MICHIGAN PUBLIC SERVICE COMMISSION

Report on the Michigan Intrastate Switched Toll Access Restructuring Mechanism

In Compliance with Public Act 179 of 1991 as Amended

December 1, 2022

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LICENSING AND REGULATORY AFFAIRS

Contents

Executive Summary

Section 310 of the Michigan Telecommunications Act (MTA), MCL 484.2310, directed the Michigan Public Service Commission (Commission) to submit an annual report describing the operation and administration of the Michigan Intrastate Switched Toll Access Restructuring Mechanism (ARM). The MTA required that the report include "the total amount of money collected from contributing providers, the total amount of money disbursed to each eligible provider, the costs of administration, and any other information considered relevant by the Commission."[1] Pursuant to the MTA, company-specific information pertaining to demand data, contributions, and revenue information is exempt from public disclosure. Therefore, the report focused on the aggregate activity of the fund. The ARM became operational on September 13, 2010 and in accordance with the MTA provided disbursements for a total of 12 years.

This is the twelfth and final annual report issued on the operation of the ARM. The report details the process by which the implementation of the ARM occurred and data for the twelve years of the activity of the ARM. The report includes background, policy and operational information on the administration of the ARM as well as intercarrier compensation reform at the federal level. The Commission actively participated in the federal proceedings and provided information to the Governor and Legislature as necessary. Previous years of the *Michigan Intrastate Switched Toll Access Restructuring Mechanism: Annual Administrative Report* are also available on the Commission's website at www.michigan.gov/mpsc.

The Commission administered the ARM with the daily administration handled by the Access Restructuring Fund Administration Section within the Telecommunications Division. These administrative tasks included tracking all contributions to the ARM, processing disbursements from the ARM, monitoring the contribution percentage to ensure sufficient funding of the ARM, and reviewing the rates in filed intrastate switched access tariffs. As described in detail in this report, the amount collected for the twelfth and final year of operation totaled approximately $8.5 million, a decrease of the $8.9 million collected the previous year. The total amount disbursed to eligible providers in fiscal year 2022 was $8.8 million.[2] The report also includes information about the Commission's administrative costs, which were recovered through the ARM.

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[1] MCL 484.2310(10)

[2] There was a carryover balance from fiscal year 2021 that was utilized to cover administrative expenses and the remaining portion of the disbursements not met by fiscal year 2022 contributions.

Introduction

Public Act 182 of 2009

Intrastate switched toll access charges (intrastate access charges) are part of the larger system of intercarrier compensation that providers charge to each other for originating and terminating calls on their networks. Intrastate access charges were historically under the sole jurisdiction of the states, while other components of intercarrier compensation fell under federal or joint federal-state jurisdiction. These charges were originally put into place long before newer technologies such as mobile wireless and broadband/voice over internet protocol (VoIP) existed, and in 2009 the Michigan Legislature sought to update and modernize these charges for today's telecommunications marketplace.

On December 17, 2009, 2009 PA 182 (Act 182 of 2009) became law. Act 182 of 2009 amended Section 310 of the MTA. Prior to Act 182 of 2009, providers with over 250,000 access lines were required to set their intrastate switched toll access service rates at levels no higher than the corresponding interstate rates. Act 182 of 2009 expanded that requirement to include all providers in Michigan. Act 182 of 2009 set two separate transition paths toward this new requirement based upon whether a provider is considered eligible or non-eligible under the Act and created the Access Restructuring Mechanism (ARM) as a transition mechanism for eligible providers to recover a portion of the lost revenues resulting from the reform.

Establishing the ARM

Pursuant to Act 182 of 2009, the Commission was charged with establishing "the procedures and timelines for organizing, funding, and administering the restructuring mechanism."[3] To meet that charge, the Commission issued an order on January 11, 2010, initiating the docket for Case No. U-16183 for the purpose of implementing Act 182 of 2009. In that order, the Commission sought the confidential and non-confidential data needed to calculate the size of the ARM and the appropriate contribution percentage for the ARM, and informed providers of the mandatory tariff filings to meet the requirements of the amended MTA.

In compliance with the timeline established in the amended MTA, the Commission issued an order in Case No. U-16183 on April 13, 2010 setting the total size of the restructuring mechanism and the amounts to be disbursed to each eligible provider. Detailed information about disbursement amounts is included in the *Operation of the ARM* section of this report. On May 17, 2010, the Commission issued another order in Case No. U-16183 setting the initial contribution percentage and seeking comment on an appropriate review schedule for the contribution percentage, whether to set a minimum contribution amount, and other issues related to the administration of the ARM.

On August 8, 2010, the Commission issued an order finalizing the administrative process and the methodology for contributions to and disbursements from the ARM. In accordance with the amended MTA, the Commission established September 13,

[3] MCL 484.2310(10)

2010 as the operational date of the ARM. Initial contributions to the ARM, as well as initial revised tariff filings for eligible providers, were due on September 13, 2010. The Commission directed the first ARM disbursements to be issued the last week of October 2010, with subsequent disbursements going out the last week of each month. The Commission also directed the staff to continuously review the operation of the ARM in order to ensure sufficient funding and to notify the Commission if the contribution percentage needed to be revised.

