

Michigan Public Service Commission Staff
May 16, 1996

Conclusion

The Michigan Public Service Commission Staff strongly supports the concept that the Federal Communications Commission specify only a broad set of rules that must, at a minimum, be incorporated into local interconnection and resale arrangements to assure compliance with the Telecommunications Act of 1996. Many alternatives must be permitted which comply with the broad set of rules and the 1996 Act.

Respectfully Submitted,



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STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of)
CITY SIGNAL, INC., for an order establishing)
and approving interconnection arrangements)
with AMERITECH MICHIGAN.)

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Case No. U-10647

At the February 23, 1995 meeting of the Michigan Public Service Commission in Lansing,
Michigan.

PRESENT: Hon. John G. Strand, Chairman
Hon. Ronald E. Russell, Commissioner
Hon. John L. O'Donnell, Commissioner

OPINION AND ORDER

I.

HISTORY OF PROCEEDINGS

In its October 12, 1994 order in Case No. U-10555, the Commission granted City Signal, Inc., a license to provide basic local exchange service in the Grand Rapids District Exchange, pursuant to Section 302(1) of the Michigan Telecommunications Act, 1991 PA 179 (Act 179), MCL 484.2101 et seq. In doing so, the Commission found that City Signal possesses sufficient technical, financial, and managerial resources and abilities to provide basic local exchange service to every person within the geographic area of the license. The Commission also found that the granting of a license to City Signal would not be contrary to the public interest.

The Grand Rapids District Exchange lies within Ameritech Michigan's licensed service area. Consequently, prior to actually commencing basic local exchange service, the law requires that City Signal have interconnection arrangements with Ameritech Michigan. Interconnections arrangements are necessary to enable City Signal's basic local exchange service customers to make and receive calls from Ameritech Michigan's basic local exchange service customers, thereby connecting the two providers' networks. Because City Signal and Ameritech Michigan were unable to agree on interconnection arrangements, City Signal filed an application, on August 5, 1994, to establish those arrangements, pursuant to Section 303(2) of Act 179. That section specifically provides that:

"A telecommunication provider shall not provide basic local exchange service to customers or end-users located within another telecommunication provider's licensed service area except through interconnection arrangements consented to by the license holder or as approved by the commission pursuant to section 203." [MCL 484.2303(2).]

A prehearing conference was held on September 12, 1994 before Administrative Law Judge James N. Rigas (ALJ). Ameritech Michigan, GTE North Incorporated (GTE), the Michigan Exchange Carriers Association (MECA), AT&T Communications of Michigan, Inc., (AT&T), MCI Telecommunications Corporation (MCI), Teleport Communications Group (Teleport), Americom Telemanagement, Inc., (Americom), and Attorney General Frank J. Kelley (Attorney General) were granted intervenor status. The Commission Staff (Staff) also participated in the proceedings.

With its application, City Signal also filed a motion to establish transitional co-carrier interconnection arrangements. On November 10, 1994, the Commission issued an order granting the motion in part and directing Ameritech Michigan to initiate joint technical trials with City Signal to ensure that the two companies' networks are compatible prior to issuance

of a final order in this case. The Commission also directed City Signal and Ameritech Michigan to file, no later than December 1, 1994, a report outlining the technical parameters of the trials. City Signal and Ameritech Michigan filed a Technical Trial Report on December 9, 1994. On February 16, 1995, City Signal and Ameritech Michigan filed another report, in which they indicated that the test results of phase one of the trial demonstrated the feasibility of integrating their networks.

Cross-examination of direct and rebuttal testimony took place on November 15 through 18 and 21 through 23, 1994. A final day to cross-examine direct testimony reinstated by the Commission's November 23, 1994 order and to cross-examine supplemental rebuttal testimony was held on December 2, 1994. The record consists of 2,277 pages of testimony, which was presented by 18 witnesses, and 97 exhibits that were admitted into evidence.

On December 12, 1994, City Signal, Ameritech Michigan, GTE, MECA, MCI, AT&T, Teleport, and the Staff filed briefs. Except for the Attorney General, those same parties filed reply briefs on December 19, 1994.

On January 20, 1995, the ALJ issued a Proposal for Decision (PFD). On February 1, 1995, exceptions were filed by City Signal, Ameritech Michigan, GTE, MECA, MCI, AT&T, Teleport, and the Staff. The same parties filed replies to exceptions on February 8, 1995. GTE late-filed replies on February 10, 1995.

II.

DISCUSSION

Introduction

During the course of this proceeding, various proposals for interconnection were presented by the parties. City Signal took the position that, in addition to establishing the physical terms of interconnection, the Commission must also establish other terms such as mutual compensation, unbundling, number portability, directory assistance, access to data bases, and so on. MCI, AT&T, Teleport, the Attorney General, and the Staff supported this position. They maintained that such terms are critical to effective and meaningful competition in the basic local exchange service market. According to these parties, meaningful competition means that the existing network must be open and accessible to all competitors on the same basis.

