REPORT ON THE STATUS OF COMPETITION

IN TELECOMMUNICATION SERVICE IN MICHIGAN

April 2002

Submitted by:
MICHIGAN PUBLIC SERVICE COMMISSION
Michigan Department of Consumer and Industry Services

In Compliance with
Public Act 179 of 1991 as amended

Annual Report of the Status of Competition
in Telecommunication Service in Michigan
April 2002

Section 103 of the Michigan Telecommunications Act (MTA) as amended in July of 2000 provides that the Commission submit an annual report describing the status of competition in telecommunication service in this state, including, but not limited to, the toll and local exchange service markets in this state. The report required under this section shall be submitted to the Governor and the House and Senate standing committees with oversight of telecommunication issues. This is the second report pursuant to Section 103.

Prior reporting of this nature occurred as a result of information gathered in Case No. U-10177 and Case No. U-10085 in 1992. The information was presented as part of the *Final 1994 Report to the Governor and Legislature*. Last year's report was submitted as part of the Commission's Annual Report to the Legislature. This year, in order to provide results with the latest and most current data, the report was delayed to capture 2001 data and information.

TOLL MARKETS

The toll market is commonly referred to as long distance and the providers of such services are referred to as interexchange carriers (IXCs). In 1994, it was reported that the IXCs who owned their own facilities were required to provide very little information to the Commission related to their operations. The Commission does not license them and the primary requirement is that they file tariffs consistent with the provisions of the MTA. IXCs providing toll service via resale were exempt from this tariff filing requirement as well. As a result, there is little information available regarding market share, customer numbers or revenues.

The same analysis holds true today for the toll/long distance marketplace. Last year it was reported that on May 1, 2000, the Federal Communications Commission (FCC) ordered the detariffing of the interstate, domestic interexchange services of non-dominant IXCs to become effective after a transition period. Detariffing means that the IXCs do not file their rates and terms of services with the FCC. Beginning July 31, 2001, interstate long distance companies began providing service without filing tariffs with the FCC. They provide information to consumers via other means such as their websites. The FCC concluded that detariffing would enhance already vigorous competition among providers of interstate, domestic, interexchange services and promote competitive market conditions.

In Michigan, there are more than 45 carriers registered as facilities-based toll carriers for the year 2001. The reselling of toll services is unregulated and the Commission has registered more than 490 carriers as resellers of toll service in Michigan. This is a self-registration process but it does indicate that there are numerous providers of this service. The Commission's web site provides a link for rate comparisons among providers. This information is largely consistent with the FCC's findings issued on January 24, 2001 in its report, *Statistics of the Long Distance Telecommunications Industry*.

This year's analysis is basically the same as last year's in that information available to the Commission indicates that despite an increase in the number of toll providers, prices of basic toll schedules have in fact increased in the last several years. Results of competition appear to be more evident in the number of toll package alternatives available and the number of providers who offer them as well as declining prices for higher usage customers who do not utilize basic toll schedules. It is worth noting that innovative bundling of services and new pricing plans are blurring the distinction between toll and local services. Some providers are offering unlimited local and long distance services plus unregulated features at one combined price.

BASIC LOCAL EXCHANGE MARKET

The Commission issued a report and made recommendations to the Legislature and the Governor in February 1998 involving the issues, scope, terms, and conditions of telecommunication providers offering basic local exchange service. This report concluded that the participants in the telecommunications market appear to be relying more on the regulatory and judicial process than market forces to determine the availability, prices, terms and other conditions of telecommunications services. The marketplace for local telecommunication services in Michigan continues to be dominated by Ameritech Michigan (an affiliate of SBC Communications, Inc.) and GTE (now Verizon) and a truly competitive marketplace still remains a goal, not a reality.

To get a more accurate picture of the competitive marketplace in Michigan for local service, the staff of the Commission has conducted surveys of Ameritech Michigan and all licensed Competitive Local Exchange Carriers (CLECs) for 1999, 2000, and again this year for 2001 data which included incumbent local exchange carriers (ILECs) that also operate as CLECs in Michigan. CLECs are providers that compete in the same geographic area as ILECs. This year's survey was sent out to 173 licensed CLECs in the state of Michigan as of January 1, 2002. The survey was conducted as an information/data request. The data collected was for the period ending December 31, 2001. This information was gathered to assist the Commission staff in evaluating the scope of local competition in Michigan.

The survey vehicle was developed through a collaborative process set forth in the Commission's order in docket U-12320. Through the surveys the staff requested some information that the companies considered confidential. The results of most portions of this survey were reported as total CLEC numbers to maintain the confidentiality of the individual company numbers. For 2001, of the 173 CLECs that the survey was mailed to, 102 companies filed a response with 52 of those companies reporting that they were actually providing local service. Of that group of 52, 42 CLECs reported actual local customers (the 10 companies that reported no customers had just begun to offer service and had no lines to report for 2001). The individual staff reports for 1999, 2000 and 2001 can be found on the Commission's website.