Federal Intercarrier Compensation Reform

Intercarrier compensation has historically been an implicit subsidy allowing providers in high cost areas to offer service at reasonable rates.[4] Carriers serving higher cost areas had traditionally been able to set their intercarrier compensation rates at levels substantially higher than providers serving lower cost areas. However, as noted earlier, significant technological changes in the industry necessitated changes to the policies governing intercarrier compensation. As described in previous reports, in late 2011 the FCC adopted the *USF/ICC Transformation Order* comprehensively reforming the federal universal service fund and intercarrier compensation. The FCC adopted a uniform national bill-and-keep [5] framework as the ultimate end state for all telecommunications traffic exchanged with a local exchange carrier. Under this framework all intercarrier compensation charges, including those charged for intrastate access, will be phased out.[6] As an initial step in this process, the FCC capped the rates for most intercarrier compensation charges and established a transition path reducing certain intercarrier compensation rates to zero.[7] The FCC also adopted a recovery mechanism to provide limited recovery to providers for their reduced intercarrier compensation revenues. The FCC did not, however, preempt state intrastate access reform laws so long as such laws are not inconsistent with the FCC's reforms.

On January 12, 2012, the Commission opened a new docket, Case No. U-16943, to take comments from interested parties on whether/how Michigan's access reform or the operation of the ARM would need to be modified to be in compliance with the *USF/ICC Transformation Order*. After receiving comments and reply comments, the Commission issued an order on April 17, 2012 finding that no immediate modifications

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[4] In addition to the implicit subsidy of higher intercarrier compensation rates, service to high cost areas has also been explicitly subsidized through the federal universal service fund.

[5] Bill-and-keep is the process by which providers cover the costs of the network through a combination of end-user rates and explicit universal service support where necessary.

[6] As a result, the implicit subsidy built into certain intercarrier compensation charges will also be phased out and providers will recover their costs from end-user rates and, where warranted, explicit universal service support.

[7] The FCC's transition path addresses terminating switched access (terminating switched toll traffic) and reciprocal compensation (local traffic), but not originating switched access (originating switched toll traffic) or special access (non-switched traffic). In the order, the FCC requested comments on how to address originating access and no further orders on that topic have been issued as of the date of this report. The FCC also took action to reform special access charges in a separate proceeding; however, that reform does not affect switched access or the ARM. The Commission continues to participate in and monitor all FCC proceedings related to intercarrier compensation reform.

to the operation of the ARM were necessary and that there was no double recovery resulting from the FCC's recovery mechanisms. Because the FCC specifically stated that "[t]o the extent states have established rate reduction transitions for rate elements not reduced in this Order, nothing in the Order impacts such transitions…nor does this Order prevent states from reducing rates on a faster transition…"[8], the Commission found that the **originating** intrastate access reforms described in Act 182 of 2009 were not affected by the *USF/ICC Transformation Order*. The Commission also found that the transition for **terminating** intrastate access described in Act 182 of 2009 would only be superseded by the FCC's transition path for terminating rates as of July 1, 2012. As of July 2020, the transition was complete with both rate of return and price cap carriers now subject to bill-and-keep for terminating switched access and certain other rates. Figure 1 shows the transition path[9] for intrastate switched access rates for Michigan providers.[10]

In 2018 the FCC issued a Notice of Proposed Rulemaking related to reforming 8YY access charges. These are the charges that providers pay to each other for carrying 8YY calls, which are otherwise known as toll free calls. Based on this notice and comments received, the FCC issued a Report and Order[11] in October of 2020 implementing reforms to certain 8YY access charges. This reform applies to originating 8YY end office charges, originating toll free tandem switching and transport, and 8YY database queries. These rates were capped at their existing level as of the effective date of the order. From there a phased reduction was implemented.

Originating 8YY end office charges were first reduced by requiring that any intrastate rates in this category that exceed interstate rates must be reduced to parity by July 1, 2021. These rates were further reduced by half on July 1, 2022 and then to bill-and-keep effective July 1, 2023.

The FCC implemented a single step reduction for originating toll free tandem switching and transport rates effective July 1, 2021. Tandem providers were required to eliminate the existing originating charges in this category and combine them into a single rate element not to exceed $0.001 per minute.

Similar to originating end office charges, the FCC established a 3-year stepdown for 8YY database queries. As of July 1, 2021 rates were capped at $0.004248 per query, although rates already below this had to remain at that level. Effective July 1, 2022 rates were reduced by half the difference between their current level and $0.0002 and as of July 2, 2023 this rate will be reduced to $0.0002. In addition, only one carrier in a toll free call's path may assess this charge effective July 1, 2021.

The first step of this reform was implemented on July 1, 2021. Providers that have chosen to mirror their federal access tariff for intrastate purposes in Michigan did not

[8] *USF/ICC Transformation Order*, footnote 1542.

[9] For details of the transition path from July 1, 2015 to July 1, 2020 see the USF/ICC Transformation Order, ¶801.

[10] The differentials listed in the chart are the differentials in the intra- and interstate rates in effect at the times specified in either PA 182 of 2009 or the *USF/ICC Transformation Order*.

[11] https://docs.fcc.gov/public/attachments/FCC-20-143A1.pdf

need to file a revised intrastate access tariff, while those that maintain a separate intrastate access tariff filed revised tariffs to implement the new requirements.

