S T A T E   O F   M I C H I G A N

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter, on the Commission's own motion, to consider the total service long run incremental costs for all access, toll, and local exchange services provided by **AMERITECH MICHIGAN**.	)))))	Case No. U-11831

At the November 16, 1999 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 5, 1998, the Commission issued an order commencing this proceeding to review Ameritech Michigan's total service long run incremental cost (TSLRIC) studies. The order set a schedule for the filing of the studies, comments, responses, and replies. On March 8 and May 11, 1999, the Commission issued orders modifying the schedule. On April 12, 1999, the Commission issued an order clarifying that Ameritech Michigan was required to file a TSLRIC study for special access services and set a schedule for filing comments on that study.

On January 21, 1999, Ameritech Michigan filed its cost studies. On March 25, 1999, CenturyTel Wireless, Inc., filed comments. On April 1, 1999, the Commission Staff (Staff), AT&T Communications of Michigan, Inc. (AT&T), the Michigan Exchange Carriers Association (MECA), the Telecommunications Resellers Association (TRA), CoreComm Newco, Inc., the Michigan Cable Telecommunications Association (MCTA), and MCI Telecommunications Corporation, MCImetro Access Transmission Services, Inc., WorldCom Technologies, Inc., WorldCom Network Services, Inc., and Brooks Fiber Communications of Michigan, Inc., (collectively, MCI WorldCom) filed comments.

On April 15, 1999, the TRA filed a response. On June 3, 1999, the Staff, AT&T, MCI WorldCom, and Ameritech Michigan filed responses. On June 17, 1999, MCI WorldCom, AT&T, the Staff, MCTA, CoreComm, and Ameritech Michigan filed replies.[1]

On July 12, 1999, Ameritech Michigan filed its cost studies for special access services. The July 12 filing also included additional cost studies for collocation. By August 23, 1999, MCI WorldCom, AT&T, and the Staff filed comments on the supplemental filing. On September 16, 1999, the Staff and Ameritech Michigan filed responses. On September 30, 1999, the Staff, MCI WorldCom, and AT&T filed replies. On October 1, 1999, Ameritech Michigan filed its replies.

Introduction

Ameritech Michigan's cost studies show increases, some significant, over many of the costs approved in Case No. U-11280, the last review of its TSLRIC studies. For example, it proposes costs for unbundled loops in access areas A, B, and C that are 40%, 22%, and 37%, respectively, above those approved in Case No. U-11280. It proposes an unbundled basic line port cost that is 51% higher and a wholesale shared and common cost factor that is 92% higher. In addition, its proposed costs are based on a number of new studies. The Staff takes the view that this case was an opportunity for Ameritech

[1]The cost studies and comments are supported by affidavits. This order will attribute the contents of the affidavits to the sponsoring party.

Michigan to update the previously approved cost studies with more recent inputs, not to make wholesale revisions to the methodologies. The Staff also says that Ameritech Michigan should have identified the cause of the more significant cost increases.

Ameritech Michigan says that the Staff's view of this case as providing merely an opportunity to update the inputs is too narrow, especially when some of the changes it offered were in response to criticisms of its prior studies. It says that the industry is changing rapidly and it is imperative that cost studies be kept up-to-date to reflect changes in technology, vendor pricing, provisioning, and services.

The Commission does not object to the development of improved cost studies, but does not subscribe to the view that newer studies are necessarily better. For reasons discussed below, the Commission does not adopt all of Ameritech Michigan's new methodologies or all of the results of its studies. Likewise, it does not adopt all of the commenting parties' methodologies or results. The standard is whether the methodologies and results are consistent with deriving reasonable estimates of the TSLRIC of Ameritech Michigan's services. Furthermore, the costs approved in Case No. U-11280 are presumptively valid and thus continue in effect until changed by the Commission.

Depreciation

MCI WorldCom says that because the Federal Communications Commission (FCC) requires the economic lives and future net salvage percentages used to compute universal service funding (USF) to be within its authorized ranges, Ameritech Michigan's TSLRIC studies should use the economic lives and future net salvage percentages that the company used in its USF cost studies.[2] As further support for

[2]In its May 11, 1998 order in Case No. U-11635, the Commission approved Ameritech Michigan's proposal to use the economic lives and net salvage values approved in Case No. U-11280. The Commission was aware that Ameritech Michigan would therefore need a waiver of the FCC's

using the FCC's longer economic lives, it points out that Ameritech Michigan's deployment schedule for digital switches indicates that switches will be used for more than the seven years assumed in Ameritech Michigan's TSLRIC studies.

AT&T agrees and says that the Commission should return to the original decision in Case No. U-11280 that Ameritech Michigan must use economic lives within the ranges approved by the FCC.

Ameritech Michigan says that there is no new information that requires the Commission to reverse its final decision in Case No. U-11280. It says that the FCC requires its service lives to be used for USF purposes because rural, insular, and high cost areas are unlikely to face a serious competitive threat in the near term, something that cannot be said of other areas. Further, it points out that an average service life is an average and some service lives will therefore be shorter than the average.

In Case No. U-11280, the Commission first required Ameritech Michigan to use longer service lives, and reversed that decision only on rehearing. The question was a close one then, and further developments persuade the Commission that its first decision was the more appropriate. In this case, Ameritech Michigan is projecting that it will be installing the same kinds of switches seven years from now, which is inconsistent with a claim that the rate of obsolescence has increased. Furthermore, Ameritech Michigan has not demonstrated that the demands of new market entrants for unbundled network elements (UNEs) has affected the rate of replacement of network components, it has not identified any new technology that will render current technologies obsolete, and it has not shown that the pace of competition is sufficient to warrant a conclusion that service lives must be shortened to account for a new competitive environment.

requirement to use values within its approved ranges, but left it to the company to obtain the needed waiver. As far as the Commission knows, the FCC has not granted the waiver.

Ameritech Michigan shall therefore use the economic lives and future net salvage percentages first approved in Case No. U-11280.

Unbundled Loops

The Staff notes that the cost studies show significant increases in the cost of unbundled loops. The two largest components are feeder and distribution/drop plant. The Staff says that the feeder plant costs for access areas A and B have not increased much from the level approved in Case No. U-11280 and the increase for access area C is due to the cable resizing adjustment, discussed below. On the other hand, the cost of distribution/drop plant has increased significantly (63%, 35%, and 24% for access areas A, B, and C, respectively).

a. New Model

The Staff says that much of the increase in distribution/drop plant costs is due to the new model that Ameritech Michigan used to develop distribution area (DA) investment at the wire center level rather than at the statewide or access area level. The Staff says that the new model is more precise than the prior model, which relied upon a relatively small sample and appears to have greatly understated the costs. The Staff nevertheless recommends that Ameritech Michigan be required to specify which elements of its distribution investment were understated by its prior sampling technique. In the absence of an adequate explanation, the Staff recommends that the Commission reduce distribution costs by 20%.

MCI WorldCom says that it is premature to conclude that the new model is more accurate. In fact, it says that Ameritech Michigan calculates a cost for distribution/drop facilities in access area A that is almost twice the entire cost of the loop in Illinois. It says that the distribution system that results from the new model is entirely hypothetical and based on a sample, albeit a larger sample than the prior model used. It suggests that there should be a presumption that the costs approved in Case No. U-11280 are accurate unless Ameritech Michigan shows otherwise. AT&T agrees that there is no reason to conclude that the results of the new model are better than those of the old model.

CoreComm says that Ameritech Michigan's proposed increases will drive the slim margins of competitive local exchange carriers (CLECs) to zero (if not a loss) and therefore require careful scrutiny because the increases will result in a classic price squeeze, will force CLECs to focus their efforts on serving only the most lucrative customers, and will discourage the large investment required for facilities-based competition.

