

the interLATA restrictions, and that each company should have the option of using either the modified one-PIC or the two-PIC technology. However, MCI and AT&T submit, Ameritech has now reversed its position and no longer insists on interLATA linkage. Finally, MCI and AT&T represent that Ameritech has accepted the two-PIC option.

After a review of all of the supplemental comments, the Commission finds that Ameritech Michigan's motion should be denied. The Commission agrees with MCI that, at some point, the process has to move forward. Moreover, the Commission is persuaded that any technical problems with the two-PIC software can be resolved by the January 1, 1996 implementation date. Consequently, the Commission concludes that Ameritech Michigan's comments are motivated by its desire to further delay the implementation of intraLATA dialing parity.

The Commission therefore finds that the two-PIC option should be deployed because it will provide customers with more choices. As a result, unlike the one-PIC option and the modified two-PIC option, the two-PIC option is most consistent with the Commission's goal of full intrastate toll competition.

The second issue is whether GTE should be allowed to recover the one-time feature development costs for the two-PIC or modified two-PIC options in Michigan. AG Communications Systems, an affiliate of GTE that supplies switches, has not begun development of any intraLATA dialing parity technology.

GTE maintains that it has the right to recover its investment associated with the provision of intraLATA dialing parity in its exchanges. However, the Staff and the Attorney General strongly oppose any effort by GTE to saddle Michigan with all of the development costs for intraLATA dialing parity implementation because the technology will have wider application

beyond Michigan. As a result, the Staff submits that those costs must be shared by the family of GTE operating companies throughout the country.

GTE attached to its comments a copy of a letter dated September 3, 1994 from AG Communications Systems. In that letter, AG Communications Systems states that it will provide to GTE two pricing options to develop the software for the GTD-5 EAX switches. The first option is a buy-out option that will consist of a one-time charge for feature development within GTE's network. The second option consists of a right-to-use fee of \$30,000, which will be assessed upon activation of the feature at a specific site. For purposes of estimating Michigan-specific software costs, GTE suggests using the second option.

Based on the foregoing information, it appears that this issue is moot as it relates to recovery of a one-time charge for feature development. Nevertheless, the Commission emphasizes that, although GTE has the right to recover its investment costs if they are just and reasonable, it must do so from all of its customers who benefit from intraLATA dialing parity throughout the country.

Conversion Schedule

The switch inventory committee addressed the schedule for all switches to convert to intraLATA dialing parity as well as proposals for waivers and penalties for non-conversion.

The first issue is whether the February 24, 1994 order constitutes a bona fide request (BFR) for service, or must the IXCs submit BFRs to Ameritech Michigan and GTE to start the conversion process.

The Staff and the IXCs recommended that the Commission indicate that it intended its order to be the necessary impetus to begin conversion to intraLATA dialing parity without the need for further action by any party.

Ameritech Michigan and GTE do not believe that any of the Commission's orders in this case constitute a BFR for implementation of intraLATA dialing parity in any individual switch. They say that they should not be required to incur costs to convert offices if there are no IXCs that wish to serve customers in a particular exchange. Furthermore, they submit that a BFR indicating an IXC's intent to market intraLATA services to a particular group of customers would help Ameritech Michigan and GTE focus their conversion notification efforts on those exchanges.

The Commission intended its February 24, 1994 order to initiate the conversion to intraLATA dialing parity. Requiring the IXCs to submit a BFR for every exchange in which they intend to provide service is unnecessary and will only result in delay. In the earlier phase of this proceeding, MCI indicated its intention to offer intraLATA toll service in all of the exchanges. Thus, it is doubtful that Ameritech Michigan and GTE will incur costs to convert offices in a particular exchange in which no IXCs will provide service.

The second issue is whether the PECs need to begin converting offices as soon as possible or only on January 1, 1996.

The IXCs believe that the conversion process should be accomplished on a phased-in basis prior to January 1, 1996. On the other hand, the Staff, Ameritech Michigan, GTE, and MECA believe that conversion should be accomplished on a "flash-cut" basis by January 1, 1996.

In its February 24, 1994 order, the Commission ordered that intraLATA dialing parity be implemented when Ameritech Michigan and GTE are authorized and able to provide interLATA toll service, "but no later than January 1, 1996." Given this language, the Commission's intent was to allow Ameritech Michigan and GTE to begin implementation of

intraLATA dialing parity on January 1, 1996. It did not intend to require a phased-in implementation prior to that date.

Turning to the actual conversion schedule, the committee developed separate telephone switch inventories for Ameritech Michigan, GTE, and MECA. Conversion schedules for each company were then developed using input from switch manufacturers by type of software technology.