On the other hand, Ameritech Michigan asserted that interconnection, as defined in Section 303(2) of Act 179, is simply the reciprocal ability to hand off traffic from one basic local exchange service provider's network to another basic local exchange service provider's network in a manner that is transparent to the customer. Consequently, Ameritech Michigan argued that the other issues raised by City Signal do not involve interconnection within the scope of Section 303(2). Ameritech Michigan asserted that City Signal and other competitors are simply demanding competitive advantages. As a result, Ameritech Michigan urged the Commission to keep in mind the distinctions between interconnection and subsidization, competition and competitive handicapping, and capital investment and cream skimming. GTE and MECA supported Ameritech Michigan's position.

These fundamental differences generated a tremendous amount of controversy regarding numerous issues. As a result, those issues will be examined on an issue-by-issue basis.

Linkage to InterLATA Relief

Ameritech Michigan originally argued that the Commission must first address the public policy issue of linking certain components of City Signal's interconnection proposal, namely, unbundling and mutual compensation,¹ to Ameritech Michigan obtaining relief from its interLATA restrictions.²

Ameritech Michigan asserted that some of City Signal's demands prematurely seek to compel Ameritech Michigan to implement proposals it voluntarily made in its Customers First Plan.³ Ameritech Michigan stated that one of its greatest concerns in this case is the attempt by a competitor, i.e., City Signal, to pick and choose portions of the Customers First Plan,

¹Unbundling is the identification and separation of components of the local exchange network. Mutual compensation means that carriers compensate each other for termination of traffic on their respective networks.

²As a result of the Modified Final Judgment issued in United States v American Telephone and Telegraph Company, 552 F Supp 131 (DC 1982), aff'd sub nom. Maryland v United States, 460 US 1001, 103 S Ct 1240, 75 L Ed 2d 472 (1983), AT&T was required to divest itself of the Bell Operating Companies, including Michigan Bell (now known as Ameritech Michigan). Since January 1, 1984, the effective date of divestiture, Ameritech Michigan has been expressly prohibited from providing interstate and intrastate interLATA service. Likewise, GTE is also prohibited from providing that service. See United States v GTE, Civil Action No. 831298 (DC 1985).

³On March 1, 1993, Ameritech, the parent corporation of Ameritech Michigan, filed a petition for declaratory ruling and related waivers to establish a new regulatory model for the Ameritech region with the Federal Communications Commission. In that petition, Ameritech proposed a regional program designated "Customers First: Ameritech's Advanced Universal Access Plan" (Customers First Plan), which would significantly change the nature of competition. In pertinent part, Ameritech indicated that it will open its local telephone network to competition and integrate its network with those of its local competitors, if it obtains the ability to provide interLATA long distance service.

while denying Ameritech Michigan an integral part of that plan--interLATA relief. Ameritech Michigan explained that, in its Customers First Plan, it proposed to unbundle the local loop and port⁴ components of its existing basic local exchange service. The plan also included a proposal to fully integrate competitive local exchange carriers (LECs) into the public switched network through physical interfaces and compensation arrangements that go beyond mere physical interconnection. However, Ameritech Michigan submitted, these proposals are expressly conditioned on Ameritech Michigan obtaining interLATA relief.

Ameritech Michigan contended that it would not be appropriate to proceed with unbundling and mutual compensation in the absence of interLATA relief because to do so would have a devastating effect on the company's economic viability. In support of that position, Ameritech Michigan presented the testimony of Dr. Robert G. Harris, an economist and associate professor of business and public policy at the University of California at Berkeley.

Dr. Harris testified that this is a case of targeted entry by City Signal because the Grand Rapids District Exchange is a very lucrative market. According to Dr. Harris, the urban concentration of the Grand Rapids District Exchange provides revenues that Ameritech Michigan needs to subsidize its high-cost customers in residential and rural, low-revenue areas. In Dr. Harris's view, if the Commission grants City Signal the favorable compensation, unbundling, balloting, and number portability it requests, Ameritech Michigan will be placed at a competitive disadvantage. He said that Ameritech Michigan will have to subsidize City Signal by providing universal service, while being unable to provide the same services, i.e.,

⁴A port provides dial tone and a telephone number, thereby enabling customers to make and receive calls.

interLATA service, that City Signal or its long distance affiliate, Teledial, can provide. Dr. Harris concluded that without appropriate changes in federal regulatory policy and relief from the Modified Final Judgment (MFJ) restrictions, Ameritech Michigan and its customers will suffer economic harm from imbalanced competition and cream-skimming. (9 Tr. 1459-61.)

Based on this testimony, Ameritech Michigan argued that if the Commission orders unbundling and mutual compensation, the company will quickly lose revenues necessary to continue to earn a reasonable return and meet its service obligations. In Ameritech Michigan's view, the loss of revenues and profitable lines of business will also hamper the company's incentive and ability to deploy a modern telecommunications infrastructure in Michigan. Ameritech Michigan contended that breaking the linkage between unbundling and mutual compensation and interLATA relief will also have a chilling effect on the future willingness of regulated companies to make innovative proposals.