The Commission concludes that it should accept the use of the new model. It seems likely, as the Staff suggests, that the prior model understated the cost of distribution/drop plant because it relied on a sample of several thousand access lines from 10 years ago and the new model looks at recent data for more than 4 million access lines. If the new model has a bias, it seems likely that it tends to understate costs because the loops most likely to be omitted from the analysis are in more rural areas where loop costs tend to be above average. The increase in costs that results is not a reason to reject the model. On balance, Ameritech Michigan has adequately explained the increase in costs.

b. <u>Model Interaction</u>

The Staff is concerned that the model is not designed to consider the trade-off between relatively cheap fiber feeder plant and relatively expensive copper distribution plant. The Staff says that Ameritech Michigan assumes that the serving area interface (SAI) for each DA will be placed at the corner nearest the central office, although the Staff is uncertain that the result is the lowest cost. MCI WorldCom shares the concern that Ameritech Michigan's model develops feeder and distribution plant costs independently and is therefore incapable of selecting the optimal location for equipment such as the remote terminal and SAI. It says that the Commission should reject the proposals to move the remote terminal closer to the central office and to use remote terminals to serve more than one DA because the effect is to substitute expensive copper cable for inexpensive fiber cable. MCI WorldCom recommends that Ameritech Michigan be required to place the SAI at the centroid of each DA.

Ameritech Michigan says that the independence of the feeder and distribution models reflects the manner in which these portions of the network are, and will continue to be, engineered and built. It says that its current engineering guidelines and design practices are already optimal. Ameritech Michigan also says that the SAI location is identified before a DA is constructed and is the point where the DA starts or will start. It says that the center of the DA is usually not yet developed when the DA is established. Further, it says that placing the SAI at the centroid would require additional feeder facilities and longer average loop lengths at greater total cost. It says that its model is consistent with costing principle no. 6, which assumes the location of existing and planned outside plant facilities, including the SAI.[3]

MCI WorldCom says that the issue can be resolved by rerunning the model with the SAI moved to the centroid, using fiber for feeder facilities, and placing the remote terminal at the SAI. It also says that it is not inconsistent with TSLRIC principles to consider moving the SAI.

The Commission concludes that the arguments are closely balanced. There is a trade-off between fiber and copper plant, and a model that cannot look at that trade-off may be flawed. It also seems likely that the SAI will be located before the center of a DA can be known, although Ameritech Michigan is supposed to be computing the cost of its current network using least-cost technology and the locations of

[3]The Commission's September 8, 1994 order in Case No. U-10620 adopted nine costing principles.

the DAs are therefore known. On the other hand, costing principle no. 6 does not require that each DA have its own remote terminal or that the location of the SAI be unchanged, a point that Ameritech Michigan seems to concede because it has not assumed that the existing locations of all remote terminals remain unchanged. As MCI WorldCom points out, the matter can be resolved by rerunning the model for a small but statistically significant sample of DAs. The Commission will therefore require Ameritech Michigan to rerun the model with a statistically significant sample, after which the Commission will decide whether to accept or reject Ameritech Michigan's proposed costs.

c. Closing Factors

AT&T says that part of the explanation for the higher costs is that the new model attempts to determine the DA investment at the wire center level as required for USF purposes. It says that the Commission approved the wire center approach in Case No. U-11635, where Ameritech Michigan obtained approval of its USF cost study, but only with the use of "closing factors" designed to scale down the distribution costs to approximate the investment found appropriate in Case No. U-11280. AT&T says that, in this case, Ameritech Michigan offers the same results without the use of closing factors. AT&T and MCI WorldCom support the use of closing factors to reduce the results to approximate those approved in Case No. U-11280.

Ameritech Michigan points out that the order in Case No. U-11635 approved the use of closing factors in that case, but rejected the prospective use of closing factors.

The Commission has already considered the issue of closing factors, and rejected the prospective use of such factors in the May 11, 1998 order in Case No. U-11635. Further, Ameritech Michigan has sufficiently explained in this case why the loop costs are higher than approved in Case No. U-11280. It would therefore not be appropriate to use closing factors to reduce the costs to those approved in the prior case. The Commission finds no reason to alter its prior decision that closing factors should not be used.

d. Digital Loop Carrier Technology

Digital loop carrier (DLC) technology allows a provider to aggregate copper pairs for transport on a single circuit back to the central office. Integrated DLC (IDLC) technology is the more efficient technology, but Ameritech Michigan assumes that unbundled loops will be provided to CLECs in a nonintegrated manner, which is more expensive and less efficient. MCI WorldCom says that the TSLRIC studies should be based on the assumption that IDLC technology will be used because it is a known and proven technology that is in use today. It says that manufacturers, including the one Ameritech Michigan assumed within its study, are now actively designing their equipment to accommodate a multi-carrier environment. It says the fact that current interconnection agreements do not provide for the use of IDLC technology does not mean that the technology should not be reflected in the TSLRIC studies. Further, it says that Ameritech Michigan should not be permitted to use a more efficient technology to serve its own retail customers while providing UNEs to CLECs using a less efficient technology at greater cost.

Ameritech Michigan says that the unbundled loop cost should be based on nonintegrated DLC technology because that is the currently available technology. It says that it is currently evaluating the new equipment, has not completed the cost/benefit analysis, and has not made a decision yet whether it is appropriate to deploy the new technology.

The Commission concludes that IDLC technology should not be the basis for the TSLRIC studies because the technology is neither universally accepted nor widely used today.

e. Telephone Plant Index

Ameritech Michigan uses a telephone plant index (TPI) to project future plant costs. MCI WorldCom says that Ameritech Michigan has relied upon 1996 data, which does not capture the marked price reductions of the last three years, and uses factors for broad accounts that may not be representative of all elements of the account. MCI WorldCom recommends that the Commission require Ameritech Michigan to estimate investment costs on the basis of the most recent purchase price data that is available and to abandon the use of the TPI for digital equipment. It recommends that the Commission use vendor contracts to estimate year 2000 investments and, where contracts are not available, reduce the 1998 investment amounts by 30%. It recommends that Ameritech Michigan be permitted to use the TPI only for equipment that has well established pricing trends or for which prices change slowly, which does not include digital equipment.

The Commission agrees with MCI WorldCom's recommendation. The TPI may be appropriate for prices that have a well established trend or change slowly, but is not appropriate for digital equipment, where the market is changing rapidly. When there is a better basis for projecting future expenses, such as recent contract prices, Ameritech Michigan should use that data rather than an index.

f. Aerial facilities

MCI WorldCom says that Ameritech Michigan significantly increased the use of aerial facilities in its cost studies even though aerial facilities are expensive and infrequently used. It recommends that Ameritech Michigan be permitted to use aerial facilities in the model only when aerial facilities are the least-cost choice.

Ameritech Michigan says that the increase in aerial cable reflects the deficiencies in the prior sample and the use of updated material and installation costs.

Ameritech Michigan may be right that the prior sample was flawed, but it is also true that it may properly use aerial cable in the cost studies only when it is the least-cost choice. It is not readily apparent that the model is in error, and MCI WorldCom does not offer a more definite recommendation. The Commission will therefore not require an adjustment for aerial cable.

g. Pole Attachments

MCI WorldCom says that Ameritech Michigan seeks to recover an alleged underrecovery of pole and conduit costs from the wrong services. It says that some of the pole and conduit investment is incremental to services that do not utilize telephone cables, e.g., third party occupancy services. It would eliminate this adjustment and remove the cost that is incremental to occupancy services.

Ameritech Michigan says that the adjustment reflects its need to use the poles and conduit of other utilities to provide UNEs and other services.