From the data compiled through this year's survey for 2001, staff found that the number of lines provided by CLECs (including over their own facilities or through resale of incumbent providers services) was 896,023. The staff report indicates that the total number of lines provided in Michigan (ILECs including Ameritech and CLECs) was 7,014,263. The number of CLEC lines compared to total lines represents 12.8%. Ameritech's share is 72.2% (5,071,300 lines) while GTE's share is 11.5% (803,728 lines). The small independent telephone companies represent the remaining 3.5% (243,212 lines) of the total lines in Michigan. The survey responses indicate that the geographic areas covered by CLEC lines encompass primarily the Detroit, Grand Rapids, Lansing and Saginaw areas with the majority of the competitive lines being provided in the Detroit vicinity. From the data that Ameritech provides, 63% of the competitive lines are provided in the Detroit area, 23% of the competitive lines are provided in the Grand Rapids area, 6% of the lines are provided in the Lansing area, 6% of the lines are provided in the Saginaw area and 2% of the lines are provided in the Upper Peninsula area. It should be noted that virtually all of the CLEC activity is in geographic areas that are served by

Ameritech. As a percent of this market, the CLEC market share is approximately 17% of Ameritech lines.

The Commission continues to license new CLECs, and at of the end of 2001, the CLECs were serving 12.8% of the lines provided to customers by telecommunication carriers in Michigan. This is an increase over the previous year and indicates a positive trend in the competitive basic local service market in Michigan. These numbers are consistent with the trend that is represented in an analysis done by the FCC on information gathered through June of 2001. On February 27, 2002, the FCC released its report on *Local Telephone Competition: Status as of June 30, 2001*. For the Michigan companies that are required to report this data to the FCC, the ILECs reported 6,027,730 lines, and the CLECs reported 583,653 for a total of 6,611,383 lines. From the FCC's data, the CLEC share was reported at 9%. This data gathered by the FCC is from 6 reporting ILECs and 11 reporting CLECs for Michigan, and would represent the larger providers and a majority of the lines.

The 2001 Survey Results Show That:

CLECs With No Lines	60
CLECs 1 – 1,000 Lines	16
CLECs 1,001 – 10,000 Lines	12
CLECs over 10,000 Lines	14
Total CLECs Responding to Survey	102

The above information categorizes the CLECs according to the number of customer lines that they served in 2001. The data indicates that of the 102 CLECs reporting, 60 were serving no customers in 2001 and this represents almost 59% of the group, while the second group served between 1 line and 1,000 lines, a group of 16 CLECs or almost 15.5%. The third group served between 1,001 and 10,000 lines each and is comprised of 12 CLECs for an 11.8% share and the last group of CLECs served over 10,000 lines each and represents 14 CLECs for a 13.7% share.

A portion of the data gathered by the Commission for the last three years is presented below in a table format to allow a more comprehensive presentation for analysis.

Michigan Public Service Commission CLEC Survey Results:

	Survey of 1999 Data	Survey of 2000 Data	Survey of 2001 Data
Licensed CLECs	120	167	173
CLECs responding to survey	59	69	102
CLECs actually providing service	25	37	52
CLECs with actual line counts	23	31	42
Lines Provided by CLECs	268,385	446,164	896,023
Total Lines in Michigan	6,726,971	6,901,813	7,014,263
CLEC %	4 %	6.5 %	12.8 %
Ameritech %	81 %	78 %	72.2 %
GTE %	11.5 %	12 %	11.5 %
ILECs %	3.5 %	3.5 %	3.5 %

As is shown, the actual number of CLEC providers and CLEC lines in Michigan has grown over the last three years that this information has been gathered and has grown from a 4% share to a 12.8% share at the end of 2001. These lines are mostly being provided by a smaller group of the licensed CLECs in Michigan.

AMERITECH INTERLATA APPROVAL

Ameritech has been working for some time toward obtaining approval to offer interLATA toll service in Michigan. The Federal Telecommunications Act of 1996 requires

Ameritech to comply with five conditions regarding interconnections with competitors and with a 14-item competitive checklist before the FCC can grant this approval. The consulting firm of KPMG has been working on conducting a test of Ameritech's Operations Support Systems (OSS) to help determine whether Ameritech complies with the federally mandated checklist requirements. This testing process has met with some delays and the final report on OSS testing is now expected later this year. After testing is completed, Ameritech intends to file its application for interLATA toll service in Michigan with the FCC. The Commission will have 30 days after the application is filed to provide comments to the FCC.

CONCLUSION

In conclusion, based on available data that staff has gathered through its surveys over the three-year period, there is continued growth in the percentage share of CLEC lines in Michigan from a 4% share in 1999 to a 6.5% share in 2000 and a 12.8% share in 2001. This is a positive trend. However, at the same time during 2001, the Commission had 21 CLECs go out of business in Michigan and surrender their licenses. As noted, of the 102 CLECs responding to the survey, 60 CLECs were not serving any customers in 2001, which represents almost 59% of the CLEC group that responded to the survey. Competition in the basic local exchange industry in Michigan is emerging. However, this has occurred with regulatory oversight to ensure that competitors are able to obtain the access to needed elements of the ILEC network without ILEC interference or obstruction. This indicates that the process that the Commission has established under the guidelines of the MTA is working to provide a smooth transition of the telecommunications market for basic local exchange service in Michigan to a viable competitive one.