City Signal, MCI, AT&T, Teleport, the Attorney General, and the Staff opposed the conditioning of unbundling and mutual compensation on Ameritech Michigan obtaining interLATA relief. These parties asserted that interconnection arrangements incorporating unbundled loops and mutual compensation should not be deferred until Ameritech Michigan's MFJ restrictions are terminated or waived. The Staff acknowledged that, while restrictions on providing interLATA services and supplier-of-last-resort obligations disadvantage Ameritech Michigan, the company is greatly advantaged in other areas. The Staff pointed out that Ameritech Michigan is an enormous corporation compared to City Signal, and it is presently the only provider of basic local exchange service in Grand Rapids. Moreover, the Staff argued that establishing interconnection arrangements that disadvantage City Signal until the MFJ restrictions are removed is contrary to Act 179.

MCI argued that breaking the linkage to interLATA relief will not create an environment in which Ameritech Michigan's financial viability or universal service is threatened. MCI pointed out that Ameritech Michigan will begin basic local exchange service competition with a 100% market share and customer recognition, which comes from decades of being the only basic local exchange service provider in Grand Rapids. In addition, MCI argued that Ameritech Michigan has the only ubiquitous basic local exchange service network in place. According to MCI, City Signal will need several years to replicate the bulk of Ameritech Michigan's in-place facilities, although it will probably never replicate that company's complete network. Finally, MCI, AT&T, and Teleport cited the February 24, 1994 order in Case No. U-10138, in which the Commission determined that Act 179 favors competition and, therefore, postponing entry into the basic local exchange service market can no longer be justified.

MCI further argued that, in Ameritech Michigan's proposed order on MFJ relief, the interLATA restrictions will not be removed until legal and regulatory barriers to local exchange competition have been removed. To obtain a temporary waiver of those restrictions, MCI submitted, Ameritech Michigan must now show that at least one alternate provider is actually offering basic local exchange service and that Ameritech Michigan has implemented, among other things, unbundling and reciprocal compensation.

The ALJ determined that there is no justification for delaying the consideration of unbundling and mutual compensation until Ameritech Michigan's interLATA restrictions are lifted. The ALJ was not persuaded that breaking the linkage will place Ameritech Michigan at such a competitive disadvantage that its financial viability and universal service will be threatened. The ALJ concluded that it is simply beyond credible belief that a corporation the size of Ameritech Michigan will be as vulnerable to competition from City Signal as Ameritech

Michigan claims. Furthermore, the ALJ found that, inasmuch as Ameritech Michigan's Customers First Plan has not been filed in Michigan, it is irrelevant to this proceeding. The ALJ therefore rejected Ameritech Michigan's proposal to link unbundling and mutual compensation with the lifting of the interLATA restrictions.

Ameritech Michigan excepts to the ALJ's rejection of its arguments regarding linkage. In doing so, Ameritech Michigan relies on the arguments presented in its brief. However, the Commission finds that all of those arguments must be rejected.

The ALJ properly concluded that Ameritech Michigan's proposal to link unbundling and mutual compensation with the lifting of the interLATA restrictions must be rejected.

Section 103 of Act 179 provides that:

"Except as otherwise provided in this act, this act shall not be construed to prevent any person from providing telecommunication services in competition with another telecommunication provider." (MCL 484.2103.)

Consistent with that policy, in its February 24, 1994 order in Case No. U-10138, the Commission stated that if federal policymakers continue to impose restrictions against participation in one market on Ameritech Michigan and GTE, continuing to postpone competitive entry into all other markets can no longer be justified. Furthermore, as pointed out by Staff witness Ann R. Schneidewind, a Technical Specialist in the Commission's Communications Division, there is nothing in the law that requires or even implies that the Commission should defer the granting of a competitive license or approval of interconnection arrangements incorporating unbundled loops and mutual compensation until Ameritech Michigan's MFJ restrictions are terminated or waived. (11 Tr. 2017.)

The Commission also finds that the record supports the conclusion that Ameritech Michigan's claim that it will be highly vulnerable to competition from City Signal lacks merit.

City Signal witness Terry L. Murray, an economist and principal in the consulting firm, Murray and Associates, testified that Ameritech Michigan's claims of serious economic harm are unsubstantiated and highly implausible. Specifically, Ms. Murray testified that:

"Dr. Harris's claims of serious economic harm are like an echo from the past. Since the late 1950's, the LECs have advanced virtually the identical claims of economic harm, 'imbalanced competition' and 'cream-skimming', as grounds for rejecting every federal and state policy designed to promote competition in telecommunications. Regulators were told that revenues from customer premises equipment ("CPE") were an essential source of cross-subsidy to keep local exchange service affordable and universally available; supposedly even a device as simple as a plastic cup attached to a phone receiver to allow the speaker to have a private conversation held the potential to undermine the entire foundation of universal service in America. (footnote omitted.) But the CPE deregulation failed to produce the predicted cataclysm, and LECs such as Michigan Bell were able to upgrade their networks and to provide affordable service even in rural areas.