All of the parties recommend that any switches that have been exempted by the Federal Communications Commission (FCC) from interLATA equal access conversion automatically be exempt from intraLATA conversion. The committee believed that the switches that fall into this category are readily identifiable and should not be included in the initial conversion schedule. The committee further agreed that, even though all of Ameritech Michigan's 2 BESS switches have been converted to interLATA equal access, they should also be exempt from intraLATA dialing parity conversion because the software for those switches is too expensive at this time.

The committee agreed that, for those offices that have not been converted to interLATA equal access, an LEC should not be required to provide intraLATA dialing parity until the office is changed or upgraded with equipment capable of providing interLATA equal access. As a result, for offices that will convert to interLATA dialing parity after January 1, 1996, the conversion should take place on an office-by-office basis.

The Staff recommends that the Commission adopt a firm schedule similar to that presented in Attachment 1-B.1 of the report, which is the switch inventory by company.

GTE states that the Commission must recognize that the switch inventory is rapidly becoming outdated. For example, GTE points out that the seven GTE No. 2 EAX switches

listed in Table 1-A are scheduled to be converted to DMS 100 switches, or some other switch, around the January 1, 1996 time period. Thus, GTE argues that the schedule is constantly changing based on planned switch conversions and, therefore, flexibility in scheduling is necessary to ensure efficient conversion.

Ameritech Michigan states that the impact of intraLATA dialing parity, especially on residential customers, will be massive. According to Ameritech Michigan, depending on the technology used, as few as 61% or as many as 92% of lines will have intraLATA equal access on January 1, 1996. In Ameritech Michigan's view, this means that as many as 1.5 million customer lines will be subject to confusion over the provision of toll service. The company believes that many customers will not understand which exchanges are affected by the implementation of intraLATA dialing parity. However, Ameritech Michigan states that if implementation is delayed until January 1, 1997, as many as 98% of lines will have intraLATA equal access, meaning that fewer than 500,000 lines would be subject to such confusion. Moreover, Ameritech Michigan submits, if the Commission further delayed implementation until January 1, 1998, regardless of which technology is used, only 100,000 lines in the state would not have access to intraLATA dialing parity. Ameritech Michigan therefore asserts that delaying implementation of intraLATA dialing parity until at least January 1, 1997 will significantly improve the ability of customers to deal with the changes in service. Additionally, Ameritech Michigan states that cutting over virtually all offices in the state on a single date will minimize any concerns that exist about the need for a firm conversion schedule.

In the alternative, if the Commission adopts a firm schedule for conversion, Ameritech Michigan and GTE argue that when the necessary software generic is available from the vendor and a BFR from an IXC is received, implementation of intraLATA dialing parity can

be completed within 12 months. They believe that this time is necessary to properly deploy, test, and debug the new dialing parity software. Furthermore, GTE states that implementation is also dependent upon the availability of certain external system changes that may be required to implement the software necessary to provide dialing parity. In GTE's view, the Commission must recognize that GTE's ability to provide intraLATA dialing parity is dependent on such external factors. GTE therefore submits that the Commission should not force GTE or any other LEC into a rigid schedule whereby vendors could hold the LECs hostage.

The IXCs and the Attorney General, on the other hand, state that because balloting is not anticipated in Michigan, conversion of an end office should be accomplished no later than six months after the software is available.

The Staff does not take a position on the lead time that is necessary for conversion. However, the Staff believes that, after the Commission determines the appropriate lead time, it should adopt a schedule with specific conversion dates for all of Ameritech Michigan's and GTE's end offices in Michigan.

As indicated earlier in this order, the Commission continues to disagree with Ameritech Michigan's position that implementation of intraLATA dialing parity should be delayed. Rather, the Commission is persuaded that a firm schedule should be adopted to ensure a timely and complete transition to full intrastate toll competition. Contrary to Ameritech Michigan's contention, the Commission is confident that, having experienced the conversion to interLATA equal access, customers will be able to understand the conversion to intraLATA equal access.

The Commission further finds that a firm schedule for conversion should be adopted, to ensure that Ameritech Michigan and GTE order the necessary software. Nevertheless, the Commission recognizes that Ameritech Michigan and GTE will need some lead time to test and deploy that software. On the one hand, a lead time of 12 months may result in needless delay while, on the other hand, a lead time of six months may be insufficient. Therefore, the Commission is persuaded that a lead time of nine months is a reasonable compromise. Accordingly, implementation of intraLATA dialing parity should be accomplished within nine months after the necessary software for an office is available.