The Commission concludes that MCI WorldCom's adjustment is appropriate because it does not appear that Ameritech Michigan has made any allocation of pole and conduit costs to third party occupancy services. Further, if its revenues for pole attachments are not sufficient to cover its costs, it is not entitled to consider that a cost to be allocated to unrelated services such as basic local exchange service.

Resizing Adjustment

The Staff says that Ameritech Michigan has made an adjustment to feeder plant that has the effect of changing the fill factors approved in Case No. U-11280. The Staff says that Ameritech Michigan determined the cable size that it needed, taking into account the appropriate fill factor. Then, because cable is available only in discrete sizes, it used the full cost of the cable needed to meet that demand. The Staff says that the result is fill factors below those approved in Case No. U-11280 and an increase in costs. AT&T and MCI WorldCom have a similar concern. MCI WorldCom says that Ameritech Michigan's approach does not treat fill factors as an average because it results in no fill factors above the average.

The Staff also suggests that the approach used in Case No. U-11280 is incorrect because fill factors should be applied to the investment cost of the needed plant, and should not be applied to determine the size of the needed plant. MCI WorldCom agrees.

Ameritech Michigan says that the cable sizing algorithm it used is the same as used in the HAI model that AT&T and MCI have sponsored in many other jurisdictions. It also says that the model correctly reflects that the company can obtain cables only in discrete sizes and the cost to it is the entire cost of the cable that must be purchased.

The Commission disagrees with Ameritech Michigan. Its approach does not treat fill factors as averages to be achieved by the network as a whole. The fill factors approved in Case No. U-11280 are average fill factors and must be treated as such. Further, as in Case No. U-11280, the fill factors should be used to determine the size of the facilities.

<u>Other Unbundled Loop and Port Costs</u>

The Staff says that Ameritech Michigan identified other costs, some new and some revised, related to unbundled loops and ports. It says that these are essentially the same costs that were addressed in Case No. U-11280, where the Commission approved a six-year amortization to recover past costs. The Staff says that those costs should not be addressed again in this filing because, after the six-year period, Ameritech Michigan will have fully recovered the costs.

MCI WorldCom has a similar concern. It says that Ameritech Michigan is seeking to recover the amount in only three years, is basing the amount on year 2000 dollars when the expenses have already been incurred, and is seeking to recover again amounts that it has already recovered from CLECs that have ordered unbundled loops in the last several years.

Ameritech Michigan says that it appropriately eliminated two of the four expenses because they have been incorporated elsewhere in its cost studies and recalculated the other two to reflect higher labor rates and updated demand forecasts.

The Commission addressed the recovery of these expenses in Case No. U-11280. There is no need for Ameritech Michigan to recompute them. The recovery previously approved should continue unchanged for the balance of the amortization period, and Ameritech Michigan shall remove the two expenses from the other studies where it placed them.

Switching Cost Model

a. New Model

The Staff is concerned that Ameritech Michigan used a completely new model to derive costs for switching services and placed too much weight on growth lines (i.e., lines added after the switch is installed) for which vendors charge more per line than they charge for lines that are connected when the switch is first installed (cut-over lines). The Staff says that, by doing this, Ameritech Michigan computed the cost for only incremental lines rather than all of its lines as costing principle no. 3 requires. The Staff recommends that Ameritech Michigan be required to rerun the study assuming 30% growth lines rather than 70% growth lines.

MCI WorldCom shares that concern and recommends that the cost of switching be calculated as a weighted average of cut-over and growth lines. AT&T also recommends that the Commission adjust the weighting of cut-over and growth lines so as to account for the entire quantity of switching that the network provides.

Ameritech Michigan says that if the ratio of cut-over and growth lines were changed, it is likely that the switch vendors would change their pricing structure to maintain approximately the same average price per line. It says that the prices in the contracts cannot be expected to remain unchanged if the mix of lines is changed.

The Commission concludes that Ameritech Michigan's model is inconsistent with TSLRIC principles, which require that Ameritech Michigan price the cost of serving the entire current demand. The model is explicitly designed to develop a cost based on relatively expensive growth lines for all of its network and a relatively few less expensive cut-over lines for a small number of switches. The company argues that the resulting price is nevertheless a reasonable proxy for serving all of its lines. The Commission is not persuaded that the vendors would adjust the prices to achieve the same average regardless of the mix of cut-over and growth lines. The Commission therefore adopts AT&T's proposed adjustments.

b. Service-specific Costs

The Staff is concerned that Ameritech Michigan has not developed the cost of switching at the basic network component level, but has developed service-specific costs. The Staff argues that the cost of a particular switching component should not depend on whether the component is used to provide toll, toll access, local exchange, or local interconnection services. MCI WorldCom shares that concern and recommends that the cost for unbundled local switching be the same as the retail cost.

AT&T agrees and says that the study is flawed because it assigns different costs depending on the service that is using the switch. AT&T recommends that Ameritech Michigan be required to aggregate the usage for all services that use local or tandem switching and determine a cost to be applied to all services that use switching.

Ameritech Michigan says that one switching cost cannot be used for all services because the services are not provided in the same manner and do not use switches in the same manner or to the same degree. It says, for example, that there is a separate rate element for tandem switching for both switched access and reciprocal compensation and that element applies only when the call is routed through a tandem switch but must recover the full cost of the tandem switch when it is used. It says that its proposal also properly reflects which services create the busy hour usage, which drives costs.

AT&T responds that even with different rate structures for different services, TSLRIC principles require Ameritech Michigan to study the cost of network elements and then to map costs to the individual services. For example, it says, if different services use a tandem switch to different degrees, the tandem switch cost can be attributed to the service on a probabilistic basis when computing the cost of the service. Further, it argues that the cost does not depend on whether the customer makes a call as an Ameritech Michigan toll customer rather than as a CLEC customer using switched access.

The Commission agrees that Ameritech Michigan's study is flawed because it determines different switching costs depending on the service that is using the switch. That is inconsistent with costing principle no. 8. The commenting parties are correct that Ameritech Michigan should develop a single cost for local switching and a single cost for tandem switching, and should map those costs to any service that uses switching.

c. Usage Sensitive Costs and Other Issues

MCI WorldCom says that little or none of the cost of a switch is usage sensitive and an estimate of the cost of increasing the capacity of a switch will greatly overstate the cost of the capacity installed with the switch. It also points out that the switch vendor contracts do not have any usage-related charges and Ameritech Michigan claims widely divergent usage-sensitive percentages for each of its three switch vendors. It therefore recommends that Ameritech Michigan be required to use the Nortel percentage of usage-sensitive costs for all switches.

Ameritech Michigan says that the switches vary with respect to how much of their costs is usage sensitive. It says that usage of the switch contributes to the eventual need to add more capacity to meet growing demand and that usage also contributes to part of the cost of maintaining the switch.

AT&T recommends that the Commission move the trunk port related investment out of the centum call seconds (CCS) and line termination investments, reweight CCS and line termination investments, and remove trunk port costs from the end office switching cost element to avoid double counting of the costs.[4]

The Commission adopts the recommendations of AT&T. Ameritech Michigan should have developed a cost of switches based on current service levels, which should result in little usage- sensitive cost to reflect the need to upgrade the switch to meet growth in demand. Further, Ameritech Michigan's argument that usage of a properly sized switch has any significant usage-sensitive cost is unpersuasive,

[4]Its recommendation also affects port costs. The Staff says that the significant increase for port costs can be traced directly to the line termination component.

particularly when the switch contracts do not provide for usage-sensitive prices and there is little reason to believe that the identity of the switch vendor has any significant effect on the usage-sensitive portion of the switch.