Special Access

"Special access lines are dedicated high-capacity connections used by businesses and institutions to transmit their voice and data traffic. For example, wireless providers use special access lines to funnel voice and data from cell towers to wired telephone and broadband networks. Small businesses, governmental branches, hospitals and medical offices, and even schools and libraries use special access for the first leg of communications with the home office. Branch banks and gas stations even use special access for ATMs and credit card readers. The FCC has the obligation to ensure that special access lines are provided at reasonable rates and on reasonable terms and conditions."[12]

Since 2012, the FCC has been monitoring special access in WC Docket 05-25. The scope of this proceeding is to monitor and evaluate current regulations and to determine if they are still appropriate for today's competition. Specifically, the FCC sought to determine if special access regulations for larger traditional telephone companies (price cap incumbent local exchange carriers or ILECs) need to be updated to reflect the current marketplace. The FCC sought comments and engaged in extensive data collection in this proceeding. The Wireline Competition Bureau was charged with collection and evaluation of data for the special access proceeding.

In October 2015, the FCC restored interest in special access by issuing the Designation Order. This order initiated an investigation into a wider range of terms and conditions in 18 special access services tariff pricing plans. The Bureau specifically targeted AT&T, CenturyLink, Frontier, and Verizon as subjects of this inquiry.[13] The Wireline Competition Bureau determined that certain provisions and penalties included in these special access tariffs were unjust and unreasonable. It ordered companies with these offending provisions to remove them and submit tariff revisions reflecting these changes. Further comment was sought by the FCC regarding other issues related to the terms and conditions of all price cap ILEC tariff pricing plans. This order was appealed to the United States Court of Appeals for the District of Columbia Circuit and was remanded to the FCC. The FCC sought public comment on the issues raised by the court's remand, although as of the date of this report further orders on this specific remand have not been issued.

In April 2017, the FCC issued a business data services order, which provided pricing and other regulatory relief for certain business data services provided by price cap local exchange carriers (LECs) in competitive areas and modified the regulatory obligations for tariffed special access services provided by price cap LECs in noncompetitive areas. The end user channel terminations and certain other noncompetitive business data services in noncompetitive areas remain subject to price cap regulation, and the Commission adopted an X-factor of 2.0 percent for these services. The X-factor adjusts a price cap LEC's price cap index to account for the productivity gains by which price cap LECs are expected to outperform economy-

[12] FCC website, https://www.fcc.gov/general/special-access-data-collection-overview-0
[13] https://docs.fcc.gov/public/attachments/DA-15-1194A1.pdf

wide productivity gains. This order was appealed to the United States Court of Appeals for the 8th Circuit which largely upheld the order in late 2018, vacating and remanding one part of the order related to time-division multiplexing (TDM)[14] transport services based on the FCC not meeting proper notice requirements. The FCC issued a Report and Order on Remand in July 2019 reaffirming its 2017 order.

In October 2018, the FCC issued a new Report and Order on business data services that allows rate of return carriers that are receiving fixed universal service support to choose to migrate their business data service offerings to a similar regulatory framework to that previously approved for price cap carriers.

[14] Time-division multiplexing is a method of transmitting and receiving independent signals over a common signal path by means of synchronized switches at each end of the transmission line so that each signal appears on the line only a fraction of time in an alternating pattern.

Figure 1

Michigan and FCC Switched Access Rate Transition

Date	Eligible Providers	Non-Eligible Providers	
		CLECs	ILECs
9/13/2010	**Originating and terminating** intrastate access rates must be no higher than corresponding interstate rates	*no action required*	*no action required*
1/1/2011	*no action required*	Reduce the differential between the July 1, 2009 **originating and terminating** intra- and interstate rates by 20%	*no action required*
1/1/2012	*no action required*	Reduce the differential between the July 1, 2009 **originating and terminating** intra- and interstate rates by 40%	*no action required*
7/3/2012	*no action required*	Reduce the differential between the Dec. 29, 2011 intra- and interstate <u>**terminating**</u> rates by 50%.	*no action required*
1/1/2013	*no action required*	Reduce the differential between the July 1, 2009 <u>**originating**</u> intra- and interstate rates by 60%	*no action required*
7/1/2013	*no action required*	<u>**Terminating**</u> intrastate access rates must be no higher than corresponding interstate rates	*no action required*
1/1/2014	*no action required*	Reduce differential between the July 1, 2009 <u>**originating**</u> intra- and interstate rates by 80%	*no action required*
7/1/2014	Reduce the differential between <u>**terminating**</u> end office rates and either $0.0007 (price cap carriers) or $0.005 (rate of return carriers) by one-third	Reduce the differential between <u>**terminating**</u> end office rates and either $0.0007 (price cap carriers) or $0.005 (rate of return carriers) by one-third	Reduce the differential between <u>**terminating**</u> end office rates and either $0.0007 (price cap carriers) or $0.005 (rate of return carriers) by one-third
1/1/2015	*no action required*	<u>**Originating**</u> intrastate access rates must be no higher than corresponding interstate rates	*no action required*
	All Providers		
7/1/2015, 7/1/2016, … 7/01/2020	Continue to follow the transition path described in the *USF/ICC Transformation Order*		

Intrastate Access Tariff Revisions

Act 182 of 2009 requires that providers' intrastate access tariffs reflect the required rate reductions. Commission Staff reviews all tariff revisions to ensure compliance.[15] Intrastate switched toll access tariffs are made available to the public by the providers, and most are also accessible online via links from the Commission's Online Tariff Index.[16] As explained above, Michigan's access reform in Act 182 of 2009 largely aligned with the FCC's reform, but the differences between the two created some challenges. For example, Act 182 of 2009 addressed both originating and terminating switched access charges, whereas the *USF/ICC Transformation Order* only reformed terminating switched access charges. Many providers in Michigan, especially non-eligible providers, have not historically had separate originating and terminating access rates. However, as a result of the two separate transition paths, providers have had to ensure that their tariffed rates meet both the MTA's requirements and the FCC requirements. In some instances, providers addressed this by separating originating and terminating charges, while in other instances providers simply lowered their access rates to the lower of the originating or terminating rate requirement. An additional challenge is that Act 182 of 2009 split providers into two categories, eligible vs. non-eligible, while the FCC chose to split providers by a different set of categories, price cap vs. rate of return. The Michigan and FCC categories do not directly match up. That is, some non-eligible providers must follow the FCC's price cap transition track, while some non-eligible providers follow the rate of return transition track. This added complexity to the staff's review process for access tariff filings.