To accommodate changes and permit some flexibility in the schedule, Ameritech Michigan and GTE should each submit, within 30 days of issuance of this order, the switch inventory contained in Attachment 1-B.1 to the report with the updated conversion date for each switch. That date should be either January 1, 1996 or the date nine months after the necessary software is expected to be available as discussed in the report. If the latter date is unknown or changes, Ameritech Michigan and GTE should supplement their conversion schedules as the information becomes available. Ameritech Michigan and GTE should also indicate if a switch is exempt from conversion until the office is upgraded to interLATA equal access as well as provide the dates for interLATA and IntraLATA conversion, if known. All of Ameritech Michigan's 2 BESS switches should also be exempt until those offices are upgraded. However, when the 2 BESS switches are upgraded, they should be converted immediately to intraLATA dialing parity.

The next issue is whether there should be a waiver process if Ameritech Michigan or GTE are unable to implement intraLATA dialing parity in certain switches by the scheduled date.

The IXCs and the Attorney General propose a system whereby the LECs would have to file an application for a waiver. They propose a contested case proceeding in which the LEC seeking the waiver would have to prove that the costs of providing intraLATA dialing parity outweigh the benefits to customers.

Ameritech Michigan, GTE, and MECA, on the other hand, state that a waiver process is not necessary because the primary reason that a switch would not be converted is that the manufacturer could not provide the software in time for them to implement intraLATA dialing parity. Ameritech Michigan further states that the IXCs' proposed waiver process would be especially unfair because one of the parties proposing waivers, i.e., AT&T, is also the software manufacturer and, consequently, it could be a major bottleneck in the conversion of Ameritech Michigan's offices.

If the Commission finds that a waiver process is necessary, Ameritech Michigan, GTE, and MECA propose that they be permitted to file a waiver letter with the Commission, which would take effect immediately. The burden would then shift to the carriers affected by the waiver to prove in a filing with the Commission that substantial evidence exists that the waiver was not warranted.

The Staff states that Ameritech Michigan's and GTE's central offices should not need a waiver from the January 1, 1996 implementation date. However, the Staff agrees with Ameritech Michigan and GTE that if they find that the necessary software is not available as originally indicated by the switch manufacturer, they should submit a letter, with supporting documentation, requesting a waiver from the Commission.

The Commission finds that the IXCs' proposal should be rejected because it could result in unnecessary and burdensome contested case proceedings. In contrast, Ameritech

Michigan's and GTE's proposed waiver process, with some modifications, is reasonable and should be adopted. Accordingly, for those offices scheduled to convert after January 1, 1996, Ameritech Michigan and GTE should submit a letter, accompanied by supporting documentation and a new date for conversion, requesting a waiver if the software is not available as originally indicated by the switch manufacturer. Ameritech Michigan and GTE shall serve that material on all of the parties to this case. Those parties will then have 15 days to comment on the requested waiver. Following receipt of any comments, the Commission may initiate a proceeding to investigate the matter further. If the Commission, or its Executive Secretary, does not take any action within 30 days from receipt of the comments to initiate a proceeding, the requested waiver will be treated as granted.

The final issue relative to conversion is whether there should be a discount on access charges in those offices that do not convert according to the schedule.

The Staff proposes a 55% discount on switched access charges in those end offices that do not meet the cutover date in the conversion schedule. The discount would not be applicable to switched access charges paid by Ameritech Michigan and GTE in SEC exchanges. The Staff states that the discount is justified because the access in the non-converted offices will be inferior to intraLATA equal access. Furthermore, the Staff submits that the IXCs would benefit from the discount, whereas a penalty assessed pursuant to Section 601 of Act 179 would only penalize the LECs.

The IXCs and the Attorney General agree with the Staff's proposal. AT&T points out that the proposed discount is consistent with the discount on Feature Group A and B access adopted by the FCC prior to interLATA equal access and reflects the disadvantages

associated with dialing access codes. They believe that without a discount, the LECs will not have any economic incentive to convert to intraLATA dialing parity.

MECA argues that the Staff's proposed access charge discount is unlawful and should be rejected. MECA states that it is premature to propose penalties based on the assumption that an LEC will not comply with a Commission order. Rather, MECA submits, it should be assumed that the LECs will comply but, in the event they do not, Section 601 of Act 179 contains specific remedies for violations of the law. Moreover, MECA continues, the appropriate level for access rates is controlled by Section 310 of Act 179. MECA argues that, except as provided by that section, the Commission is not permitted to review or set the rates for access services.