Unbundled Interoffice Transport

MCI WorldCom says that Ameritech Michigan did not rely on actual contract prices for equipment, but used out-of-date prices and a flawed escalation methodology (the TPI) and used a flawed methodology for determining the installation cost (the "in-plant" factor). Its concerns with the TPI are the same as discussed above in connection with unbundled loops. It says that the in-plant factor does not accurately reflect the dynamics of the contracting process and is not focused on the unique nature of the equipment at issue. It recommends that when the contracts are not available, the Commission should reduce the investment by 30% and reduce the in-plant factor by 15% unless Ameritech Michigan can support a higher cost.

The Commission concludes, as discussed above, that the TPI should not be used when there is better data and the index is not likely to accurately reflect future prices. Much the same logic requires the Commission to reject the use of the in-plant factor for this set of costs. A generalized factor is being applied to an investment category when there is reason to believe that the factor does not accurately reflect costs for the category. In the absence of a better proposal, Ameritech Michigan shall reduce the investment by 30% and the in-plant factor by 15%.

Service Coordination Fee

In Case No. U-11280, the Commission set a cost for rendering a bill for UNEs. Ameritech Michigan now proposes a much higher cost. The Staff says that it makes no sense that the costs of rendering a bill could have increased by 120%. It suggests that the Commission approve a cost that reflects the previously approved cost plus inflation.

Ameritech Michigan says that, since its last cost study, it has revised its billing systems and the manner in which it performs many of the related data processing functions, and the new cost study reflects those changes.

The Commission rejects Ameritech Michigan's proposed increase in costs, and the cost approved in Case No. U-11280 will remain in effect. Ameritech Michigan has failed to establish that its new billing system, which more than doubles the cost, is the least-cost, forward-looking alternative or otherwise confers any benefit on its customers.

Shared and Common Costs

Ameritech Michigan used a new methodology to derive its shared and common costs. The Staff finds the new model to be an improvement over the approach used in Case No. U-11280, but flawed because Ameritech Michigan used 1997 data without normalizing it for one-time costs and assumed that historical costs properly reflect forward-looking costs. The Staff is also critical of the company's unexplained conclusion that shared costs will increase while common costs will decrease. The Staff proposes that 1997 data be adjusted to show annual savings of 5 to 15 % for 1998, 1999, and 2000 and little or no inflation. The Staff says that the result would more likely reflect forward-looking costs and increased productivity.

The Staff also has a concern about the division of costs between wholesale and retail services and the failure to treat shared costs for unregulated services as its own category. Finally, the Staff does not support Ameritech Michigan's proposal to derive three common cost factors because common costs are supposed to be common. It does support the proposal to have three shared factors: retail, wholesale, and unregulated.

AT&T says that, with the limited information provided by Ameritech Michigan, it is difficult to know whether the study includes only appropriate costs and does not double count expenses in both the TSLRIC studies and the shared and common cost study. More specifically, it says that the study is flawed because (1) it is not possible to determine whether one-time expenses have been removed, (2) it is based on Ameritech Michigan's existing operations and assumes that those are efficient, (3) it does not try to determine which costs can be directly or partially assigned to a particular service, and (4) it does not identify costs that should have been assigned to a service for which Ameritech Michigan did not provide a TSLRIC cost study (including unregulated services). It says that a significant problem with the study is the lack of access to supporting data that would permit others to verify that costs are properly allocated. AT&T also says that Ameritech Michigan (1) removed the cost of certain plant investment without replacing it with the cost of current, forward-looking technology, (2) misallocated building and land expense by, for example, assuming that central office facilities have the same cost as all other buildings, (3) allocated too much general purpose computer expense to shared and common costs, and (4) misallocated network administration, plant operation administration, and engineering expenses to shared and common costs and also to the TSLRIC studies. It says that there are other unresolved questions about the treatment of a variety of expenses.

Ameritech Michigan says that proposals to reduce its shared and common cost factors are merely result-driven and unsupported. It says that AT&T's adjustments and the Staff's proposed modifications are flawed in a variety of ways and should not be relied upon to determine shared and common costs. It says that its model appropriately estimates forward-looking costs by developing relationships between expenses and investments as of 1997, adjusting for reasonable cost savings and inflation, and applying those relationships to derive expenses based on forward-looking investment data. Ameritech Michigan also says that it ran its own model with data for AT&T's operations, which resulted in shared and common costs for a firm that operates in a competitive market well above the level that AT&T says Ameritech Michigan would be forced to achieve if it operated in a competitive market. It says that the HAI model, which AT&T has sponsored elsewhere, also supports a conclusion that Ameritech Michigan's proposal is reasonable.

AT&T responds that a comparison to its own costs is inappropriate because it offers long distance service and operates in a much less capital intensive industry. It says that a comparison based on costs per line shows that Ameritech Michigan's costs are actually higher than AT&T's. It says that the comparison to the HAI model is invalid because it was not conducted on a basis consistent with the Ameritech Michigan TSLRIC studies.

The Commission concludes that Ameritech Michigan's shared and common cost study should not be adopted. The model has a theoretical appeal, but without access to detailed underlying data, it is difficult to guard against the double counting of expenses. The methodology includes all costs in specified accounts in the shared and common cost study unless they are specifically excluded. Without ready access to the underlying data, it is also not possible for the parties to verify that Ameritech Michigan has made the appropriate adjustments for one-time expenses and removed costs that should be assigned to a particular service. Without access to the underlying data, it is also not possible to determine whether costs associated with unregulated and regulated services for which Ameritech Michigan did not perform TSLRIC studies are excluded or included by default. Furthermore, by using actual data, Ameritech Michigan assumes that its current operations are as efficient as a forward-looking approach would yield. The Commission does not assume that there are no further improvements that Ameritech Michigan should make to its current operations. In light of the numerous flaws in the offered study and the lack of an alternative study in this docket, Ameritech Michigan shall continue to use the shared and common cost factors approved in the July 14, 1998 order in Case No. U-11280 and the May 11, 1998 order in Case No. U-11635. Ameritech Michigan's attempt to compare its results to AT&T's costs and the results of the HAI model are unpersuasive because it has failed to show that the comparison is meaningful.

Resale

Ameritech Michigan calculated a discount for tariffed services subject to resale. It proposes to eliminate the alternative discount for providers that do not use its operator or directory assistance services because no one has requested that option.

The Commission approves both proposals, neither of which drew any opposition.

For individual case basis (ICB) contracts, Ameritech Michigan proposes a discount for new contracts and a lower discount for existing contracts that are assumed by another provider.

CoreComm says that the discounts for contracts are too small due to a number of errors in Ameritech Michigan's analysis. It says that Ameritech Michigan has incorrectly concluded for assumed contracts that only the uncollectibles expense is avoidable and for new contracts that only the uncollectibles expense, much of the sales expense, and a small portion of general support and general and administrative expense are avoidable.

Ameritech Michigan says that while there may be some reduction in a few of the traditional activities associated with providing service under these contracts, because it does not have to perform all of the traditional activities associated with serving the retail customers directly, there are new activities and more manual intervention associated with serving resellers and their end use customers that cause greater offsetting costs.

The Commission finds that Ameritech Michigan has provided sufficient support for its results, which the Commission therefore approves.

Nontraffic Sensitive Costs

The Staff is concerned that Ameritech Michigan has apparently decided to allocate the entire cost of the loop to basic local exchange service and none to toll or switched access services, even though the completion of a toll call requires the use of the loop. The Staff asserts that just as the cost of the central office switch is apportioned among services, the cost of the loop must be apportioned.