By September 13, 2010, all eligible providers filed revised tariffs reflecting the new intrastate access rates required by Act 182 of 2009. These providers have continued to maintain intrastate access tariffs that are in compliance with the law by revising their tariffs as necessary. Many eligible providers have moved to an exceptions-based intrastate switched access tariff. Such a tariff ensures that changes that occur in the interstate access tariff are immediately reflected in the intrastate tariff. Therefore, while some providers continued to file revised tariffs at the dates required by the USF/ICC Transformation Order, those that use an exceptions-based tariff largely avoided having to make additional intrastate access tariff revisions.

Non-eligible providers filed initial revised tariff pages effective January 1, 2011 reflecting, pursuant to the MTA, a reduction of at least 20 percent of the differential between the intra- and interstate rates in effect as of July 1, 2009. These providers filed the next revision effective January 1, 2012, reflecting at least a 40% reduction in the differential described in the MTA.[17] In compliance with the *USF/ICC Transformation*

[15] Section 202(b) of the MTA which allows providers to opt out of filing certain tariffs with the Commission specifically excludes access tariffs from being opted out of. All providers continue to be required to file intrastate access tariffs if they are providing that service.

[16] Commission Online Tariff Index

[17] As noted in earlier reports, determining whether the 20 or 40% differential was met was not a simple calculation. Intrastate switched access rates are actually comprised of multiple rate

Order, non-eligible providers filed intrastate switched access tariff revisions reflecting the required 50% differential reduction for **terminating** rates effective no later than July 3, 2012. The third step in the MTA process required non-eligible providers to file revised **originating** access tariffs effective January 1, 2013 representing a 60% reduction in the differential as described in the law. Non-eligible providers also had to make a tariff filing effective July 2, 2013 showing **terminating** intrastate access rates no higher than corresponding interstate rates. The next intrastate tariff revision for non-eligible providers was filed with an effective date of January 1, 2014 and reflected the required 80% reduction in the differential in **originating** access rates as described in the law.

Effective July 1, 2014, both eligible and non-eligible providers filed tariff revisions in compliance with *the USF/ICC Transformation Order*. Both provider types were required to reduce the differential between **terminating** end office rates and either $0.0007 (price cap carriers) or $0.005 (rate of return carriers) by one-third. The next intrastate tariff revision was required on January 1, 2015 for non-eligible providers to set **originating** intrastate access rates no higher than corresponding interstate rates.

As of July 1, 2015, all providers were required to follow the transition path described in the *USF/ICC Transformation Order*. On July 1, 2016, price cap carriers were required to reduce terminating switched end office and reciprocal compensation rates to $0.0007. Terminating switched end office and reciprocal compensation rates were reduced to $0.005 for rate of return carriers. The next step of the transition path was implemented on July 1, 2017. Price cap carriers were required to reduce their terminating switched end office and reciprocal compensation rates to bill-and-keep while also reducing certain terminating switched end office and transport rates to $0.0007. Rate of return carriers were required to reduce terminating end office reciprocal compensation rates by one third of the difference between $0.005 and $0.0007. The next step of the transition path was implemented on July 1, 2018. Price cap carriers were required to reduce their terminating switched end office and reciprocal compensation rates to bill-and-keep for all terminating traffic within the tandem serving area when the terminating carrier owns the serving tandem switch. Rate of return carriers were required to reduce terminating switched end office and reciprocal compensation rates by an additional one third of the differential between its end office rates as of July 1, 2016 and $0.0007. This completed the transition for price cap carriers while an additional two steps remained for rate of return carriers. In 2019, rate of return carriers were required to reduce their terminating end office reciprocal compensation rates to $0.0007 as of July 1. The final step for rate of return carriers was on July 1, 2020 when they reduced these rates to bill-and-keep. Figure 2, following, shows the transition path defined in the Order.

As previously described, with the FCC's recent reform of 8YY access charges, some providers were required to file intrastate access tariff revisions effective July 1, 2021 in

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elements. Providers do not necessarily use the same rate elements and/or offer the same services in both the intra- and interstate jurisdictions. Additionally, some providers charge only a composite rate while others charge based upon the various elements. Again, this may not be consistent across intra- and interstate jurisdictions even within a single company.

order to implement the first step of the FCC's 3-year reform process. Providers that chose to adopt their interstate access tariff for intrastate purposes did not need to file revisions since the updates to their federal tariff would automatically be effective in Michigan as well. Providers that maintain a separate intrastate access tariff in Michigan did have to file a revision which they did by July 1, 2021. Some of these providers needed to file further revisions in 2022, although some already incorporated the reductions into their tariffs, making the number of providers who needed to revise their access tariffs in 2022 smaller.