"Similar arguments have been advanced against competition for a host of other services, most notably toll services. In each case, regulators have been assured that revenues from the targeted service were essential to the LECs' ability to offer universal service, and in each case, the advent of competition has failed to produce the demise of affordable local exchange service." (12 Tr. 2225.)

Consistent with that testimony, the Commission has already recognized the fact that Ameritech Michigan has previously made exaggerated claims regarding the potential loss of business. In Case No. U-10138, Ameritech Michigan argued that implementation of intraLATA dialing parity would result in catastrophic consequences to Ameritech Michigan and GTE. However, in its July 19, 1994 order in that case, the Commission noted that the Staff's witness, William J. Celio, Director of the Commission's Communications Division, confirmed the fact that, for years, Ameritech Michigan has been predicting dire consequences if the Commission took a particular action. However, the very opposite has occurred. Mr. Celio stated:

"[S]ince 1984 or thereabouts, we've been listening to Mr. Miller testify how the whole world will end, and Michigan Bell will exit from every meaningful market if the Commission does something. And [in] many cases, the Commission did that

something, and . . . the only thing we've done with Michigan Bell is reduce rates and give refunds, because they were making excessive profits. So I have not seen a negative impact [from] Commission decisions." (July 19, 1994 order in Case No. U-10138, p. 20.)

Similarly, in this case, the Commission is not persuaded that including unbundling and mutual compensation in the interconnection arrangements between City Signal and Ameritech Michigan in the absence of interLATA relief will lead to the financial demise of Ameritech Michigan. In fact, the record supports the conclusion that Ameritech Michigan will actually retain significant competitive advantages under City Signal's proposed interconnections arrangements. Ms. Murray explained that:

"Michigan Bell will retain several competitive advantages. Any competitor that starts with 100% market share and has nearly a hundred years of market presence has an enormous advantage due to customer inertia. Brand loyalty is not simply a phrase in marketing and economics textbooks; it's a marketplace reality. As was evident in the interLATA marketplace, the market share of a dominant firm erodes slowly, even with substantial competitive entry and vigorous marketing by new competitors. Ten years after the divestiture of AT&T, AT&T retains approximately a 65% share of total toll revenues--long after the implementation of equal access in all the major market areas and after years of competition from firms that faced fewer regulatory restrictions on their pricing and terms and conditions of service. I expect that a similar pattern will prevail in the local exchange market.

"Added to the advantage of its dominant market position and enormous size advantage over City Signal, Michigan Bell is also the only competitor with ubiquitous facilities in place, the only competitor with a staff of customer representatives who are already trained and experienced in marketing the full range of local exchange services to the full customer base, the only competitor known and recognized as a provider of local exchange service, and--last but certainly not least--the only competitor that controls bottleneck facilities its rivals must access in order to provide service throughout an exchange area under the terms of Act 179 and this Commission's granting of a license to offer local exchange service." (12 Tr. 2223-24.)

Ms. Murray effectively withstood cross-examination by Ameritech Michigan on this issue.

When challenged on her testimony that Ameritech Michigan's revenue base is so large that it is not plausible that the introduction of local exchange competition will result in irreparable financial harm to the company or its ratepayers for the foreseeable future, Ms. Murray

testified that she did not expect Ameritech Michigan to experience any significant competitive losses that would make that company financially insecure. Moreover, Ms. Murray also stated that even if Ameritech Michigan did not get relief from the MFJ restrictions over the next five to seven years, she would be "shocked" if Ameritech Michigan suffered such severe financial losses that it would jeopardize the company's ability to continue to provide service in all areas of its service territory. (12 Tr. 2246-47.)

The Commission therefore rejects Ameritech Michigan's contention that it will be handicapped and placed at a serious competitive disadvantage if the Commission requires unbundling and mutual compensation. That argument misses the point because it incorrectly assumes that City Signal has market power. As Ms. Murray testified on cross-examination, City Signal effectively has no market power and imposes no barriers to entry or exit on any other player in the marketplace. Consequently, she indicated that it is perfectly consistent to say that neither carrier is being handicapped if there are rules in place to correct for Ameritech Michigan's market power, because there is no similar market power to be corrected for City Signal. (12 Tr. 2240-41.)

The Commission also agrees with the ALJ that Ameritech Michigan's Customers First Plan is irrelevant to this proceeding. Although Ameritech Michigan asserts that the Customers First Plan is a progressive, innovative, balanced, and procompetitive proposal, the company has not, as yet, filed that plan with the Commission. Furthermore, even if it were before the Commission, Ameritech Michigan's request for a waiver of the MFJ restrictions is still pending at the federal level, a situation over which the Commission has no authority. Moreover, it appears that Ameritech Michigan has taken a significantly different position regarding these same issues at the federal level. Apparently, Ameritech now agrees that relief

from the interLATA restrictions will be contingent on the company implementing certain changes to permit competition in the local exchange market.

