House Energy and Technology Committee
Testimony of Paul Fuglie
Re: HB 4257 – Access Charge Reform
Wednesday December 2, 2009

My name is Paul Fuglie and I am Vice President – Public Affairs, Policy and Communications for Verizon. As we have testified in the past, Verizon supports the need for access charge reform in Michigan and some type of reasonable transition period for providers to adjust their business plans and to make sure that any reform is needs based. We also believe that use of the current direct billing system between the parties involved makes more sense than creating an additional process to flow money from a larger set of consumers to the same providers.

With that said, Verizon appreciates the opportunity to provide comments on the H-5 version of HB 4257 (Draft 3). We also appreciated the opportunity to be an active participant in the numerous work group sessions held by the Chairman on this legislation. Verizon's objective in those work groups meetings were to become more familiar with the intent of the legislation, ask clarifying questions, and as appropriate provide our opinion on the shortcomings of specific provisions. Verizon's last involvement with the legislation was Mid-October and had not seen any revised language until Monday afternoon of this week.

After reviewing the changes to the bill, there are still very basic parts of the legislation that Verizon simply cannot support. Please understand that we are not pursuing the perfect bill. Over the last several months, Verizon has worked very hard in reaching out to various interested parties to try to develop some compromise approach that would address the problem of high intrastate access charges by the RLECS and CLECS and encouraging competition and bringing new services to customers.

While the H-5 draft has removed the bureaucracy, costs, and unnecessary complexity of using a Third Party Administrator and the Oversight Committee, the new language in our opinion takes a major step backwards policy wise. Some of the changes will make the financial subsidy larger and less sustainable over time. It may seem that the language in the bill and the acronyms sometimes make these issues sound more complex than they should. However, some of the simpler provisions are just hard to explain why it should be done this way.

- **A Redistribution Program from a Large Set of Consumers to a Small Set of Providers**. Your constituents, both wireless and traditional landline customers, will be paying this new subsidy and not receiving any direct benefit. This new tax will be used to subsidize a very small set of providers that have not adequately demonstrated their need for such a benefit. In other areas, this new subsidy program will unfairly subsidize one set of competitors against another. To add insult to injury, this bill was promoted as a way to protect consumers of these small RLECs from huge rate increases, but nothing in this bill provides any protection from a company increasing its local rates at any time. The H-5 goes

further and removes language that would have encouraged competition and new products by not enabling RLECs to have artificially low rates.

- **Fund Disbursements Go Primarily to Three Publicly Held Companies**

	Wireless	Large ILECs	CLECs	Publicly Held RLECs (3)	MI Based RLECs (27)
No of Lines 11,886,071	7,600,000	3,241,841	859,370	131,436	53,424
%	63.9%	27.3%	7.2%	1.1%	.5%
Est. Fund Size $16.1 Million				**$10.9 Million**	**$5.2 Million**
				68%	**32%**

The table above shows this is a program to protect just 1.6% of the lines in Michigan and the majority of the support goes to just 3 publicly traded companies. In fact, Century Tel which serves over 7 million lines nationally is a multibillion dollar company which just acquired Embarq for billions. Century Tel would receive almost half of the fund or $7.5 million annually.

- **Not Competitively Neutral.** The initial push for this bill by TAM and others was that this would provide parity. It is hard to see how, when the new bill imposes a mandatory payment or tax on one set of customers and not another set. Interconnected VOIP customers would not pay this subsidy until the FCC determines that they should. Interconnected VOIP is one of the fastest growing services that replace traditional phone service. In the meantime, it creates worse disruption in the marketplace and will result in a growing burden on traditional phone users throughout the state. The use of a fund also distorts markets much more than the simpler approach of using the current billing process and requires a phased reduction in high access rates. That would isolate the problem of high access charges between the providers charging them and the providers paying them rather than spreading the problem to large numbers of unrelated customers.

- **Lack of Due Process** - The bill does not allow much discretion by the MPSC in developing a fund and determining what is reasonable. It is interesting that the bill allows for due process by a Section 203 proceeding sometime down the road if the Federal government makes changes. However; no such discovery, intervention, or questioning in a controlled Sec. 203 proceeding is allowed upfront while the fund is being established. Why not?

- **Lack of Transparency** – One of the prolonged discussions in the workgroup was why it was not possible to know what an individual company would receive from the fund. For example, our estimates showed that Fortune 500 companies like Century Tel and TDS would receive almost half of the projected $15 million fund. However; there was real resistance by TAM in providing this kind of key data on who receives what. Compare that to Indiana which publicly provides the amount of funds each company is receiving from its fund at the start of the fund and

annually. The Federal USF fund also provides this data publicly. Such reports would show that Century receives almost $30 million in federal subsidies already. If a private company is willing to take subsidy payments from a fund that is supported by consumers and mandated by the government, why does it not make sense for Michigan consumers to know what they are supporting with their payments?

- **12 Years for a Telecom Subsidy Program?** This is way too long in a high tech industry like Telecommunications. The small phone companies have enjoyed the ability to charge high access rates since 2000. It has been known that these rates were not sustainable. Rather than provide a reasonable amount of transition time, such as 3 – 5 years, HB 4257 would provide an additional 12 years of subsidy.

Based on the concerns stated above and others left unstated, Verizon cannot support the HB 4257 (H-5) proposal due to the impact it will have on consumers and competition in Michigan's telecommunications market. We would ask you to vote NO on the H-5 version.

I would be glad to answer any questions you may have.