, also includes grant money for broadband planning purposes. A more detailed discussion of these ARRA-funded projects occurs in the "Broadband in the American Recovery and Reinvestment Act of 2009" section of this report.

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. One important such source is the semiannual report compiled by the FCC, High Speed Services for Internet Access. The most recent of these reports, *High Speed Services for Internet Access: Status as of December 31, 2008,* compiles broadband data submitted on the FCC's Form 477 through 2008.

Due to concerns about the possibility of the Form 477 data significantly overestimating the availability of broadband service, the FCC has revised and expanded the information collected on Form 477. On March 19, 2008, the FCC issued an Order in WC Docket 07-38, *In the Matter of Development of Nationwide Broadband Data to Evaluate Reasonable and Timely Deployment of Advanced Services to All Americans, Improvement of Wireless Broadband*

Subscribership Data, and Development of Data on Interconnected VoIP Subscribership, 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. Providers began filing the revised Form 477 when reporting the calendar year 2008 data.

It is important to note that with the modifications to the types of data collected with Form 477, the data shows a one-time decrease in the reported number of mobile wireless 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 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. This one-time decrease in the reported number of mobile wireless broadband connections is also reflected in a decrease in the total number of broadband connections.

According to the FCC's High Speed Lines Report, Michigan ranks 12th in the country in the number of high speed lines, with 2,881,000 reported lines for 2008 (Figure 10).

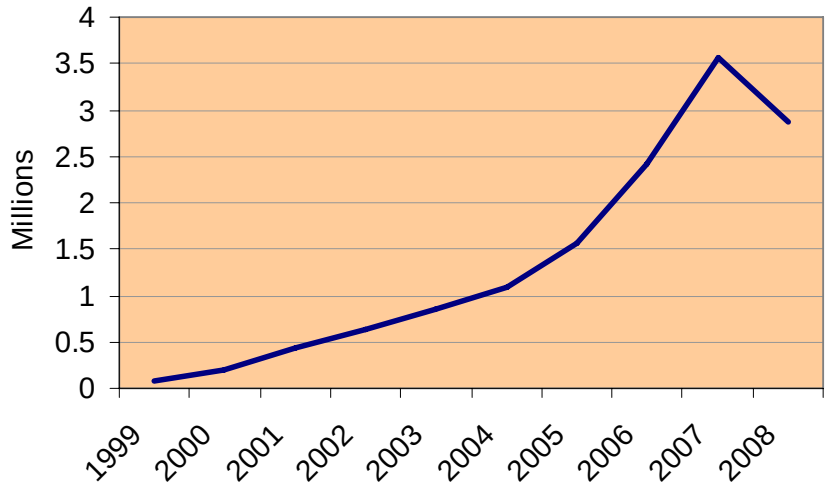


Figure 10: Number of High Speed Internet Lines in Michigan. (FCC Data)

This represents a decrease from 2007, an anticipated decrease explained by the revised methodology for counting mobile wireless broadband lines previously explained. High speed lines provisioned over DSL, cable or other non-mobile wireless platforms have all increased (Figure 11). The number of lines provisioned over DSL is almost 7 percent higher for 2008, than 2007. There is a more pronounced increase in the number of lines between 2007 and 2008 for cable (11.5 percent more lines in 2008 than 2007) and other technologies including wireline, fiber and fixed wireless (46.5 percent more lines). It is, furthermore, very highly probable that the number of true mobile-wireless broadband connections has also increased given the popularity of smart phones and wireless cards for laptops and netbooks. Any perceived decrease is likely the result of earlier data overstating the number of lines due to the FCC's previous definition of high speed mobile wireless connection. The trend for Michigan is a continued growth in the number of broadband connections across multiple platforms.