Finally, Ameritech Michigan's position is further undermined by the fact that, in its exceptions, it now states that it supports mutual compensation. Therefore, based on the foregoing discussion, the Commission finds that unbundling and mutual compensation should not be conditioned upon Ameritech Michigan obtaining interLATA relief.

Physical Interconnection

City Signal proposed that both the physical and compensation terms of interconnection be modeled after the current arrangements between Ameritech Michigan and other LECs serving exchanges adjacent to Ameritech Michigan. For local traffic, those arrangements are currently embodied in extended area service (EAS) agreements.⁵

City Signal contended that, as a licensee with the same rights as other LECs, it is entitled to the same quality of interconnection, and on the same terms and conditions that an LEC serving an adjacent service territory has with Ameritech Michigan. According to City Signal, any other type of arrangement for local traffic, such as the relationship between the LECs and the interexchange carriers (IXCs) or cellular carriers, would be discriminatory and result in inferior connections and degraded service to City Signal. MCI, AT&T, Teleport, the Attorney General, and the Staff supported City Signal's position.

Under its proposed arrangements, City Signal stated that the physical connections between the networks should be designed in such a way that traffic can flow freely between customers in a manner that is technically transparent to them. Specifically, City Signal would use its

⁵Extended area service is local calling between adjacent exchanges.

network to establish physical meet-points at Ameritech Michigan end-offices or at common distribution points, such as a designated tandem location.⁶ Likewise, Ameritech Michigan would also establish physical meet-points at City Signal's end-offices or use a common hand-off at a designated tandem location. In other words, physical interconnection would be similar to the current meet-point arrangements between Ameritech Michigan and adjacent LECs, except that direct connections to each end-office would be permitted. City Signal explained that these physical interconnections would include all types of traffic--local, toll, operator-assisted, cellular, paging, access, directory assistance, and emergency services.

Ameritech Michigan opposed City Signal's proposed physical interconnection arrangements. Ameritech Michigan explained that the physical arrangements for EAS traffic have historically existed between LECs that served separate geographic areas. Generally, Ameritech Michigan stated, those arrangements involve one LEC extending a two-way facility to the boundary of its geographic area where it meets, and is connected to, a similar facility of the other LEC. According to Ameritech Michigan, the historical reason for the development of this type of arrangement is that the two companies had distinct geographic territories with an adjoining boundary and distinct rights and responsibilities. However, Ameritech Michigan continued, unlike the situation between two adjoining LECs for the hand-off of EAS traffic, alternative exchange carriers and LECs do not serve customers in distinct geographic areas and there is no naturally established boundary between the providers' facilities.

⁶A tandem office is a switching center for the switched telephone network that interconnects two or more central offices that cannot be directly connected.

Ameritech Michigan therefore maintained that, in the absence of an agreement between the parties to provide meet-point arrangements, physical interconnection must be based on Ameritech Michigan's tariffed, switched toll access interconnection arrangements, including virtual collocation,⁷ which are used by the IXCs. Ameritech Michigan pointed out that those arrangements have been developed through policymaking proceedings at the federal level and adopted by statute in Michigan.⁸

More specifically, for local traffic originating on City Signal's network and terminating on Ameritech Michigan's network, Ameritech Michigan proposed that physical interconnection occur through switched access. The interoffice trunks⁹ between City Signal's and Ameritech Michigan's end-offices would be provided either by Ameritech Michigan under its switched access tariffs or by City Signal and interconnected at Ameritech Michigan's end-offices through the latter company's virtual collocation tariffs. For local traffic originating on Ameritech Michigan's network and terminating on City Signal's network, Ameritech Michigan stated that it will deliver this traffic through separate trunk groups from its end-offices to City Signal's end

⁷The FCC defines virtual collocation as follows: "[A]n offering in which the LEC owns (or may lease) and exercises exclusive physical control over the transmission equipment, located in the central office, that terminates the interconnector's circuits. The LEC dedicates this equipment to the exclusive use of the interconnector, and provides installation, maintenance, and repair services on a non-discriminatory basis. . . . The interconnector has the right to designate its choice of central office equipment, and to monitor and control the equipment remotely. (footnote omitted)" (In the Matter of Expanded Interconnection with Local Telephone Company Facilities, CC Docket No. 91-141, July 14, 1994, p. 8.)

⁸Section 310(6) of Act 179 provides that: "A provider of access services shall make available for intrastate access services any technical interconnection arrangements, including collocation required by the federal government for the identical interstate access services."