Figure 2

FCC Intercarrier Compensation Reform Timeline[18]

Intercarrier Compensation Reform Timeline		
Effective Date	**For Price Cap Carriers and CLECs that benchmark access rates to price cap carriers**	**For Rate of Return Carriers and CLECs that benchmark access rates to rate of return carriers**
Effective Date of the rules	All intercarrier switched access rate elements, including interstate and intrastate originating and terminating rates and reciprocal compensation rates are capped.	All interstate switched access rate elements, including all originating and terminating rates and reciprocal compensation rates are capped. Intrastate terminating rates are also capped.
July 1, 2015	Terminating switched end office and reciprocal compensation rates are reduced by an additional one third of the original differential to $0.0007.	Terminating switched end office and reciprocal compensation rates are reduced by an additional one third of the original differential to $0.005.
July 1, 2016	Terminating switched end office and reciprocal compensation rates are reduced to $0.0007.	Terminating switched end office and reciprocal compensation rates are reduced to $0.005.
July 1, 2017	Terminating switched end office and reciprocal compensation rates are reduced to bill-and-keep. Terminating switched end office and transport are reduced to $0.0007 for all terminating traffic within the tandem serving area when the terminating carrier owns the serving tandem switch.	Terminating end office and reciprocal compensation rates are reduced by one third of the differential between its end office rates ($0.005) and $0.0007.
July 1, 2018	Terminating switched end office and transport are reduced to bill-and-keep for all terminating traffic within the tandem serving area when the terminating carrier owns the serving tandem switch.	Terminating switched end office and reciprocal compensation rates are reduced by an additional one third of the differential between its end office rates as of July 1, 2016 and $0.0007.
July 1, 2019		Terminating switched end office and reciprocal compensation rates are reduced to $0.0007.
July 1, 2020		Terminating switched end office and reciprocal compensation rates are reduced to bill-and-keep.

[18] *USF/ICC Transformation Order*, paragraph 801, Figure 9

Operation of the ARM

Disbursements

Eligible providers were entitled to receive monthly disbursements from the ARM to recover a portion of lost intrastate access revenues that resulted from the rate reductions established in the amended MTA. All eligible providers completed the necessary registration process with the State of Michigan enabling the State to issue the ARM disbursements.

To establish the initial size of the ARM, Act 182 of 2009 directed eligible providers to provide information to the Commission within 60 days from the effective date of the Act.[19] All eligible providers were required to submit 2008 intrastate access demand data and the corresponding current rate information. This information allowed Commission Staff to calculate the amount of the reduction in annual intrastate access revenues that would result from the required reduction in rates. The reduction was calculated for each provider as the difference between intrastate and interstate access service rates in effect as of July 1, 2009, multiplied by the intrastate switched access minutes of use and other switched access demand quantities for 2008.

The Commission issued the first disbursements from the ARM during the last week of October 2010, with succeeding disbursements being issued the last week of each month. Each eligible provider had its own monthly disbursement that remained unchanged until the resizing of the ARM. The first ARM resizing was scheduled for 2014; however, Public Act 52 of 2014 amended the MTA in several areas including Section 310. This removed the 2014 resizing and set the new first resizing date of March 13, 2018. The resizing of the ARM resulted in eligible providers receiving smaller disbursements from the fund. Figure 3, following, shows the monthly disbursement amounts that were in effect for each eligible provider, as well as the resulting total year disbursements. Each eligible provider was entitled to receive monthly disbursements from the ARM for a period of no more than 12 years; therefore, the final disbursements from the ARM to eligible providers took place the last week of September 2022.

Act 52 of 2014

Effective March 25, 2014, Public Act 52 of 2014 made several amendments to the MTA, including changes to Section 310. The act eliminated the resizing of the ARM scheduled at 4 and 8 years of operation (September 13, 2014 and September 13, 2018) and replaced them with a single resizing effective March 13, 2018.

After the *USF/ICC Transformation Order*, concerns were raised about the possibility of double recovery to eligible providers from both the ARM and federal mechanisms. The Commission had not identified any duplicative revenue recovery as of the date of this report. The Commission maintained its finding in Case No. U-16943 that the possibility for double recovery would not exist until the ARM was resized. Since Public Act 52 of

[19] MCL 484.2310(11)(a)

2014 eliminated the 2014 resizing of the fund, the possibility for double recovery was essentially postponed until 2018. While this resizing has now taken place, carriers continue to certify annually to the National Exchange Carriers Association (NECA) and the FCC that they have excluded revenues received from state recovery mechanisms from amounts eligible for federal recovery mechanisms.

2018 ARM Resizing

As previously described in this report, Act 52 of 2014 required the Commission to resize the ARM in March 2018. In order to implement this directive, the Commission issued an order on October 25, 2017 in Case No. U-16183 directing providers to submit to the Commission the data needed to calculate the new ARM disbursement amounts. Based on the data submitted by the eligible providers, the Commission Staff calculated the new amount of annual disbursements from the restructuring mechanism to be $8,750,665.29. Additionally, based on past administrative costs, it was estimated that annual administrative costs for the fund would be $507,581.00. As before, the Commission found that an amount equal to one month of distributions from the fund should be retained in the fund as a cash reserve. This amount equaled $729,222.11. Therefore, the recalculated restructuring mechanism amount totaled to $9,987,468.39. The Order directed that the recalculated disbursement amounts to eligible providers went into effect with the disbursements made at the end of March 2018.