Ameritech Michigan agrees with MECA that it is not apparent that the Commission has the authority under Act 179 to require an LEC to charge a rate lower than that provided in the FCC tariffs. Furthermore, Ameritech Michigan says that penalties are not appropriate because AT&T, the manufacturer of Ameritech Michigan's switches, should not receive a lower rate for access it pays as an IXC because it did not provide the software to Ameritech Michigan.

The Commission finds that Ameritech Michigan's and MECA's arguments should be rejected for three reasons. First, in advancing their arguments, MECA and Ameritech Michigan mischaracterize the proposed discount as a penalty. To the contrary, the discount reflects the fact that there are different levels of service that warrant different pricing. Here, the access that will be provided in offices that do not convert to intraLATA dialing parity as scheduled requires the dialing of access codes, which is different from dialing a single digit. Second, because the parties disagree on this issue, the Commission has the authority, pursuant

to Section 310(7) of Act 179, to set the access rates. Third, the Commission is persuaded that a discount will serve as an economic incentive for Ameritech Michigan and GTE to meet the conversion schedule. The Commission therefore concludes that a 55% discount on switched access charges in those end-offices that do not meet the cutover date in the conversion schedule should be adopted.

Cost Recovery

The cost recovery committee made recommendations on issues related to the cost of implementing intraLATA dialing parity. The specific issues are (1) the cost recovery mechanism, (2) costs subject to recovery, (3) cost recovery time period, and (4) the parties that should pay the costs.

The committee agreed that the cost recovery mechanism should be in the form of an Equal Access Recovery Charge (EARC) that is separate from all other access rate elements. The EARC will be different for Ameritech Michigan, GTE, and MECA because it will reflect the costs each company incurs.

The committee could not agree on whether costs should be recovered on a per-minute-of-use basis or on a per intraLATA presubscribed access line basis.

The Staff believes that, while operating costs may follow usage more than the number of access lines after conversion is completed, the physical conversion itself is a function of the number of access lines. The Staff therefore recommends that the EARC be a monthly charge per intraLATA presubscribed access line assessed on both PECs and IXCs.

Ameritech Michigan states that allocating costs based on presubscribed lines results in cream skimming. According to Ameritech Michigan, if that methodology is used, an IXC will simply select the accounts that generate the highest revenue and profit per line. However,

the IXC has to pay only a small portion of the costs because the percentage of total lines served by the IXC is only a small portion of the total access lines. In contrast, Ameritech Michigan contends that allocating costs on the basis of either minutes-of-use or revenues assigns the largest percentage of costs to the customers that use intraLATA dialing parity the most. Ameritech Michigan therefore proposes that the EARC be a per-minute-of-use charge calculated using all intrastate, non-local switched minutes-of-use originated by the LEC's customers. Ameritech Michigan recommends that the EARC be charged to all carriers that provide both non-local intra- and interLATA services, including Ameritech Michigan and GTE when they obtain interLATA relief.

The Commission does not agree with Ameritech Michigan's argument that a per-minute-of-use charge is more appropriate because it assigns costs to customers who use intraLATA dialing parity the most. That argument misses the point. Costs associated with usage are not at issue. Rather, only the costs of physical conversion to intraLATA dialing parity are at issue. The Commission is persuaded that those costs are a function of the number of access lines. Accordingly, the EARC should be a monthly charge per intraLATA presubscribed access line assessed on both the PECs and the IXCs.

Turning to the costs that should be subject to recovery, the committee agreed that only those additional costs incurred to provide intraLATA dialing parity should be included in the EARC. Specifically, those costs are switch translation modifications; operational support system modifications; customer education and IXC notification; balloting expenses (if necessary); PIC changes; and software, generic, or feature package upgrades if directly and solely attributable to equal access. The committee was unable to agree on whether the following three cost items should be subject to recovery: (1) central office software, generic,

or feature package upgrades that provide other features in addition to intraLATA dialing parity, (2) stranded investment in inter-office facilities due to network reconfiguration, and (3) additional trunk terminations, inter-office facilities, and circuit equipment resulting from network reconfigurations.

Beginning with software upgrades, MCI and AT&T recommend that only the portion of those upgrades required to implement intraLATA dialing parity be included as a cost subject to recovery. MCI argues that the remainder of these costs will be recovered, in part, through the separations process.⁵ AT&T, Sprint, and the Attorney General support MCI's position. The Staff states that this approach was used at the federal level for equal access conversion and, therefore, the Staff also supports MCI's position.