⁹A trunk is a telephone circuit with a switch at both ends. A trunk may connect two central office switches, two private branch exchanges, or a private branch exchange and a central office switch.

offices or tandems. In short, Ameritech Michigan wants City Signal to purchase collocation facilities and services for interconnection from Ameritech Michigan. It would provide City Signal with central office space and facilities that are separate from Ameritech Michigan's facilities. Under these arrangements, Ameritech Michigan stated, a provider such as City Signal can use its own transport facilities to connect to Ameritech Michigan's local exchange network. MECA and GTE supported Ameritech Michigan's proposal.

The ALJ determined that Ameritech Michigan should be required to interconnect with City Signal on the same terms and conditions that Ameritech Michigan interconnects with other LECs for local traffic. He agreed with City Signal that interconnection must be provided on an equal and nondiscriminatory basis. According to the ALJ, no credible reason was presented as to why a meet-point interconnection arrangement should not be used when that is the rule with respect to interconnection with other LECs. The ALJ therefore found that Ameritech Michigan's physical interconnection proposal should be rejected and that the logical interconnection point between Ameritech Michigan's network and City Signal's network is at a point in between the two carriers' end offices.

Ameritech Michigan excepts to the ALJ's recommendation. Again, Ameritech Michigan reiterates the arguments presented in its brief. Additionally, Ameritech Michigan asserts that the ALJ did not indicate where the meet-point between Ameritech Michigan's and City Signal's end-offices would actually be. Ameritech Michigan explains that, because there are no natural boundaries established between competing carriers within the same geographic area, this will lead to endless disputes.

In response, MCI states that, contrary to Ameritech Michigan's representation, historical meet-point arrangements are not dependent upon the naturally established boundaries

between adjacent LECs. Rather, MCI points out, Ameritech Michigan itself explains that, "each company was conceptually responsible for 50% of the connecting facility, even if the geographic boundary, which was and is the meet-point, would not be located exactly at the halfway point between the two providers' central offices. The EAS arrangement provided a cost adjustment formula so that each LEC ended up recovering 50% of the facility." (Ameritech Michigan's exceptions, p. 9.) MCI explains that this is precisely the type of interconnection arrangement it proposed and that the ALJ adopted.

The Commission finds that all of Ameritech Michigan's arguments must be rejected because, as a licensed LEC, City Signal is entitled to the same type of co-carrier arrangements that other LECs currently have with Ameritech Michigan. Ameritech Michigan's attempts to distinguish City Signal, and other alternative LECs, from existing adjacent LECs are not persuasive. The fact that interconnection for EAS is between two different geographic areas, while City Signal's interconnection will be within the same geographic area as Ameritech Michigan, is a meaningless distinction that does not justify different arrangements for City Signal. As Ms. Murray testified on rebuttal:

"The mere fact that City Signal will compete directly for traffic within the service territory now served exclusively by Michigan Bell does not justify differential treatment of City Signal. To apply such disparate treatment to City Signal relative to Michigan Bell would elevate Michigan Bell to the status of a 'preferred' competitor and undermine the Commission's efforts to secure the benefits of local exchange competition for Michigan consumers." (5 Tr. 290.)

The record also supports a finding that, in contrast to the manner of exchanging local traffic between adjacent LECs, Ameritech Michigan's proposal for interconnection with City Signal is needlessly complicated. MCI witness Elizabeth G. Kistner, a consultant specializing in analysis of telecommunications public policy issues, explained that the exchange of local traffic between Ameritech Michigan and City Signal, like the exchange of local traffic between

adjacent LECs, can be accomplished through a simple transmission link between the two carriers, which may be terminated in each carrier's switching office in the same manner as any other interoffice transmission facility. According to Ms. Kistner, collocation of transmission facilities is not required or necessary for this form of network integration. (7 Tr. 815-16.) Ms. Kistner stated that there is simply no technical reason to segregate local traffic to and from City Signal's network onto separate trunks. That configuration would require twice the trunk groups compared to the direct use of two-way trunks, which are regularly used in interconnecting different carriers' networks. Consequently, Ameritech Michigan's proposed arrangements would result in an unnecessary duplication of facilities.

Furthermore, the Commission finds that Ameritech Michigan's proposed arrangements are not economically feasible for City Signal as a newly licensed LEC. Ms. Kistner indicated that, under Ameritech Michigan's collocation tariff, the charges consist of a \$8,240 nonrecurring charge and \$861 in monthly rent for the space. (7 Tr. 865.) In contrast, Ms. Kistner testified that collocation charges are not included in the EAS agreements that provide for meet-point arrangements. Rather, she indicated that compensation between the carriers is limited to payment for facilities provided by one carrier for the other carrier in accordance with the 50% responsibility requirements. Ms. Kistner explained that Ameritech Michigan and the other LECs do not charge each other on a per minute basis for traffic that is exchanged over the common facilities. (7 Tr. 816.) Instead, as discussed more fully in the next section of this order, each carrier terminates the traffic originated on the other carrier's network in exchange for the reciprocal termination of its own traffic by the other carrier.