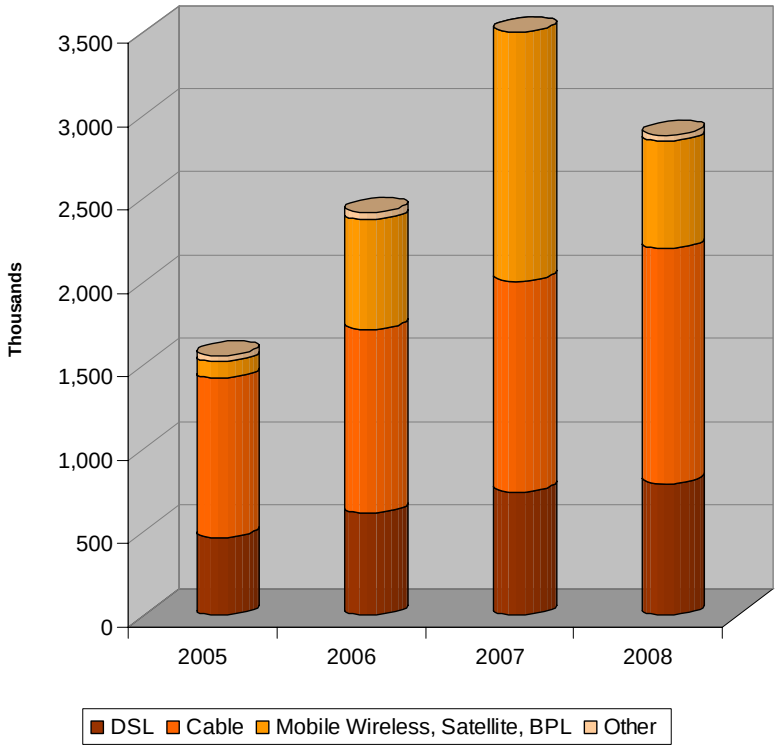


Figure 11: Number of High Speed Internet Lines by Technology in Michigan (FCC Data).

The FCC data shows that there were 94 different providers of high speed Internet service in Michigan in 2008, an increase of 12 providers from year end 2007. The percentage of lines by technology is shown in Figure 12. Residential connections represent 85 percent of the total connections in Michigan, with business connections comprising the remaining 15 percent. The FCC reports that 32.6 percent of Michigan high speed connections have upload speeds of over 200 kbps with download speeds of at least

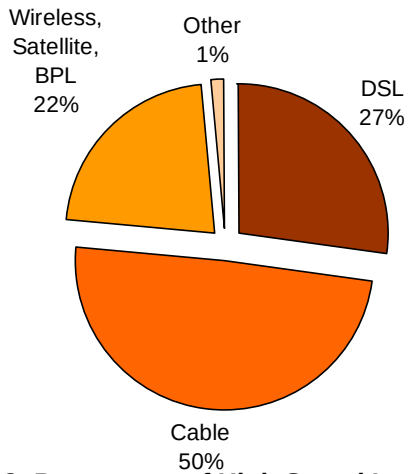


Figure 12: Percentage of High Speed Internet Lines by Technology in Michigan (FCC Data).

6Mbps, in line with the nationwide 33.8 percent. The FCC estimates that DSL service is available to 74 percent of Michigan residences where ILECs offer local telephone service and 91 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 86 percent, respectively.

An important focus for analyzing the state of broadband in Michigan is not just whether service is available, but whether citizens/businesses are adopting the service. There are many factors that can act as a barrier to adoption, even where service is available such as price, lack of a device (e.g. computer, smartphone) with which to access the Internet, privacy or security concerns, etc. The FCC's High Speed Report provides a calculation of the number of fixed (non-mobile wireless) residential high speed connections against the number of Michigan households. This subscribership ratio is 0.54 for Michigan. This is slightly lower than the national average of 0.60. Michigan certainly has a greater percentage of broadband adopters than a state like Mississippi that has the lowest subscribership ratio at 0.39, but trails the highest adoption states like Massachusetts and New Hampshire that have subscribership ratios of 0.76.[18] As discussed later in this report, four organizations have recently received ARRA funding to increase adoption rates in Michigan. Additionally, the ConnectMI project will allow for planning for broadband policies that encourage both infrastructure development and adoption.

In previous reports, the Commission has provided information about the one broadband over power line (BPL) project of which it is aware in Michigan. BPL is a possible solution to providing additional connectivity particularly in rural areas. Midwest Energy Cooperative, headquartered in Cassopolis, Michigan has deployed some BPL service. According to Midwest

[18] Hawaii's subscribership ratio is not available in order to maintain firm confidentiality.

Energy Cooperative's BPL website, as of December 2009, about 150 customers were online using this technology.[19] The Commission will continue to monitor and provide updates on the status of BPL projects in Michigan in future reports.

There continues to be dynamic growth in the broadband sector of the telecommunications market. Broadband is a driving force in telecommunications and questions of how to change or modify telecommunications policies to a broadband-centric market continue to be debated at the national level. The *National Broadband Plan: Connecting America*, released on March 16, 2010, outlines many of the policies that need to be addressed to increase broadband availability to customers, including Universal Service Fund reform, intercarrier compensation reform, as well as exploring ways to increase the uses for broadband, such as for the smart grid. The Commission will likely submit comments in many proceedings arising from the National Broadband Plan and will inform the legislature of developments in this area through both future submissions of this report, and other correspondence as necessary. The Commission will continue to monitor the status of broadband deployment, developments in emerging technologies, and the effects of these industries on wireline telephone competition in Michigan.