As noted in the Order, this recalculation led to a significant decrease in the size of the restructuring mechanism and as a result the majority of eligible providers were receiving smaller disbursements from the fund, with a few providers no longer receiving any disbursement. However, this was anticipated, as the Legislature intended the restructuring mechanism to operate for a limited time and to decrease during that time. As the overall restructuring mechanism size changed, it was determined that the contribution percentage was in need of adjustment. Utilizing the data submitted by the contributing providers, the Commission revised, based on staff's recommendation, the contribution percentage to 0.51% (.0051) of intrastate retail telecommunications revenues in order to continue to bring in enough money each month to provide for the new disbursement amounts, administrative costs, and the required cash reserve. The new contribution factor was reflected in the April 13, 2018 contributions.

Figure 3
Eligible Provider Disbursements

Eligible Provider	Total Disbursements Oct 2021 – Sep 2022	Monthly Disbursement
Ace Telephone Company	$307,717.29	$25,643.11
Allband Communications Cooperative	$2,199.14	$183.26
Allendale Telephone Company	$230,377.70	$19,198.14
Baraga Telephone Company	$213,394.63	$17,782.89
Barry County Telephone Company	$357,570.91	$29,797.58
Blanchard Telephone Company	$38,097.62	$3,174.80
Bloomingdale Telephone Company	$70,895.54	$5,907.96
Carr Telephone Company	$35,343.10	$2,945.26
CenturyTel Midwest-MI, Inc.	$1,036,819.44	$86,401.62
CenturyTel of Michigan	$2,369,062.18	$197,421.85
CenturyTel of Northern Michigan	$118,897.94	$9,908.16
CenturyTel of Upper Michigan	$672,495.51	$56,041.29
Chapin Telephone Company	$39,015.20	$3,251.27
Chatham Telephone Company (TDS Telecom)	$282,266.68	$23,522.22
Chippewa County Telephone Company	$47,048.09	$3,920.67
Climax Telephone Company	$25,825.39	$2,152.12
Communications Corporation of Michigan (TDS Telecom)	$159,637.97	$13,303.16
Deerfield Farmers' Telephone Company	$73,310.54	$6,109.21
Drenthe Telephone Company	$48,915.05	$4,076.25
Frontier Telephone Company	$751,480.23	$62,623.35
Hiawatha Telephone Company	$0.00	$0.00
Island Telephone Company (TDS Telecom)	$64,427.94	$5,368.99
Kaleva Telephone Company	$994.75	$82.90
Lennon Telephone Company	$63,911.03	$5,325.92
Michigan Central Broadband Company	$78,571.92	$6,547.66
Midway Telephone Company	$38,342.73	$3,195.23
Ogden Telephone Company	$12,863.04	$1,071.92
Ontonagon Telephone Company	$157,802.71	$13,150.23
Peninsula Telephone Company (now Ace-Peninsula)	$27,478.32	$2,289.86
Pigeon Telephone Company	$92,873.26	$7,739.44
Sand Creek Telephone Company	$48,891.36	$4,074.28
Shiawassee Telephone Company (TDS Telecom)	$317,822.58	$26,485.21
Springport Telephone Company	$114,523.53	$9,543.63
Upper Peninsula Telephone Company	$194,431.25	$16,202.60
Waldron Telephone Company	$16,632.04	$1,386.00
Westphalia Telephone Company	$0.00	$0.00
Winn Telephone Company	$18,832.73	$1,569.39
Wolverine Telephone Company (TDS Telecom)	$621,895.93	$51,824.66
Sum of Disbursements	$8,750,665.29[20]	$729,222.11

[20] Reflects total disbursements for the new disbursement amounts after the ARM resizing.

Contributions

The ARM was sustained by a "mandatory monthly contribution by all providers of retail intrastate telecommunications services and all providers of commercial mobile service."[21] Providers were required to pay into the ARM based upon a percentage of their intrastate retail telecommunications services revenues. Each month, contributing providers were to multiply monthly retail intrastate telecommunications services revenues by the contribution factor to determine their monthly contribution into the ARM fund. The Commission maintained an online form that providers were required to use to calculate and submit each contribution. As the final month contributions has now passed, the form has been disabled.

In order to determine the initial percentage for the monthly contribution, Act 182 of 2009 required providers to report their 2008 retail intrastate revenues to the Commission within 60 days of the effective date of the Act. The Commission found that the total of all providers' 2008 retail intrastate telecommunications services revenues was $4,190,942,420.15."[22] To determine the initial contribution percentage, the total size of the ARM[23] was divided by the total 2008 retail intrastate revenues as reported. This calculation resulted in the initial contribution percentage of 0.431 percent.

Pursuant to the amended MTA, "[t]he commission may increase or decrease the contribution assessment on a quarterly or other basis as necessary to maintain sufficient funds for disbursements." [24] Given the constantly changing telecommunications market, regular review of the contribution percentage was necessary. The Commission recalculated the contribution factor and adjusted it twelve times in the past twelve years. These adjustments were necessary to ensure sufficient funds for disbursements and administrative costs.

As this was the final year of the 12-year period of the restructuring mechanism fund, adjustments were necessary to reduce the fund balance in preparation for its conclusion. Given the current fund balance and amount of expected revenue subject to the contribution percentage, there was a two-step adjustment process. On March 17, 2022, the Commission issued an Order in Case No. U-16183 decreasing the contribution percentage to 0.387% (.00387)[25]. The new contribution percentage was set to go into effect on May 14, 2022 and providers would be subject to the adjusted contribution percentage beginning with the contributions due June 13, 2022. Following the first adjustment, the contribution percentage was then to be reduced to 0.00% effective June 14, 2022. However, in the months following the March 17th Order, revenues and therefore contributions to the ARM were higher than originally estimated, so the Commission issued a further Order[26] on May 12, 2022 reducing the contribution percentage to zero effective May 14, 2022. Therefore, the previously

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[21] MCL 484.2310(12)
[22] U-16183, Commission Order dated May 17, 2010, Page 2
[23] As noted earlier, the total size of the ARM was equal to 12 months of disbursements, plus approximate administrative costs and a cash reserve equal to one month of disbursements.
[24] MCL 484.2310(14)
[25] https://mi-psc.force.com/sfc/servlet.shepherd/document/download/0698y000002IxrrAAC
[26] https://mi-psc.force.com/sfc/servlet.shepherd/version/download/0688y000002tm9UAAQ

ordered 0.387% rate never went into effect and contributions were reduced to zero. Contributing providers were still required to provide monthly contribution forms detailing revenues with the last forms submitted by August 13, 2022.