Ameritech Michigan states that switch vendors rarely provide information that disaggregates the cost of a software upgrade at the level of detail MCI proposes. MECA agrees with Ameritech Michigan and adds that its member companies mirror the National Exchange Carriers Association Tariff No. 5 as required by Act 179. MECA explains that this tariff does not include costs for intrastate intraLATA dialing parity conversion. MECA therefore submits that MCI's position that the separations process be used to recover other upgrade costs is specious. According to MECA, if other upgrade costs are not subject to recovery, there will be no revenue in the MECA pool to cover those separate costs allocated to the intrastate jurisdiction.

As to stranded investment, Ameritech Michigan believes that the network reconfiguration that will result from shifting traffic patterns caused by rerouting intraLATA toll traffic to the IXCs will strand inter-office facilities in certain routes. Ameritech Michigan contends that,

⁵The separations process refers to the FCC's rules for allocating costs.

because this stranded investment will, in effect, be either abandoned or significantly under-utilized as a direct result of implementation of intraLATA dialing parity, it is a cost that must be recovered.

On the other hand, AT&T states that little or no LEC stranded inter-office facility investment will result from implementation of intraLATA dialing parity. According to AT&T, there will simply be changes in the level of use of the inter-office facilities in some routes, but not enough for specific inter-office facility cost recovery. MCI agrees that, while some stranded investment could result, it would have to review the underlying study results and assumptions before agreeing to support the conclusions.

The Attorney General and the Staff also believe that these costs should not be subject to recovery in the EARC. The Staff contends that Ameritech Michigan's position conflicts with the notion of lowering barriers to market entry and the additional risk associated with competitive telecommunications markets. The Staff concludes that providers such as Ameritech Michigan cannot advocate more and more competitive freedom but expect regulators to make the company whole if competition results in idle plant or loss of market share.

Additional trunk termination and circuit equipment will be needed to accommodate the rerouted traffic resulting from network reconfiguration. Ameritech Michigan believes that these are valid costs that must be recovered.

The IXCs, on the other hand, state that because these are legitimate access costs, they should be recovered solely through the access charges paid for local transport. Although Ameritech Michigan agrees that there should be no double recovery of these costs, it states that present access rates, especially the one-time charges, may not recover costs of this

magnitude. Consequently, Ameritech Michigan recommends that those costs not recovered through access charges should be recovered by the EARC.

MECA believes that if an SEC is forced to invest in additional trunk, circuit, or inter-office facilities for the sole purpose of providing intraLATA dialing parity, the costs of those facilities should be a part of the EARC. According to MECA, if these costs are not recovered as conversion costs, they must be covered by MECA company earnings because MECA access charges, which mirror interstate rates, are not adequate to cover the additional costs.

The Commission finds that only those costs directly attributable to intraLATA dialing parity should be subject to recovery through the EARC. Specifically, the costs for software upgrades that would have taken place regardless of the implementation of intraLATA dialing parity should not be included in the EARC. Recovery of those non-dialing parity costs can be recovered through other mechanisms. Furthermore, the Commission is persuaded that the need for additional trunk terminations and related equipment is uncertain at this time and, therefore, those costs should not be subject to recovery through the EARC. The Commission agrees with the IXC's and the Staff that, if those costs materialize, they can be recovered through other access charges.

The committee agreed that all costs subject to recovery, including depreciation expense for valid and additional capital expenditures, should be amortized over a specific time period. However, the parties disagreed on the length of the amortization period.

Ameritech Michigan favors an amortization period of three years. According to Ameritech Michigan, if an eight-year period is used, the technology could be obsolete before the costs are recovered, and the LECs would be left with the difference. Nevertheless,

Ameritech agrees that five years would be a reasonable compromise because it has been used in similar situations.

The Staff and MECA recommend a five-year recovery period commencing January 1, 1996. However, MECA wishes to clarify that, to implement this proposal for the SECs that choose to jointly file access rates, a five-year period should apply to each group of companies that have conversions in any one year. The conversion costs would be pooled and amortized over the following five-year period. Similarly, when conversions occur during subsequent years, they would also be amortized over the next five years, and so on.

AT&T, MCI, Sprint, and the Attorney General initially argued that the eight-year period used at divestiture for interLATA equal access is still reasonable today. They believe that a shorter period will lead to higher equal access recovery charges, which could discourage market entry by smaller IXCs in the earlier years. Nevertheless, AT&T, MCI, and Sprint state that they might agree to the five-year period if the magnitude of the overall costs subject to recovery is not too great. However, until the costs and recovery mechanism are known, they recommend that the Commission use an eight-year amortization period.

The Commission finds that five years is a reasonable period of time in which to recover the costs of implementing intraLATA dialing parity. Accordingly, the Commission adopts a five-year cost recovery period commencing January 1, 1996.

The next issue relates to who should pay for the costs of implementing intraLATA dialing parity.