Broadband in the American Recovery and Reinvestment Act of 2009

The American Recovery and Reinvestment Act of 2009 was signed into law on February 17, 2009. The ARRA allocated funding to two federal programs for broadband deployment and one for broadband mapping and planning. The National Telecommunications and Information Administration (NTIA) received $4.7 billion to establish a Broadband Technology Opportunities Program (BTOP) for awards to eligible entities to develop and expand broadband services to rural and underserved areas and improve access to broadband by public safety agencies. The

[19] Website accessed on May 13, 2010 showing "A Letter to Our Customers".

Rural Utilities Service received $2.5 billion to provide broadband in unserved and underserved communities via the Broadband Initiatives Program (BIP) which offers grants, direct loans and loan grant combinations. The Commission, along with other state departments, has been involved in the analysis, planning and review of the federal broadband applications that pertain to Michigan.

Broadband Infrastructure, Computer Centers and Sustainable Broadband Adoption

The first round of awards was expected in late 2009. While the grant awards were announced during the first half of 2010, the Commission believes these awards are worthy of being mentioned in this year's report. Michigan entities have been awarded a total of $51,121,663 in grants and grant/loan combinations and an additional amount which is not quantifiable as Michigan is one of various states granted under the same application. Under the BIP program, Chatham Telephone Company was granted $8,605,935 to bring high speed DSL broadband service to remote, unserved households within its rural service territory in portions of Alger, Delta and Marquette counties, which is comparable to the DSL service provided in its more populated areas. Additionally, Southwest Michigan Communications was awarded $8,331,025 in a grant/loan combination to construct a fiber to the premise (FTTP) network that will cover the rural areas of its CLEC exchange, which will provide advanced broadband services to the residents in the rural Paw Paw area. The project aims to fulfill the current demand and need for quality service and broadband access for the residents in those areas.

Under the BTOP program, Merit Network Inc. was awarded a total of $ 33,289,221, the largest grant awarded in Michigan, to build a 955 mile extension of fiber optic middle mile network to serve anchor institutions, households and businesses, while Michigan State University was granted $895,482 in the Public Computer Center program to provide an

optimized level of community computing capacity via public libraries while providing hands-on training for IT students. Two additional multistate applications where Michigan was part of the proposed project area were awarded to One Economy for the Sustainable Broadband Adoption program. The exact amount that Michigan will receive is unknown. One Economy was awarded a $28,519,482 grant to cover 33 states in order to increase adoption rates among the unserved and underserved through a comprehensive and integrated program that includes digital literacy, online content, affordable connectivity and public education that will overcome barriers to adoption and will maximize the opportunities inherent in the technology itself. One Economy was granted a second award for $18,701,771 which will cover seven states including Michigan to engage, train, equip, and support new broadband users in ten regions through The Knight Center of Digital Excellence.

The NTIA and the RUS will award a second round of federal broadband funding during the second half of 2010. A final assessment of what the ARRA has approved for Michigan in the broadband sector will be reported next year.

Broadband Mapping

Regarding the federal funding allocated to broadband mapping and planning, the NTIA received $350 million to establish the State Broadband Data and Development Program under the Broadband Data Improvement Act of 2008. The Commission was instrumental in Michigan's efforts to receive a $1.8 million grant from the NTIA on December 22, 2009 to launch a comprehensive broadband mapping initiative, Connect Michigan, which will help enable the state to collect data and develop a detailed map of existing broadband availability. Connect Michigan is a partnership between the Commission and Connected Nation, a national leader in broadband mapping. The state will use the information gathered during the two-year

mapping and five-year planning period to plan broadband expansion efforts and spur private investment in unserved and underserved areas. As an initial step in the project, the Commission facilitated meetings and discussions among interested stakeholders. Information about the project is also available on the Commission's website at www.michigan.gov/broadbandmapping and at www.connectMI.org.

On May 20, 2010, the Commission announced the completion of Michigan's first broadband availability map aimed at promoting technology development and increasing high-speed Internet throughout the state. Along with various static maps, an interactive mapping application, called BroadbandStat, allows consumers to easily search for high-speed Internet service providers at their home address, service providers to make informed expansion decisions, and state and federal policymakers to target resources to unserved and underserved communities.[20]

Mergers and Acquisitions

Mergers and acquisitions continue to occur with frequency in the telecommunications sector. Many transactions were announced or completed in 2009 in both the wireline and wireless sectors of the telecommunications industry. Following is a discussion of the mergers that impact Michigan customers.