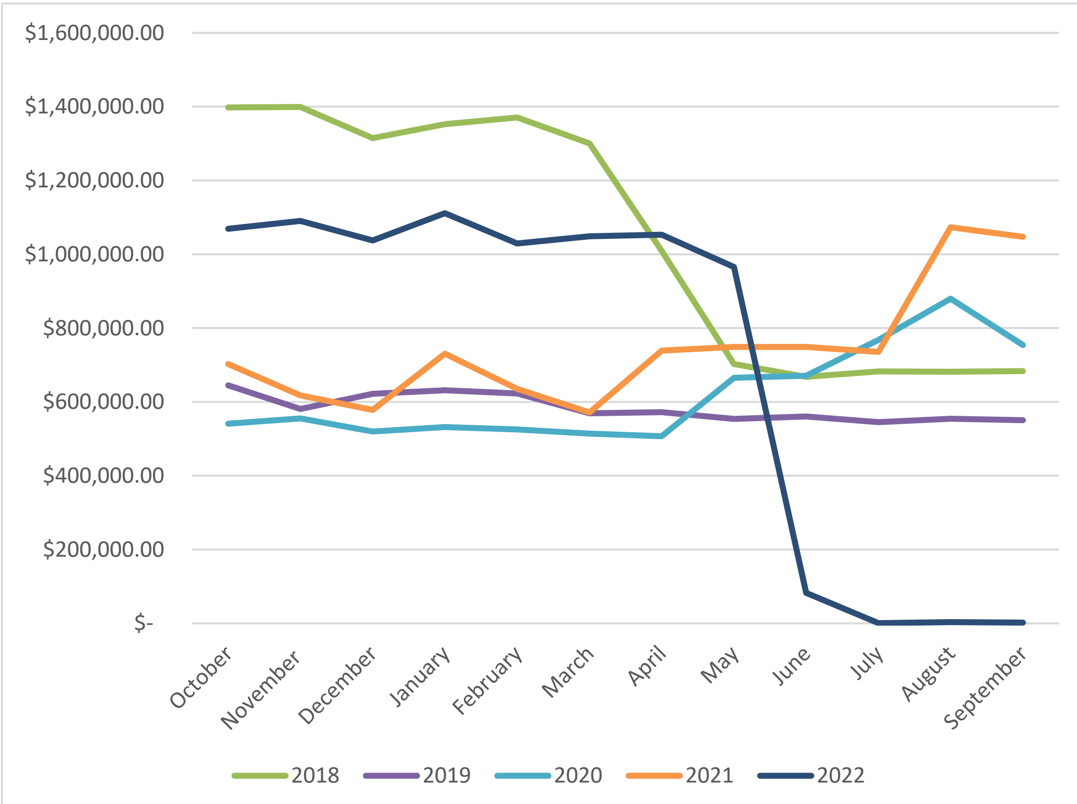
As discussed previously, providers contributed to the ARM based on retail intrastate telecommunications services revenues, exclusive of VoIP revenues. The range of contributing providers included incumbent and competitive local exchange carriers (ILECs and CLECs), mobile wireless providers and other types of providers.[27] Contributions for the operation of fiscal year 2022 totaled approximately $8.5 million, which was a decrease from $8.9 million the previous year.[28] This decrease was due to the decrease in the contribution percentage of the fund.

See Figure 4 for a comparison of the contributions for each fiscal year between 2018 and 2022.

[27] Other types of providers include operator service providers, interexchange carriers, payphone providers, competitive access providers and toll resellers.

