

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of)
FRONTIER COMMUNICATIONS OF MICHIGAN,)
INC., to restructure its rates for basic local)
exchange service.)
_____)

Case No. U-12188

At the January 19, 2000 meeting of the Michigan Public Service Commission in Lansing,
Michigan.

PRESENT: Hon. John G. Strand, Chairman
Hon. David A. Svanda, Commissioner
Hon. Robert B. Nelson, Commissioner

OPINION AND ORDER

On November 2, 1999, Frontier Communications of Michigan, Inc., (Frontier) filed an application to comply with the mandate of Section 304a of the Michigan Telecommunications Act (MTA), MCL 484.2304a; MSA 22.1469(304a), that its rates for basic local exchange service are to be no less than the total service long run incremental cost (TSLRIC) of the service by January 1, 2000. Frontier's filing is based on the TSLRIC study that it submitted in Case No. U-12049, which the Commission approved with modifications on October 13, 1999. To comply with that order, Frontier filed a revised TSLRIC study on November 1, 1999.

Frontier says that the average TSLRIC for basic local exchange service is \$16.34 per access line per month. It proposes that the rate for residential service be set at \$15.78 per month, the rate for business service be set at \$19.72 per month, and the rate for private branch exchange (PBX)

service be set at \$27.61 per month, which it says are equal, on average, to the TSLRIC of basic local exchange service.

The company provided to its customers a notice of opportunity to comment. The Commission received comments from eight customers opposed to the increases. In addition, the Commission Staff (Staff) filed comments on January 5, 2000.

The Staff says that Frontier's TSLRIC calculation appears to be relatively consistent with the August 31, 1999 order in Case No. U-11996, which requires that the costs of the loop assigned to basic local exchange service be reduced by the recovery of those costs from other revenue sources. The Staff's only objection is to Frontier's addition of a percentage for uncollectibles. The Staff says that the statutory standard for a restructuring is TSLRIC, not "TSLRIC plus." The TSLRIC without the uncollectibles increase is \$16.22.

The Commission agrees with the Staff that Frontier's treatment of uncollectibles is not consistent with TSLRIC principles.

The Staff also notes that Frontier does not propose to increase its residential rate to the TSLRIC that the company has calculated and, at the same time, proposes to increase the business and PBX rates to more than TSLRIC. It says that there is no statutory basis for either position because Section 304a requires that rates be no less than TSLRIC by January 1, 2000 and does not permit a restructuring to be based on the perceived value of the service.

The Commission concludes, consistent with prior orders, that it should not approve Frontier's proposal to increase any rate to a level above TSLRIC. See, for example, April 10, 1997 order, Case No. U-11306, pp. 7-8. With respect to the rate for residential service, the Commission concludes that it should approve Frontier's proposal to increase the rate to \$15.78 even though that is less than the TSLRIC of \$16.22. Section 304a(4) of the MTA permits the Commission to

approve a proposed restructuring upon a finding that it will move rates that are below TSLRIC closer to that standard.

Frontier should not mistake the Commission's approval of the proposed restructuring of the residential rate for approval of the company's proposal not to increase the rate to TSLRIC. The Commission lacks authority to waive the requirement of the MTA that Frontier's rates are to be at or above TSLRIC on January 1, 2000. Frontier must make its own determination as to whether its restructuring proposal meets the requirements of the MTA. See December 16, 1999 order, Case No. U-12162, involving a restructuring application filed by Hiawatha Telephone Company.

The Staff also raises the issue of the timing of Frontier's filing. It says that the filing on November 2, 1999 was too late to permit Frontier to implement the restructuring by January 1, 2000.

The Commission does not condone Frontier's decisions about when to file its TSLRIC study and the restructuring application that depended on that study, and the Commission cannot excuse Frontier's failure to complete the restructuring of its rates by the statutory deadline. Furthermore, there may be an argument that a restructuring of rates cannot occur after January 1, 2000. Nevertheless, the Commission concludes that a provider, such as Frontier, should be permitted to restructure its rates after that date pursuant to an application filed by the end of 1999. On the other hand, the Commission places Frontier and all other providers on notice that all future adjustments to basic local exchange rates must occur under the provisions of Section 304, not Section 304a.

The Commission FINDS that:

- a. Jurisdiction is pursuant to 1991 PA 179, as amended, MCL 484.2101 et seq.; MSA 22.1469(101) et seq.; 1969 PA 306, as amended, MCL 24.201 et seq.; MSA 3.560(101)

et seq.; and the Commission's Rules of Practice and Procedure, as amended, 1992 AACRS,
R 460.17101 et seq.

b. Frontier should be authorized to increase its basic local exchange service rates consistent with this order.

c. With the increases permitted by Paragraph b, the business and PBX basic local exchange rates of Frontier will be at or above the total service long run incremental cost of the services and its residential rate will be brought closer to the total service long run incremental cost.

THEREFORE, IT IS ORDERED that:

A. A restructured residential basic local exchange rate of \$15.78 is approved for all of Frontier Communications of Michigan, Inc.'s exchanges and a restructured business basic local exchange rate of \$16.22 is approved for each of Frontier Communications of Michigan, Inc.'s exchanges in which the current rate is below that amount.

B. Frontier Communications of Michigan, Inc.'s proposal to increase the rate for private branch exchange service is denied.

The Commission reserves jurisdiction and may issue further orders as necessary.

Any party desiring to appeal this order must do so in the appropriate court within 30 days after issuance and notice of this order, pursuant to MCL 462.26; MSA 22.45.

MICHIGAN PUBLIC SERVICE COMMISSION

/s/ John G. Strand

Chairman

(S E A L)

/s/ David A. Svanda

Commissioner

/s/ Robert B. Nelson

Commissioner

By its action of January 19, 2000.

/s/ Dorothy Wideman

Its Executive Secretary

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Suggested Minute:

“Adopt and issue order dated January 19, 2000 approving in part and rejecting in part the proposed rate restructuring of basic local exchange services for Frontier Communications of Michigan, Inc., as set forth in the order.”