MCI WorldCom takes the position that none of the costs of the loop should be recovered through rates for toll access services because the rates for basic local exchange service are restructured (meaning they recover the TSLRIC of the service) and because recovery in access rates is not consistent with the concept of incremental pricing when the use of the loop to provide toll service does not cause any incremental costs.

AT&T agrees that none of the cost of the loop should be recovered through toll access rates. It asserts that the end user causes the cost of the loop and should therefore pay the full cost of the loop without assigning any cost to other services. Also, because it asserts that unbundled loops must include the entire cost of the loop and because the loops used to provide bundled retail local service are the same, all loop costs must be included in the cost for both. It says that any allocation of the cost to other services results in a subsidy that is not sustainable in a competitive market.

Ameritech Michigan says that the cost of the loop is a fixed capital cost that results from a customer having access to the network and a variety of services. It says that the cost should be assigned to the services that include access to the network–basic local exchange service or an unbundled loop. Further, it says that fixed costs should be recovered through fixed charges, not usage-sensitive charges.

The Commission rejects the arguments of Ameritech Michigan, AT&T, and MCI WorldCom for two reasons. First, the Commission rejects the position that the cost of the loop should be directly assigned to one specific service when numerous other services cannot be provided without those facilities. Rather, the cost of the loop must be recognized as a cost jointly utilized in the provision of local service, interstate and intrastate toll access services, toll services, and certain unregulated services. According to the costing principles adopted by this Commission in its September 8, 1994 order in Case No. U-10620, loop costs are not unlike the shared and joint costs addressed in that order because they cannot be readily identified with a specific service as is the case with direct costs. Rather, these costs should properly be recognized as joint or shared costs that "are common to something less than the total output of the firm; costs that are common to a group of services or outputs."[5]

[5]Page 5, Exhibit A to the September 8, 1994 order. Although loop costs and other nontraffic sensitive costs are similar to the joint and shared costs discussed in that exhibit, the Commission is not suggesting that loop costs be treated in the same manner as shared costs.

Second, assigning all loop costs to local service is directly contrary to existing interstate allocation procedures, which continue to recognize assignment of a portion of loop costs in the rates for interstate toll access services. Under the provisions of the Michigan Telecommunications Act, MCL 484.2101 et seq.; MSA 22.1469(101) et seq., Ameritech Michigan has mirrored these interstate toll access charges for intrastate toll access purposes, thus assuring that a portion of loop costs are recovered from services other than basic local exchange service. Assignment of all loop costs as a direct cost of local service would be directly contrary to the allocation procedures presently in place that assure recovery of a portion of those costs from other services. Moreover, Section 254(k) of the federal Telecommunications Act of 1996 provides that a state:

> [W]ith respect to intrastate services, shall establish any necessary cost allocation rules, accounting safeguards, and guidelines to ensure that services included in the definition of universal service bear no more than a reasonable share of the joint and common costs of facilities used to provide those services.

47 USC 254(k).

The Commission therefore concludes that the costs of the loop assigned to local exchange service must be reduced by the recovery of those costs through other revenue sources, including, for example, loop costs already recovered in revenue from state and interstate end user charges, state and interstate primary interexchange carrier charges (PICC), state and interstate carrier common line charges, vertical features, and federal universal service funding, to name only a few.

Nonrecurring Costs

In Case No. U-11280, the Commission adopted the recommendation of the Staff to require Ameritech Michigan to reduce its nonrecurring costs by 50%. The Commission found Ameritech

Michigan's support for the higher costs to be based on arbitrary labor costs, a vague definition of the costs, and a flawed methodology. The Staff says that, notwithstanding those criticisms, Ameritech Michigan's revised costs in this case are still excessive. The Staff says that much of the analysis relies on estimates by "subject matter experts" of activity times and probability of occurrence, and it is difficult to quantify the subjective effect of their opinions. It concludes that Ameritech Michigan needs a new methodology for computing these costs.

The Staff compared the proposed costs to those approved in Case No. U-11280. It found that many were higher, although some were lower than previously approved. The Staff recommends that the Commission reject any cost above the level approved in Case No. U-11280, approve any cost below the level previously approved, and reduce the newly proposed costs by 50% as in Case No. U-11280.

MCI WorldCom says that Ameritech Michigan's nonrecurring cost studies are flawed because they are not based on forward-looking costs, in part because they rely too much on manual intervention to do what the systems should be capable of doing electronically, and because Ameritech Michigan has focused on the system improvements it has decided to implement rather than the improvements that are feasible and cost-effective as required by a forward-looking TSLRIC approach. It says that there is a lack of adequate documentation to support Ameritech Michigan's results and it is highly likely that the activities associated with the connection and disconnection of some unbundled elements and retail services are substantially overstated. It offers adjustments to correct those deficiencies.

AT&T says that Ameritech Michigan (1) computed nonrecurring costs on the basis of out-of-date manual procedures that cost more than the most efficient use of currently available integrated operations support systems with accurate and synchronized databases, (2) made faulty assumptions about the network architecture (which should match the architecture assumed in setting recurring costs), and (3) made faulty assumptions about work times. It says that the Commission must also guard against including in nonrecurring costs recurring costs, competition implementation costs, and disconnect costs that may never be incurred. It says that only pre-ordering, ordering, and provisioning costs should be recovered on a nonrecurring basis. It says that all capital costs and the costs of correcting database errors should be treated as recurring costs.

In conjunction with MCI WorldCom, AT&T offered a model for determining nonrecurring costs when a CLEC requests wholesale services, interconnection, or UNEs, and recommends that the Commission adopt the results of that model in preference to Ameritech Michigan's results. It says that the model identifies the nonrecurring actions needed to provision UNEs and determines the cost for each. The model also treats as nonrecurring only those costs that once incurred cannot be used to serve a subsequent customer.

Ameritech Michigan says that if nonrecurring costs are set artificially low or are treated as recurring costs, the incumbent subsidizes the new entrant or assumes some of its business risk. It says that the AT&T/MCI WorldCom model is based on a theoretical system that does not exist because it assumes almost no manual intervention. It says that it is not appropriate to assume that it will deploy automated systems that do not yet exist and for which there is not sufficient demand to warrant development. Further, it says that the AT&T/MCI WorldCom model has not been adopted by any state thus far and assumes an unrealistically low 2% fallout rate that the systems cannot achieve for all activities.

Ameritech Michigan also says that its current and proposed charges are comparable to those of other ILECs. It says that its current rates are well below those of AT&T and MCI WorldCom and its proposal would bring its rates more in line with theirs. Further, it says that a study cannot be criticized for yielding costs too high, as the Staff complains, if the study accurately determines the cost.

The Commission concludes that it should not accept the results of Ameritech Michigan's study. The study assumes that Ameritech Michigan's current operations are as efficient as they should be with a forward-looking approach using existing technology. Ameritech Michigan says that it used the standard of its current procedures with any planned efficiency improvements in the next three years, and none were planned. Apparently, Ameritech Michigan has concluded that further improvements are not warranted at this time, even though the systems are capable of doing better. The result is an erroneous assumption that the current extensive manual intervention in numerous operations is the least-cost, forward-looking approach. Further, the study rests on numerous estimates about the work to be done, the time required to do the work, and the probability that a particular function will be performed. Taken as a whole, the estimates do not yield reasonable results. For example, Ameritech Michigan estimates that on average it takes a service technician 15 minutes per order to confirm that the needed parts are in the vehicle and that each order requires a separate trip. AT&T and MCI WorldCom have offered an alternative model, but its coverage is not sufficiently extensive to cover all services. The Commission therefore adopts the adjustments offered by MCI WorldCom to Ameritech Michigan's study. Those adjustments address the excessive fallout rates embedded in Ameritech Michigan's study, the lack of a forward-looking approach, and the lack of credibility for the study as revealed in discovery.