Finally, Ameritech Michigan's argument that there is no meet-point specified for the interconnection between Ameritech Michigan and City Signal is not well taken. As MCI

correctly points out, actual boundaries are insignificant between competing LECs because the 50% responsibility rule will be applicable, just as it is between other LECs. In short, each company will be responsible for 50% of the connecting facility, even if the connecting point is not located exactly halfway between the two providers' central offices. To illustrate, GTE's witness, Edward C. Beauvais, Senior Economist for GTE Telephone Operations, confirmed on cross-examination that there is no collocation of GTE facilities at Ameritech Michigan's end-offices. Likewise, there is no collocation of Ameritech Michigan facilities at GTE's end-offices. Instead, Mr. Beauvais explained that Ameritech Michigan and GTE merely cooperate to build the trunk facility between two offices. (7 Tr. 1135). Ameritech Michigan and City Signal should cooperate in a similar manner.

Based on the foregoing discussion, the Commission finds that City Signal, as a licensed LEC, is entitled to physical interconnection arrangements on the same terms and conditions afforded adjacent LECs. Specifically, interconnection for the exchange of local traffic between Ameritech Michigan and City Signal should be available either at the end office, the tandem, or at a mutually agreed upon meet-point. The cost of constructing and maintaining the facility should be shared on a 50/50 basis between Ameritech Michigan and City Signal.

Mutual Compensation

When a telephone call is originated on one carrier's network and terminated on another carrier's network, costs are incurred by the second carrier in terminating that call. Martin W. Clift, Jr., City Signal's Director of Regulatory Affairs, testified that carrier end-user billing and the resulting inter-carrier compensation arrangements are based upon the type of traffic exchanged between the carriers. Mr. Clift indicated that traffic for LECs can be generally categorized as local and EAS, intraLATA toll, access, cellular, and paging. As a general rule,

the carrier that bills the end-user compensates the connecting carrier(s) for helping to deliver the traffic. (5 Tr. 493.) Mr. Clift further explained that, for basic local exchange services, which can involve multiple LECs, compensation for the origination and termination of such traffic is governed by intercompany EAS agreements. (5 Tr. 494.) In short, LECs in Michigan do not compensate each other for terminating local or EAS calls. Instead, they have a "bill-and-keep" arrangement, the rationale being that the traffic between the respective companies is roughly equal, so that mutual billing would net out to zero. Finally, Mr. Clift explained that, for interexchange toll access, City Signal proposes to file with the Federal Communications Commission (FCC) rates that are identical to Ameritech Michigan's access rates. City Signal will mirror those rates for intrastate interexchange access.

City Signal's position is that, as a licensed basic local exchange provider, it is entitled to the same terms and conditions for compensation that exist between Ameritech Michigan and other LECs. City Signal therefore requested that the Commission direct Ameritech Michigan to enter into a mutual compensation arrangement with City Signal for the hand-off of local calls on a bill-and-keep basis consistent with its arrangements with other LECs. MCI, AT&T, Teleport, the Attorney General, and the Staff supported mutual compensation.

The Staff presented recommendations for transitional rates, terms, and conditions for the mutual compensation of each carrier. The Staff proposed a mutual compensation rate of \$.05 per local call terminated. In support of that rate, the Staff reiterated that Ameritech Michigan and the other LECs do not pay each other for termination of local calls because the volumes in each direction are assumed to be equal. In contrast, Ameritech Michigan charges IXCs approximately \$.10 per call for interexchange toll access calls terminated on Ameritech Michigan's network. As presented in the testimony of Elizabeth Durbin, Supervisor of the

Network Cost Section in the Commission's Communications Division, the \$.05 per call rate represents an intermediate step between present LEC compensation for EAS interconnections and charges for toll access. According to Ms. Durbin, these two types of interconnection use many of the same facilities and, furthermore, the \$.05 per call rate establishes a first step toward a restructured compensation arrangement. Ms. Durbin stated that compensation arrangements may eventually more closely reflect those for toll access, but any such determination should be deferred to a subsequent proceeding.

The Staff also proposed that, if the number of local calls each LEC terminates on the other LEC's network is within plus or minus 5%, the \$.05 rate would not apply. In effect, this would result in the bill-and-keep arrangement that exists today for local traffic between LECs. However, if a significant variation in traffic volumes results, the \$.05 rate would permit a provider to recover costs incurred in terminating this larger volume of calls.

AT&T agreed with the Staff that a flat per-call rate should be approved as an interim measure. However, AT&T opposed any bill-and-keep method because it believed that it is inconsistent with the Commission's Cost Principle No. 4 adopted in Case No. U-10620. That principle provides that any function necessary to produce a service must have an associated cost.