Wireline

In May of 2009, Birch Telecom of the Great Lakes, Inc. notified the Commission that it would acquire substantially all the assets, including the customers, of Cleartel Telecommunications, Inc., d/b/a Now Communications, and Nii communications, ltd. The FCC

[20] *See* Commission press release dated May 20, 2010.

approved this transaction July 2, 2009 and the transfer of customers was complete on or about August 25, 2009.

CenturyTel completed its acquisition of Embarq on July 1, 2009.[21] The former Embarq does not operate in Michigan; CenturyTel has significant operations in the state. Michigan CenturyTel customers should not have noticed a change to their services under this merger other than that the combined companies now fall under the brand CenturyLink.

Charter Communications, Inc., including Charter Fiberlink-Michigan LLC filed for Chapter 11 bankruptcy protection in March 2009 and subsequently emerged from bankruptcy in December 2009. During the bankruptcy reorganization Charter Fiberlink CC VIII, LLC applied for and received a license to provide basic local exchange service in Michigan. On December 31, 2009, Charter Fiberlink CC VIII, LLC acquired a portion of the Charter Fiberlink-Michigan, LLC assets, operations, and customers. The transaction was transparent to customers.

On October 7, 2009, CIMCO Communications, Inc. and Comcast entities (Comcast Phone, LLC, Comcast Phone of Michigan, LLC, and Comcast Business Communications, LLC) filed an application at the FCC for approval of the transfer of certain CIMCO assets to Comcast. The FCC approved this application on March 15, 2010. The integration of the CIMCO assets into Comcast is ongoing.

On May 13, 2009, Verizon Communications Inc., announced plans to divest its wireline business in 14 states including Michigan.[22] Under the plan, Frontier Communications will acquire these Verizon assets. At the conclusion of the transaction, Frontier would then become the second largest wireline provider in Michigan, and as such, the transaction will affect a number of Michigan customers. The two companies are working to ensure a smooth transition

[21] See July 1, 2009 CenturyTel Press Release
[22] See May 13, 2009 Verizon Press Release

for affected customers. As the completion of the transaction has not yet occurred, the Commission will report further on this transaction in next year's report.

Also in 2009, Upper Peninsula Telephone Company spun off its four Lower Peninsula exchanges to an affiliate, Michigan Central Broadband Company, LLC. Upper Peninsula Telephone Companies will continue to serve the 14 exchanges in the Upper Peninsula. The two companies filed revised cost studies in January 2010 that the Commission approved in an order issued April 27, 2010.

Finally, on April 22, 2010 CenturyLink (formerly, CenturyTel and Embarq, as discussed above) announced it would acquire Qwest Communications.[23] Further details on this transaction will be included in next year's report.

Wireless

As reported last year, Verizon Wireless announced completion of the merger with Alltel on January 9, 2009. The rebranding of Alltel to Verizon Wireless is complete. Additionally, on November 6, 2009, AT&T completed its acquisition of Centennial Wireless, with the integration and rebranding of Centennial Wireless to continue into 2010.[24] These two transactions further limit the number of medium to large wireless providers in Michigan. However, there continues to be competition in the mobile wireless market, with providers competing on price, contract requirements, phones offered, etc.

MTA Amendment: Intrastate Access Reform

Throughout 2009, Commission staff worked with legislators, industry and other interested parties on the issue of intrastate access reform. On December 17, 2009, the Governor

[23] See April 22, 2010 CenturyLink Press Release
[24] AT&T website for Frequently Asked Questions about the merger accessed on May 14, 2010.

signed the bill into law, Public Act 182 of 2009 (Act). The Act amends section 310 of the Michigan Telecommunications Act.

The Act requires a reduction in intrastate switched toll access rates to levels no higher than interstate rates for the same elements. The Act addresses two distinct paths for this reduction, depending on the type of carrier. Eligible providers, effectively the rural ILECs, must reduce their intrastate access rates to no higher than interstate levels on the date established for the commencement of the intrastate switched toll access restructuring mechanism (Restructuring Mechanism). Other providers,[25] effectively CLECs, are required to reduce their intrastate access rates in no more than five steps, each a reduction of at least 20 percent of the differential between intrastate and interstate rates, on the following dates: January 1, 2011; January 1, 2012; January 1, 2013; January 1, 2014; and January 1, 2015.

The Act also creates the Restructuring Mechanism, a fund established for a 12-year period in order to effectuate the access rate reform. The Act charges the Commission with administration of the Restructuring Mechanism. The Restructuring Mechanism is funded by contributions from all providers of retail intrastate telecommunications service and all commercial mobile radio service providers in the state. Eligible providers will receive disbursements from the fund as prescribed by the Act. The Commission must recalculate the size of the Restructuring Mechanism at four years and eight years after commencement of the fund. The Commission must also report to the legislature and the Governor annually on the status of the fund. The Commission will report further on the implementation of the Act and the status of the Restructuring Mechanism in that report.