Ameritech Michigan and GTE believe that implementation of intraLATA dialing parity should be paid for by those entering the market, i.e., the IXCs. They believe that their proposal recognizes that the conversion to intraLATA dialing parity will have the immediate

effect of eliminating the LATA boundaries for only the IXCs. However, Ameritech Michigan and GTE would agree to participate in the cost recovery process when interLATA relief is granted.

The IXCs, MECA, and the Staff believe that the costs of implementing full intrastate toll competition should be borne by all of the participants in that market. They submit that cost recovery mechanism that omits any of the market participants maintains artificial barriers to entry that are inconsistent with the Commission's desire to have full intrastate toll competition.

The Commission finds that all providers of intraLATA toll services should pay the costs of implementing intraLATA dialing parity because it is most consistent with full intrastate toll competition. In contrast, requiring only the IXCs to pay for intraLATA dialing parity would have a chilling effect on competition because it would put new market entrants at a cost disadvantage.

The final issue relative to cost recovery is whether the charge for PIC changes should be the mirrored rate from the FCC access tariffs.

The IXCs state that mirroring is appropriate because the current charge for interLATA PIC changes has worked well. Furthermore, the IXCs believe that mirroring would also eliminate customer confusion that could result from having one charge for interLATA PIC changes and another charge for intraLATA PIC changes. The Staff agrees with the IXCs, adding that because the PIC change rate element is currently in the interstate access charge tariff, Section 310(3) of Act 179 controls this issue.

Section 310(3) of Act 179 states, in pertinent part that, "[t]he rates set by a provider of access services shall not exceed the rates allowed for the same interstate services by the federal government except as otherwise ordered by the commission." [MCL 484.2310(3).]

Based on this provision, the Commission finds that the charge for PIC changes should be no higher than the mirrored rate from the FCC access tariffs.

Balloting

The balloting committee addressed whether balloting should occur as intraLATA dialing parity is implemented, as well as the details involved in the balloting process.

The committee agreed that there is no need to ballot in exchanges that have already been balloted in the FCC's interLATA equal access process because it could result in customer confusion and needless costs. The current toll carrier would remain the carrier for intraLATA service to customers who, as of the implementation date of intraLATA dialing parity, do not affirmatively select another intraLATA carrier. For those exchanges that have not been converted to interLATA equal access by January 1, 1996, the committee recommended that balloting for intraLATA presubscription occur simultaneously with balloting for interLATA equal access. Inasmuch as Ameritech Michigan is 100% converted to interLATA equal access, GTE and the MECA companies are the only LECs that would be affected by balloting.

For GTE and the MECA companies, the committee recommended that balloting follow FCC guidelines as found in FCC Dockets 83-1145 and 91-64. (Attachments 3-A and 3-B to the report.) Those guidelines also include an allocation process. End-users not making a PIC selection during the balloting process are allocated to a provider of regulated toll service based on the proportion of PIC selections in the exchange in which the end-user resides. For

*Balloting is the process of presubscribing to a particular toll carrier.

example, if 10% of the end-users in an exchange choose toll provider X, 10% of the end-users that need to be allocated will be allocated to toll provider X.

The Staff and the IXCs support the FCC's allocation process as described above, arguing that it lowers barriers to competition. Furthermore, the Staff argues that because Ameritech Michigan has completed its interLATA equal access process, no future balloting is expected for that company. As a result, the Staff asserts that Ameritech Michigan's arguments on balloting should be disregarded because the issue is moot.

On the other hand, Ameritech Michigan and GTE disagree with the proposed allocation process. They believe that the failure to return a ballot is, in most cases, a decision to stay with the customer's present carrier. According to Ameritech Michigan and GTE, a customer should not be arbitrarily reassigned to a new carrier because many of those customers would have to be changed back to their current provider after learning that they had been reassigned.

The Commission agrees with the Staff that Ameritech Michigan's arguments should be disregarded because this issue is moot as it relates to that company. For GTE, however, the Commission is persuaded that the FCC's allocation process is most consistent with full intrastate toll competition. In contrast, the default process merely encourages the status quo. In reaching this conclusion, the Commission relies on the FCC's discussion of this issue at the interLATA level:

"We also find under Sections 201(b) and 202(a) of the Communications Act, 47 U.S.C. §§201(b), 202(a), (footnote omitted) that 'default' is an unreasonable and discriminatory practice. The BOCs through their tariffs automatically presubscribe a customer to AT&T and only change that presubscription to another carrier upon request of the customer. As a result of this 'default' procedure, AT&T's customers may acquire its services by doing nothing. The other IXCs must, however, aggressively advertise in order to get their potential customers to take an affirmative action and select an IXC. This practice clearly accords AT&T preferential treatment and gives

it an advantage over its competitors. The marketing advantage that AT&T enjoys is not predicated on any quality or pricing difference but rather on its historical monopoly position. 'Default' is, therefore, unreasonable and contrary to the public interest because it favors one carrier over others without a justified showing of necessity and denies the public the benefits of competition." (In the Matter of Investigation of Access and Divestiture Related Tariffs, CC Docket No. 83-1145, Phase I, June 12, 1985 Memorandum Opinion and Order, p. 920, 101 F.C.C. 2d.)