In a related matter, the Staff disagrees with Ameritech Michigan's position that disconnection costs should be recovered in the service ordering charge. Instead, it says that the costs should be recovered in recurring rates, amortized over five years for UNEs and eight years for retail services.

AT&T suggests that there is no need for Ameritech Michigan to recover the costs of a disconnect in the service ordering charge or in recurring rates in a wholesale and UNE environment. It says that, unlike the retail setting where it may be difficult to collect from a departing customer, in the wholesale and UNE setting the customer to be charged is the provider. Thus, it concludes that disconnection charges can be recovered from the provider at the time of disconnection through an appropriate nonrecurring charge.

Ameritech Michigan says that one of the costs of a service is the cost of eventually disconnecting the service and that it is easier to collect the cost at the time service commences than when service is discontinued. Alternatively, it suggests than the cost can be recovered on an amortized basis over three years for UNEs and four years for retail services.

The Commission agrees with AT&T that when dealing with UNEs and wholesale services, Ameritech Michigan can collect the charges from the provider that requests the service disconnection. For that reason, the cost should not be treated as part of the cost of commencing service and should not be treating as a recurring cost. For other services, the Commission adopts the Staff's proposed amortization.

<u>Collocation</u>

AT&T says that Ameritech Michigan's collocation studies are effectively useless because of fundamental problems: (1) costs are significantly increased over tariff levels with virtually no explanation, (2) Ameritech Michigan uses per-foot ICB costs for many elements (principally, cabling distances) that are under its exclusive control and charges for "extraordinary" costs, which precludes an assessment of whether the costs are nondiscriminatory and cost-based, and (3) Ameritech Michigan does not use a systematic method for determining whether costs should be treated as recurring or nonrecurring. It says that only those items that are not shareable or reusable should be treated as nonrecurring costs. It recommends that the Commission adopt the collocation cost model and results jointly sponsored with MCI WorldCom, including the average cabling distances and the determination that reusable or shareable items are to be recovered as recurring costs. It stresses that it is important for the Commission to approve costs for a full range of collocation options, and the model provides costs for six.

MCI WorldCom agrees that Ameritech Michigan's collocation studies are so flawed and the supporting documentation so limited that the Commission should adopt the AT&T/MCI WorldCom cost model. It says that Ameritech Michigan has included inappropriate, overstated, and unexplained costs and does not use a forward-looking approach in which it treats collocators as it would treat itself. MCI WorldCom says that Ameritech Michigan computes the cost of constructing new central office space and then adds the cost of modifying its existing central offices to arrive at the cost of providing central office space. It says the result is not forward-looking because the model assumes the central offices as they are rather than as they should be to accommodate multiple occupancy. MCI WorldCom also says that Ameritech Michigan does not explain on a consistent basis how costs were converted to nonrecurring and recurring costs, includes ICB costs to a significant degree, and provides virtually no description or foundation for the inputs, which appear to be overstated.

The Staff recommends, in light of the flaws in Ameritech Michigan's study, that the Commission approve the results of the AT&T/MCI WorldCom model.

Ameritech Michigan says that the "scorched earth" approach in the AT&T/MCI WorldCom model is not consistent with costing principle no. 6, which adopts the "scorched node" approach under which one assumes the existing location of facilities and assumes their replacement with the overall least-cost technology. Therefore, it says that it is appropriate to assume that all switching is digital and all interoffice facilities are fiber, but it is not appropriate to assume new buildings designed to accommodate multiple tenants. It says that it is not using the central office build out charge to recover unusual retrofitting investments, but to recover the cost of engineering the accommodations for the CLECs' equipment and the associated changes to modify a single occupant building to multi-tenant occupancy. It also asserts that there are numerous errors in the alternative proposals and that its model should therefore be adopted.

Ameritech Michigan also denies that its proposal is a form of ICB pricing. It says that it proposes only that CLECs pay the costs they cause. It says that AT&T's proposed division between recurring and nonrecurring costs is inappropriate because facilities that one CLEC no longer uses may not be reusable by another or by Ameritech Michigan. It therefore says that the costs should be recovered through a nonrecurring charge from the requesting CLEC.

The Commission concludes that it should not adopt Ameritech Michigan's model, which assumes that the cost of the existing central office buildings plus the costs of modifications are a proper basis for determining the forward-looking cost of central office space. Contrary to Ameritech Michigan's argument, TSLRIC principles require the assumption that the location of the buildings remains unchanged, but does not require the assumption that the existing buildings with their current configuration will be used.[6] AT&T and MCI WorldCom have offered an alternative collocation model that avoids that fundamental flaw. It is no more a valid criticism that the central office structure they propose has not been

[6]In marked contrast, when determining the cost of feeder and distribution plant, Ameritech Michigan did not feel constrained to assume that the existing facilities could not be altered or that remote terminals and SAIs could not be moved to derive a forward-looking estimate of costs. Similarly, it did not assume that CLECs would be required to pay the cost of altering the existing facilities to conform to the forward-looking technology.

built than to criticize Ameritech Michigan's feeder and distribution model because it bases costs on a feeder and distribution network that Ameritech Michigan has not and will not build. The AT&T/MCI WorldCom model appears in other respects as well to be reasonable, including its allocation of costs as recurring or nonrecurring. The Commission therefore adopts the results of that model, which also has the advantage of establishing costs for six forms of collocation.

Special Access

The special access studies share a number of the flaws discussed above. When Ameritech Michigan modifies its cost studies to comply with this order, it must make all of the same adjustments to the special access cost studies as well.

a. Service-specific Costs

AT&T says that the special access cost studies attribute different costs to the same network element depending upon the service for which it is being used. For example, it says that Ameritech Michigan has derived widely divergent costs for the same type of channel depending on whether it is used as an unbundled loop, a switched access entrance facility, a special access local distribution channel, or an unbundled interoffice transport entrance facility. It says that Ameritech Michigan must be required to show that the underlying costs are the same for all services. It recommends that costs for connections between points in the network be computed on a basis that considers all customers and all uses for a connection of a particular speed or that customers be permitted to buy a network connection of a particular speed at the lowest price offered in Ameritech Michigan's tariffs.

MCI WorldCom says that the differences in costs are largely attributable to the fact that Ameritech Michigan groups facilities by access areas for its unbundled interoffice transport study and by zones for its special access studies. It says that the effect is to focus lower special access prices in more densely populated and competitive areas while selling the same facilities under the unbundled element tariff at higher prices. MCI WorldCom recommends that the Commission require Ameritech Michigan to use the same density zones in the unbundled interoffice transport studies as in the special access studies and to explain the differences between the two studies.

The Staff is also concerned that there are significant cost differences between similar service offerings that use the same equipment. It says that Ameritech Michigan must be required to explain why the differences exist or the Commission should reject the higher costs. The Staff says that Ameritech Michigan may have a sound rationale for using zones rather than access areas for the special access cost studies but has failed to establish that the underlying costs are the same and that the different costs result from different combinations of the same underlying costs.

Ameritech Michigan responds that it developed the access zones for special access pursuant to an FCC order and that the zones are designed to reflect minutes of use per square mile. On the other hand, it says that access areas for basic local exchange service are based on the number of access lines per square mile. It says that special access zones, based on traffic volumes, are appropriate when traffic capacity is being purchased and access areas, based on line densities, are appropriate when access lines are, in essence, being purchased.