MCI supported a bill-and-keep method regardless of traffic variations. However, if the Commission decides to apply discrete charges, MCI argued that the charge should be a per minute rate. MCI stated that the rate equivalent to the Staff's per call rate would be \$.015 per minute. MCI also asserted that the billing threshold should be increased to plus or minus 50% to account for skewed traffic balances projected from the use of transitional number portability substitutes. During cross-examination, the Staff agreed that MCI's proposed \$.015

per minute rate is comparable to the Staff's \$.05 per call rate. However, the Staff continued to recommend a per call termination rate because Ameritech Michigan and City Signal expressed an inability to measure the duration of local calls.

Teleport supported City Signal's proposed bill-and-keep arrangement. However, if the Commission prefers a per call rate, Teleport proposed that it should not exceed half of the rate Ameritech Michigan charges its end-users today for each local call. In Teleport's view, this would reflect the costs related to only the termination of each call.

Supported by MECA, Ameritech Michigan proposed that compensation between it and City Signal be handled through the payment of existing toll access charges. Ameritech Michigan explained that access charges are usage and distance sensitive, and capture the most accurate use of the network by measuring the duration of calls.

For local calls, Ameritech Michigan proposed that tariffed toll access charges should apply as currently described in Ameritech's Tariff F.C.C. No. 2 for the termination of local traffic from City Signal end-users to Ameritech Michigan's end-users. However, until Ameritech Michigan is permitted to provide interLATA services, it did not propose to compensate City Signal for terminating local calls from Ameritech Michigan's end-users to end-users on City Signal's network. For toll traffic between Ameritech Michigan and City Signal, Ameritech Michigan submitted that its tariffed access rates should apply to its provision of service and City Signal's own cost-based access rates should apply for the use of City Signal's facilities.

GTE proposed that the compensation policy for origination and termination of traffic between carriers be based upon a comprehensive origination responsibility plan, whereby end-users must be billed for all calls and compensation must be based upon usage among certified carriers. GTE maintained that each LEC should be allowed to establish a rate structure

consisting of rates that reflect costs on a per minute or per call basis. According to GTE, certified carriers should pay access charges to any other licensed carrier required to complete the call from the originating party.

The ALJ determined that the Staff's proposal offers a reasonable middle ground for a transitional mutual compensation arrangement. He found that the Staff's \$.05 per call rate is an intermediate step away from the existing bill-and-keep arrangements between LECs and toward the use of access charges urged by many of the parties. The ALJ was not persuaded, however, that the billing threshold should be increased to plus or minus 50%, because it is unknown at this time whether the traffic balance will be skewed. Instead, the ALJ found that the Staff's 5% variation will reflect billing costs related to small traffic variation, and it will also permit termination costs to be recovered should traffic volumes vary above that level. Finally, the ALJ found that no credible justification was presented to deny compensation to a terminating carrier that incurs costs for completing calls on behalf of an originating carrier. The ALJ therefore recommended that the Commission reject Ameritech Michigan's position and implement the Staff's proposals for mutual compensation on a transitional basis.

Ameritech Michigan, GTE, MCI, AT&T, and Teleport filed various exceptions and clarifications to the ALJ's findings. Most notably, Ameritech Michigan now states that it agrees that terminating carriers should receive compensation for the costs that they incur when completing local calls on behalf of an originating carrier. However, Ameritech Michigan takes issue with the ALJ's recommendation that the Commission adopt a flat rate per local call termination charge and a plus or minus 5% call volume threshold.

Ameritech Michigan argues that the ALJ erred in recommending a terminating local call rate of \$.05 because no evidence was presented that this rate adequately recovers the costs

incurred by either Ameritech Michigan or City Signal for terminating local calls. In fact, Ameritech Michigan points out that the Staff acknowledged that its proposed rate was not cost-based but merely represented the mid-point between no charge and a rate of \$.10 per call. Consequently, Ameritech Michigan maintains that this proceeding should not be used to set rates when evidence that is necessary to a proper rate determination has not been presented.

In particular, Ameritech Michigan argues that imposition of the same compensation amounts per call terminated on both carriers' networks ignores the differences in the obligations and costs of Ameritech Michigan and City Signal. According to Ameritech Michigan, each company must be required to use its own access charges based on its own costs. In Ameritech Michigan's view, there is simply no basis for allowing City Signal to require Ameritech Michigan to handle traffic through its network and perform multiple switching without paying for that service, as do the IXCs. Additionally, Ameritech Michigan submits, a flat per call rate does not adequately reflect the way in which costs are incurred by the terminating carrier. Ameritech Michigan points out that the cost of call termination is sensitive to both the duration of the call and the amount of transport and tandem switching facilities that are used. Ameritech Michigan argues that because call durations are different between classes of customers, one provider could have significantly higher terminating minutes of use but nearly equal call volumes. Thus, Ameritech Michigan submits that it would be inappropriate to charge anything but the actual per minute distance sensitive usage rates specified in its toll access tariffs.

Ameritech Michigan also disagrees with the ALJ's determination that no compensation should be paid for terminating local calls unless the call volumes terminated by one provider