[28] Data represents contributions from October 1, 2021 – September 30, 2022

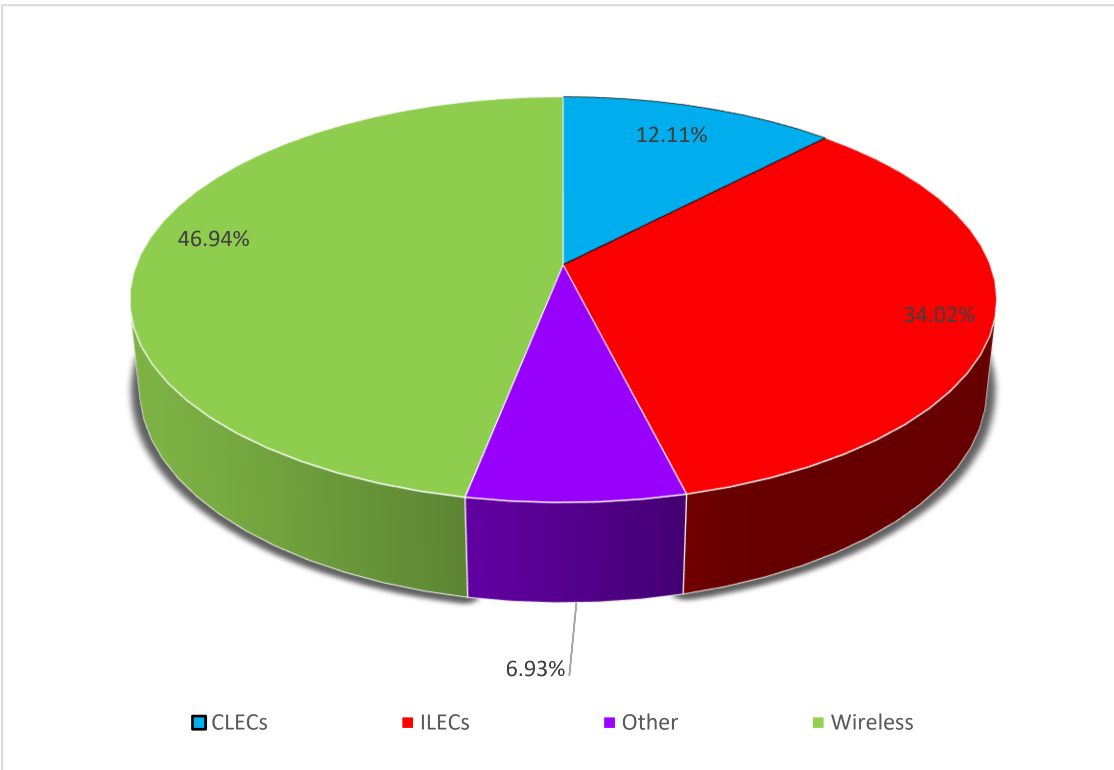
Figure 4
Total Monthly Contributions



As shown in Figure 5, mobile wireless provider contributions represented approximately 47 percent of the ARM revenue during the twelfth year of operation. ILEC contributions represented about 34 percent of revenues; CLEC contributions about 12 percent; and the remaining 7 percent of contributions came from other types of providers. These numbers are similar to the breakdown by provider type for 2021.

Figure 5

Percent of Total Contributions by Provider Type



The Commission continued to work diligently through website updates, the CLEC licensing process, the Intrastate Telecommunications Service Provider registration process, and other direct communications efforts to ensure all providers were aware of the requirements related to the ARM. The number of monthly contributing providers remained fairly consistent for the 2022 fiscal year, as shown in Figure 6, below. The Commission monitored providers that were and were not contributing to the ARM to confirm that all providers operating in Michigan were in compliance.

Figure 6

Number of Contribution Providers by Month

Month	Fiscal Year 2021	Fiscal Year 2022
October	242	243
November	245	248
December	241	246
January	242	243
February	240	248
March	236	246
April	238	249
May	239	244
June	237	*
July	232	*
August	234	*
September	220	*

*****The contribution percentage was reduced to 0.00% effective May 14, 2022.
Therefore, there were no contributing providers June – September.

Administrative Costs

Pursuant to the MTA, "[t]he commission shall recover its actual costs of administering the restructuring mechanism from assessments collected for the operation of the restructuring mechanism." [29] The Commission established a section within the Telecommunications Division to administer the ARM. The Access Restructuring Fund Administration Section was officially established in January 2011 and at that time administrative costs began to be recovered from the ARM. For the fiscal year 2022 (the period October 2021 through September 2022), the yearly administrative costs were $272,844.24[30] to account for administration of the fund.

[29] MTA Section 310(9)

[30] When compared to previous years' administrative costs, this amount is lower due to the closing down of the program.

Conclusion

The Commission implemented the requirements of the 2009 amendments to Section 310 of the MTA, along with the changes in 2014. As described in this report, the total contributions to the ARM for the twelfth and final year of operation were approximately $8.5 million. The contribution percentage was adjusted multiple times to ensure that the ARM had sufficient funds to cover the approximately $8.8 million in disbursements and the actual administrative costs of $272,844.24.[31]

Throughout the life of the ARM, the Commission worked diligently to ensure that the ARM was in compliance with FCC reforms, monitored tariff filings, and monitored contributions and disbursements for continued compliance. Economic factors that influenced the contribution factor included but were not limited to an increase or decline in intrastate retail revenues from contributing providers, costs of operating the ARM, and changes to intercarrier compensation at the federal level. During the twelve years of operation, the ARM received approximately $162 million in contributions and disbursed $157 million to eligible providers. ARM contributions also funded the operation of the ARM and total administrative costs were approximately $5 million. There were approximately 240 providers that contributed monthly during the life of the ARM. As previously described in this report, the monthly disbursements facilitated a smooth transition to lower intrastate switched access charges in Michigan and helped eligible providers to retain affordable rates for their customers during this transition.

During the final year of operation, Commission Staff closely monitored the fund and recommended adjustments to the contribution rate as needed to ensure the fund had a sufficient balance to cover all final disbursements to providers, as well as administrative expenses, while not retaining a surplus at the conclusion of the ARM. Commission Staff also worked closely with the Department of Licensing and Regulatory Affairs to implement procedures to conclude and close out the ARM's fund. The Commission considers the ARM to have been a success in accomplishing the goals behind its creation by the Legislature in 2009. The Commission would also like to recognize the Telecommunications Division staff for their work in effectively administering the ARM for the past 12 years. The issuing of this final report represents the conclusion of the ARM.

[31] As noted above there was a carryover balance from fiscal year 2021 that was utilized to cover administrative expenses and the remaining portion of the disbursements not met by fiscal year 2022 contributions.