The Commission agrees with the commenting parties that Ameritech Michigan has failed thus far to establish that the differences in costs are caused by differences in the combinations of the same underlying costs. Ameritech Michigan has an obligation to explain the differences in costs between retail products and their unbundled counterparts and to explain fully how two products using the same general inputs, equipment, and support structure can have costs so significantly different. With its compliance filing, Ameritech Michigan shall provide compelling support for its assertion that the underlying costs are the same. If it cannot do so, it shall use the same approach to geographic deaveraging for all of its cost studies.

b. Need to Update

In response to comparisons of the costs for special access and other services that use the same facilities, Ameritech Michigan says that the comparisons do not reflect corrections that must be made to errors in the cost studies submitted on January 21, 1999 for those other services.

The Staff recommends that the Commission reject any attempt to revise the earlier studies because it says that if the special access studies had been filed with the other studies (as they should have been), there would have been no opportunity to claim that there were errors that need to be corrected. MCI WorldCom says that Ameritech Michigan should not be permitted to add costs for equipment that it now decides is required by a forward-looking approach while, at the same time, failing to account for costs that should decline with the use of equipment with enhanced capabilities. It says that it is inconsistent with a least-cost forward-looking approach to conclude that a prudent service provider would select equipment and a network design with a higher total cost to provide the same service that can be provided at a lower cost. It recommends that the Commission not permit Ameritech Michigan to revise its unbundled interoffice transport studies in the compliance filing and that the Commission require it to remove the new costs from the special access studies.

The Commission finds that Ameritech Michigan's approach is inconsistent with TSLRIC principles and the proper conduct of this proceeding. This phase of the proceeding, established to address the costs of special access, is not an opportunity for the company to update the costs it filed in January. Its studies in both phases should be based on the same least-cost forward-looking approach. Furthermore, Ameritech Michigan has failed to show that the greater investment it now believes is appropriate is consistent with TSLRIC principles. Therefore, in the compliance phase, Ameritech Michigan may not revise its earlier studies to account for these costs, and must remove the costs from the special access cost studies.

c. Nonrecurring costs

AT&T says that the special access cost studies, like the studies filed in January, reflect a focus on existing (and inefficient) infrastructure and processes. AT&T recommends that the results of the AT&T/MCI WorldCom model be used for special access nonrecurring costs, including the costs for migrating an existing customer from one provider to another. For costs not covered by the model, it recommends that Ameritech Michigan's switched and special access nonrecurring costs be reduced by 50%. As an alternative, AT&T recommends that the Commission adopt MCI WorldCom's adjustments to Ameritech Michigan's model and direct Ameritech Michigan to make modifications to its other switched and special access costs along the same lines.[7] It also recommends that the migration costs developed by the AT&T/MCI WorldCom model be used because those are the only costs offered on the record for that service.

The Staff recommends that the Commission reject Ameritech Michigan's special access nonrecurring costs and apply MCI WorldCom's adjustments to special access nonrecurring costs as well.

[7]MCI WorldCom's reply affidavit lists the adjustments that it recommends the Commission specify.

Consistent with the discussion above on other nonrecurring costs, the Commission rejects Ameritech Michigan's study and adopts MCI WorldCom's adjustments. Accordingly, Ameritech Michigan shall modify its special access costs along the lines of MCI WorldCom's adjustments for the services it studied, including the adjustments listed in its reply affidavit. For services for which it cannot make comparable adjustments, it shall reduce its proposed costs by 50%. Finally, Ameritech Michigan shall adopt the migration costs developed by the AT&T/MCI WorldCom model.

d. Inflation

The Staff says that Ameritech Michigan has overstated the effects of inflation on the special access contract options. Ameritech Michigan says that the projected inflation rates for the contracts are higher than those for shared and common costs because they reflect only the expected increase in the cost of labor, which exceeds the overall rate of inflation. The Staff replies that if Ameritech Michigan is relying on contractual obligations to its employees, the company should have provided relevant portions of the contracts as supporting detail. Otherwise, the Staff says, Ameritech Michigan's special access contract inflation projections should be treated as overstated estimates.

The Commission concludes that, in the absence of supporting detail, Ameritech Michigan's proposed inflation factors should be rejected and the Staff's factors should be used.

Scope of the Proceedings

The commenting parties raise a number of issues that go beyond determining the TSLRIC of Ameritech Michigan's services. AT&T says that if the Commission does not set prices based on the costs approved in this docket, the purpose of this proceeding will be frustrated. In particular, it asserts that the Commission must order Ameritech Michigan to reprice all of its toll access rate elements to be consistent with the findings in this docket and must eliminate the PICC, the carrier common line charge, the information surcharge, and the special access service surcharge. MCI WorldCom takes the position that costs are integrally related to the terms and conditions under which network components or functions are offered and that tariffing issues are therefore within the scope of this proceeding. MCI WorldCom also seeks to enforce the order in Case No. U-11735, which addressed special construction charges. CoreComm objects to Ameritech Michigan's failure to offer access to unbundled subloops and extended loops and its failure to offer cost studies for those services. The MCTA says that Ameritech Michigan filed a pole and conduit cost study that establishes that the current rate is excessive and unlawful.

Ameritech Michigan takes the position that the scope of this proceeding is limited to a review and determination of its costs and does not include setting prices, establishing rate structures, or approving tariffs. It does acknowledge that some of the cost determinations may affect rates, but it says that those effects will occur under the provisions of interconnection agreements, tariff filings, and other activities under state and federal law. Ameritech Michigan argues that it prepared its cost studies based on the terms and conditions of the tariffs and interconnections agreements under which it provides service and that it would be inconsistent to change the terms and conditions without also changing the cost studies to reflect those changes. It also argues that it would be inconsistent with the provisions of the federal act to permit the CLECs to create or amend UNEs and other products and services by amending and creating new tariffs in this case. It says that its duty to offer UNEs depends entirely on the federal act's frame-work of requests, negotiation, and arbitration.

The Commission does not view the scope of this case as broadly as some of the commenting parties. The Commission initiated this case to review Ameritech Michigan's TSLRIC studies for all toll access, toll, and local exchange services, including local interconnection. Although the Commission agrees that those studies cannot be viewed in isolation, that is not the same as saying all rate and tariff issues are open for decision in this docket. First, the Michigan Telecommunications Act prescribes the manner in which tariffs for individual services are established. Second, state and federal statutes create complaint and negotiation and arbitration procedures to resolve many of the disputes that may between particular among providers, and interconnection agreements provide dispute resolution and bona fide request processes. Third, in the time permitted by this proceeding, it is not likely that the many ancillary issues can be adequately addressed, and the Commission does not want to encourage the proliferation of issues in a docket that is already crowded with complex costing issues. Fourth, it is a broad reading of the Commission's authority to conclude that when the Legislature granted the Commission authority to establish and enforce a TSLRIC standard, it implicitly granted the Commission wide ranging authority to set rates for all services at that standard. As a result, the parties who seek to raise these ancillary issues may do so in the appropriate manner. In the meantime, the Commission will require only that Ameritech Michigan file local interconnection service tariffs with rates equal to the costs established by the revised cost studies filed to comply with this order.

Common Transport

MCI WorldCom says that the Commission should reject Ameritech Michigan's proposed common transport-like service and require it to offer true common transport under proper tariff terms and conditions. AT&T agrees that Ameritech Michigan must offer common transport and calculates a cost for that service.

Ameritech Michigan says that the TSLRIC study filed for common transport-like service complies with the Commission's prior orders, although it does not concede that it can be required to provide that service.

Although this proceeding is not the proper forum to revise a tariff or enforce a prior order, it is the proper case for setting a cost for a service previously ordered by the Commission. The Commission therefore adopts AT&T's cost study for common transport. Ameritech Michigan's position that the Commission cannot require it to provide the service is not a reason for failing to determine the cost of the service in compliance with the Commission's July 14, 1997 order in Case No. U-11280.