In this proceeding, adoption of a default process would result in GTE retaining customers by doing nothing, whereas its competitors would have to aggressively advertise to persuade potential customers to take affirmative action to select an IXC. Consequently, this practice would afford GTE an advantage over its competitors. For these reasons, the Commission also rejects GTE's arguments.

The committee also recommended that, for those offices already converted to interLATA equal access, the LECs should notify end-users twice of the availability of intraLATA dialing parity. The first notice would be provided 90 days before the date intraLATA dialing parity becomes available to those customers, and the second notice would be provided within 30 days following end-office cutover.

Ameritech Michigan and GTE strongly oppose being required to provide notice to customers regarding the availability of intraLATA dialing parity in exchanges in which balloting will not occur. They state that it is just a thinly disguised attempt by the IXCs to get the LECs to provide free advertising for the IXCs. According to Ameritech Michigan, every customer of an LEC is already a customer of either AT&T, or MCI, or another IXC. As a result, Ameritech Michigan asserts, the IXCs have the same access to those customers as Ameritech Michigan and they should be required to pay for their own marketing efforts. Ameritech Michigan concludes that it cannot be compelled to subsidize the marketing efforts of its competitors.

The Staff and the IXC's recommend that the LEC's be required to provide the notice. They point out that, because notification will be a legitimate intraLATA dialing parity implementation expense, it will be recoverable from all carriers.

The Commission finds that the LEC's should be required to provide the necessary notice to end-users and IXC's. Because balloting will not occur in any exchanges that have been converted to interLATA equal access, Ameritech Michigan and GTE will start out with 100% of the intraLATA 1+ and 0+ market. Thus, it is reasonable that the LEC's provide the notice. In doing so, Ameritech Michigan and GTE will not be subsidizing the marketing efforts of their competitors because the cost of providing notice is an implementation expense subject to recovery. Furthermore, the Commission expects that the material to be distributed will be neutral in nature so that no carrier is advantaged or disadvantaged by it. To ensure that the material is, in fact, neutral, the Commission directs the LEC's to submit the material to the Staff for its review.

The committee also determined that it is equally important to provide timely and adequate information to the IXC's. For those offices converting or already converted to interLATA equal access, the committee recommended that IXC's be notified of the availability of intraLATA dialing parity 90 days before the official end-office activation date. This notice should be accomplished by sending a letter to the IXC's specifying the office(s) converting, the conversion date(s), IXC requirements to participate in intraLATA dialing parity, and information on how to request a carrier manual if a decision is made to provide service.

Finally, the committee recommended that end-users making carrier selections during the 90-day period prior to the date intraLATA dialing parity becomes available be entitled to do so free of charge. It further recommended that charges should also be waived for an

additional three-month period if an end-user makes his or her initial intraLATA PIC selection after end-office cutover.

Everyone except Ameritech Michigan agrees with the committee's recommendation. They state that a charge to change must be considered a barrier to entry and a deterrent to customers selecting anything but the status quo.

Ameritech Michigan, however, states that, once again, the IXCs want the LECs to pay the costs of implementing intraLATA dialing parity. According to Ameritech Michigan, a specific charge for a change in PIC that covers costs should be assessed for every PIC change because it will ensure recovery of costs from the cost causer rather than creating a subsidy between carriers.

The Commission agrees with the committee's recommendations. If customers are required to pay a fee to change toll carriers during the conversion process, it is likely that many customers will not make any change for that reason alone. Consequently, like the default process, the charge for a change in PIC would give Ameritech Michigan and GTE an advantage over their competitors.

Participation in IntraLATA Dialing Parity

The participation in intraLATA dialing parity committee addressed whether participation should be voluntary or mandatory for the IXCs and PECs. The committee agreed that all providers of regulated toll services should be able to compete on an equal basis. However, they could not agree on whether participation should be voluntary or mandatory.