[25] Michigan's two largest ILECs already mirror interstate rates pursuant to the MTA before amendment by Public Act 182 of 2009.

At this time, the amendment to the MTA on this issue is too new to have had an effect on telecommunications competition in Michigan. The Commission is aware of the importance of intercarrier compensation, including intrastate access, on many providers' business plans. As such, the Commission is actively monitoring intercarrier compensation reform at the federal level. The Commission will monitor the effects of any federal action on this issue, as well as the effects of the amendment to the MTA, and report on competitive impacts in future reports as necessary.

Conclusion

In 2009, Michigan's competitive market share increased to 24.2 percent. This increase is due, in part, to the decrease in the reported incumbent lines and the recovery of a portion of the competitive lines that were lost in 2008. As discussed in this report, facilities based competition is more evident in the residential market whereas the competitive lines provisioned via UNEs, resale and wholesale methods are more predominant in the business lines.

The competitive landscape in Michigan has significantly changed over the last few years. Competition for basic local exchange service in Michigan prior to 2006 was based mainly on CLECs using local switching via AT&T Michigan's UNE-P at a regulated cost-based price to provision customers. UNE-P accounted for two thirds of the competitive lines used to serve customers in 2004. Once this method of serving customers was eliminated by the FCC and the courts overturning portions of the FCC's Triennial Review Order (TRO), the ILEC's obligation to provide UNE-P to the CLECs at a regulated, cost-based price was, thus, eliminated. Competitive providers have transitioned customers from UNE-P to other methods, mostly by using UNE-L or LW, which competitors purchase from AT&T Michigan and Verizon, at unregulated, market-based prices. In 2008, Michigan again experienced increased investment in

facilities based infrastructure by the CLECs although the overall lines decreased. This was reported as a positive sign in last year's report. Indeed, in 2009, Michigan's competitive lines grew by almost 90,000 lines recouping a portion of the almost 150,000 lines that were lost the previous year.

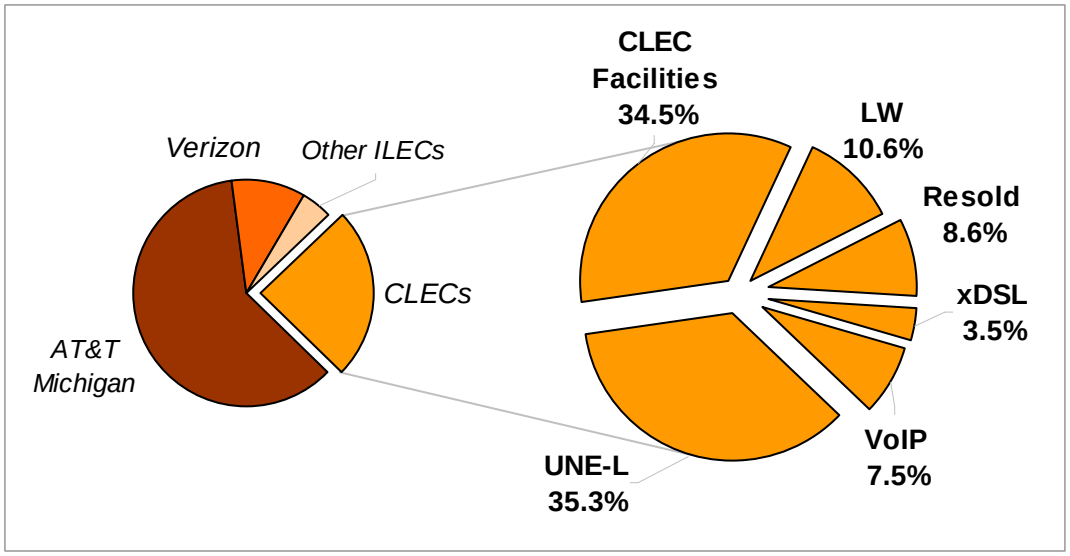


Figure 13: Michigan competitive landscape in 2009.

The chart in Figure 13 depicts the competitive landscape in Michigan for 2009. When compared to 2008 results, resale again decreased slightly while LW arrangements again decreased more significantly. UNE-L remained fairly constant while the percentage of lines served over CLEC owned facilities increased again this year from 32.5 percent to 34.5 percent.

The Commission continues to strive to meet its obligations under the MTA and monitor current developments in the telecommunications arena to ensure the citizens of Michigan have telecommunication service choices available to them. Should any issue arise that may warrant action, the Commission will apprise the Governor and the Legislature.