Missing Studies

The Staff says that Ameritech Michigan was required to file TSLRIC studies for its entire network and failed to do so. MCI WorldCom says that Ameritech Michigan failed to provide TSLRIC studies for directory assistance listings database and network element combinations. It requests that the Commission find that access to the database is an unbundled network element and order Ameritech Michigan to file a cost study consistent with TSLRIC principles for that element. AT&T suggests that it is difficult to know which services Ameritech Michigan has omitted, but that the Commission should require Ameritech Michigan to file the additional studies required to comply with the Commission's mandate.

Ameritech Michigan shall file cost studies for directory assistance listings database and unbundled network element combinations with its compliance filing. Ameritech Michigan must provide these services to CLECs and accordingly must provide cost data. A failure to file required studies in future proceedings may result in the imposition of penalties.

Future Filings

The Staff proposes that, in future cases, Ameritech Michigan be required to discuss with specificity the cause of any cost change exceeding 10%. MCI WorldCom proposes that Ameritech Michigan be required to discuss and document any increase in costs. The Staff also proposes that Ameritech Michigan be required to provide an extended TSLRIC analysis, i.e., list each service with the associated TSLRIC and quantity, so that it is possible to determine the total costs that Ameritech Michigan proposes to recover. AT&T supports that requirement.

Ameritech Michigan opposes the recommendation that it prepare an extended TSLRIC analysis because it says that would require it to prepare a TSLRIC study for any product or service offered by the company, regulated and unregulated. It says that such a proposal cannot be considered consistent with the intent of the Michigan Telecommunications Act to reduce regulatory burdens. It says that such a proposal would also require demand forecasts, which are likely to be contentious, and the results would be compared to historic booked costs, which would be meaningless.

The Commission agrees with the Staff that Ameritech Michigan should be required to explain in any future TSLRIC filing any cost increase of more than 10%. It does not seem useful at this time to require an explanation for any lesser increase. The Commission also agrees that Ameritech Michigan should be required to perform an extended TSLRIC study. At a minimum, it can perform the study using current demand levels for all services, regulated and unregulated. The parties can then argue whether the demand levels should be assumed to be different.

The Staff also proposes that future TSLRIC filings be required every three or four years rather than every two years. AT&T supports that position, and would also support eliminating the periodic filings.

MCI WorldCom says that the next review should be in three years, when a decision could be made about using a four-year interval.

Ameritech Michigan suggests that the Commission should eliminate any requirement to make periodic filings. Rather, it says that a provider should decide when it is appropriate to make a cost filing and the Commission could also initiate a proceeding as necessary. Alternatively, it supports a longer period between filings, although it says that specifying a period should not preclude it from making partial or full filings at other times as it deems appropriate. It also suggests changes in procedures for future proceedings.

The Commission concludes that Ameritech Michigan should not be required to file TSLRIC studies every two years as the order in Case No. U-10620 provided, but also should not be permitted to file in less than two years unless it can demonstrate that there has been a fundamental change in circumstances. Rather, Ameritech Michigan should be permitted to file revised costs studies as it deems appropriate, although the Commission will not permit it to file cost studies for individual or a few services (except new services). It must perform and file TSLRIC studies for its entire network. Furthermore, the Commission, acting on its own motion or at the request of another party, retains the authority to require Ameritech Michigan to file as well. The procedures to be followed can be addressed in detail as needed, but in general the Commission is not in agreement with Ameritech Michigan's proposals that are designed to restrict the ability of others to review its cost studies.

Motions to Strike

On June 17, 1999, CoreComm moved to strike a portion of a response affidavit filed by Ameritech Michigan that relied upon information that CoreComm had sought in discovery but Ameritech Michigan had refused to provide as not relevant or reasonably calculated to lead to admissible evidence.

The Commission grants the motion to strike. A party may not refuse to provide information by claiming that it is not relevant only later to disclose the information to support its own position.

On July 20, 1999, MCI WorldCom filed a motion to strike the portions of an affidavit filed by Ameritech Michigan on July 12, 1999 that address collocation. It says that the Commission's April 12, 1999 order established that the supplemental proceedings in this case would address only special access services. It renewed the motion on August 5, 1999.

Ameritech Michigan responds that after it submitted its cost studies on January 21, 1999, the FCC issued an order, effective June 2, 1999, that required it to offer several new forms of collocation. It says that it informed the parties on June 3, 1999 that significant work was required to comply with the FCC's order, that it would submit the studies with its July 12, 1999 filing to afford the other parties more time to respond than if it had filed the studies on June 3, 1999, and that it was requesting that the Commission defer consideration of the new studies to the second phase of this case.

The Commission finds that Ameritech Michigan's second collocation filing is not within the scope of the supplemental proceeding. Furthermore, the company represents that the supplemental collocation filing is consistent with its prior filing. As discussed above, the Commission finds the AT&T/MCI WorldCom collocation model to be preferable to Ameritech Michigan's. The motion to strike is therefore granted.

Leave to Appeal

On May 17, 1999, Ameritech Michigan filed an application for leave to appeal a ruling of Administrative Law Judge James N. Rigas (ALJ) that denied its motion to compel discovery. It sought to obtain from AT&T and MCI WorldCom information concerning the amount they had saved as a result of the Commission's decision in Case No. U-11660 reducing the PICC and whether they were passing through any or all of those savings to their customers.

Because this case is about Ameritech Michigan's costs, and not AT&T's or MCI WorldCom's costs or rates, the ALJ properly denied the motion to compel.

Motion to File Late

Ameritech Michigan filed its replies to the comments on its supplemental filing on October 1, 1999, a day late. It therefore filed a motion requesting that the Commission accept the late filing.

The Commission grants Ameritech Michigan's motion. There was no prejudice to any party because no further responses were permitted and Ameritech Michigan served its filing (and sent electronic copies) in a timely manner.

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 AACS, R 460.17101 et seq.

b. Ameritech Michigan's cost studies should be approved except as modified or rejected in this order.

c. Ameritech Michigan should be relieved of the duty to file TSLRIC studies every two years.

d. The June 17, 1999 motion to strike filed by CoreComm and the July 20, 1999 motion to strike filed by MCI WorldCom should be granted.

e. The May 17, 1999 application for leave to appeal filed by Ameritech Michigan should be denied.

f. Ameritech Michigan's motion to accept its late filing should be granted.

THEREFORE, IT IS ORDERED that:

A. Ameritech Michigan's cost studies are approved except as modified or rejected in this order.

B. Ameritech Michigan shall file total service long run incremental cost and related studies, with the modifications required by this order, within 30 days.

C. Ameritech Michigan shall file local interconnection service tariffs with rates equal to the costs established by the revised cost studies, within 30 days.

D. Except as provided in Paragraph B, Ameritech Michigan is relieved of the duty to file TSLRIC studies every two years.

E. The June 17, 1999 motion to strike filed by CoreComm Newco, Inc., and the July 20, 1999 motion to strike filed by MCI WorldCom are granted.

F. The May 17, 1999 application for leave to appeal filed by Ameritech Michigan is denied.

G. Ameritech Michigan's motion to accept its late filing is granted.

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 November 16, 1999.

/s/ Dorothy Wideman
Its Executive Secretary

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

Chairman

Commissioner

Commissioner

By its action of November 16, 1999.

Its Executive Secretary

In the matter, on the Commission's own motion,)
to consider the total service long run incremental)
costs for all access, toll, and local exchange) Case No. U-11831
services provided by **AMERITECH MICHIGAN**.)
____)

Suggested Minute:

> "Adopt and issue order dated November 16, 1999 modifying and approving total service long run incremental costs for services offered by Ameritech Michigan, as set forth in the order."