The committee pointed out that there are currently at least two toll carriers, i.e., a PEC and AT&T, in every Michigan exchange. It agreed that, in an intraLATA dialing parity environment, this arrangement should continue until either the PEC or AT&T makes a filing

in which it satisfies the Commission that its presence is no longer required to ensure a competitive market. Thus, even if the Commission concludes that participation in intraLATA dialing parity should be voluntary, existing providers of regulated toll services should be obligated to maintain their presence until it is no longer necessary. According to the committee, under this scenario, no new barriers to competition would be created and the market would determine whether a new toll provider should enter that market.

Ameritech Michigan states that there should be mandatory statewide participation of all toll providers in intraLATA dialing parity. However, Ameritech Michigan suggests that true reciprocal regulation requires that if the Commission determines that participation should be voluntary, it should also remove Ameritech Michigan's obligation as the carrier of last resort or, in the alternative, fairly allocate that obligation among all providers.

MECA believes that participation should be required for the PECs and optional for the IXCs. AT&T and MCI agree that the PECs currently providing intraLATA toll service should continue to do so in the exchanges in which they currently provide service. AT&T states that the PECs should continue to do so for at least two years, and then participation should be voluntary. According to AT&T, this time would give the Commission the opportunity to ensure that competition is in place and sustainable in an exchange. AT&T concludes that the two-year period should also allay fears about the need for a carrier of last resort following implementation of intraLATA dialing parity. On the other hand, the IXCs believe that their participation should be voluntary.

GTE recommends total voluntary participation for both PECs and IXCs. The Staff goes a step further and recommends that the Commission make participation in intraLATA dialing parity voluntary on an exchange-by-exchange basis, an approach it maintains is most consistent

with implementation of full intrastate competition. The Staff believes that demographics will determine the market's participants, whereas a requirement for statewide participation at this time is a barrier to market entry rather than a catalyst for competition.

Section 103 of Act 179 provides that "this act shall not be construed to prevent any person from providing telecommunication services in competition with another telecommunications provider." (MCL 484.2103.) Consistent with that provision and the Commission's goal of full intrastate toll competition, the Commission finds that participation in intraLATA dialing parity should be voluntary on an exchange-by-exchange basis. As the committee correctly pointed out, there are currently at least two toll carriers in every Michigan exchange. Additionally, MCI has committed to offer service in every exchange. As a result, the Commission is not persuaded that any exchange will be without toll service. In fact, Section 313 of Act 179 provides that a carrier may not discontinue service to an exchange unless one or more alternative providers are furnishing the same service to the customers in that exchange. Section 306 of Act 179 also provides that the Commission may order a toll provider to interconnect with another provider, which does not provide toll service, upon terms that are fair to both providers. Given these safeguards in the law, it is neither necessary nor appropriate to mandate participation in intraLATA dialing parity.

Engineering and Billing

The engineering and billing committee investigated and provided recommendations on billing changes that will be required upon implementation of intraLATA dialing parity and network reconfigurations and costs associated with that conversion.

The committee agreed to use the industry standards established by the Customer Account Records Exchange (CARE) system to facilitate the exchange of the necessary billing and

record information for companies that have that capability. The CARE system provides a mechanized two-way interface for the exchange of customer data between LECs and IXC. The format provides for the exchange of data from order submission through account maintenance and discontinuation. The committee also indicated that, in the January 9, 1992 order in CC Docket No. 91-64, the FCC approved the use of one of four different verification procedures by the IXCs when advising LECs of a PIC change. The committee recommended that the Commission adopt the FCC's directives for unauthorized intraLATA PIC changes.

Turning to the issues in dispute, everyone except Ameritech Michigan and MCI agreed on the calls that should be included in intraLATA dialing parity, i.e., all switched intraLATA non-local calls including interzone and 0+ calls that are dialed using seven digits. A majority of the committee also believed that intraLATA dialing parity should not apply to 0+ local calls, and 411, 611, 911, 0-, 976-XXXX, and local directory assistance calls. In contrast, Ameritech Michigan believes that interzone calls should be excluded, while MCI believes that directory assistance calls should be included.

As to interzone calls, the Staff explains that, prior to Act 179 and up until 1993, interzone revenues were considered local. Under Act 179, Ameritech Michigan reclassified those revenues to toll. Because Ameritech Michigan believes that interzone calling can be treated as toll, the Staff recommends that the Commission conclude that interzone calling is subject to intraLATA dialing parity.

The Commission agrees with the majority position on this issue. In its August 14, 1992 order in Case No. U-10074, the Commission found that directory assistance continues to be an indispensable telecommunications service that should be regulated in essentially the same manner as basic local exchange service. As a result, local directory assistance calls should not