Intrastate Access
Carrier to Carrier Compensation

Michigan Public Service Commission

Staff Briefing

June 2009

What is Access Service?

- Access Service is defined by the Michigan Telecommunications Act (MTA) Section 102(a) -
  - "access to a local exchange network for the purpose of enabling a provider to originate or terminate telecommunications services within the local exchange. Except for end-user common line services, access service does not include access service to a person who is not a provider"

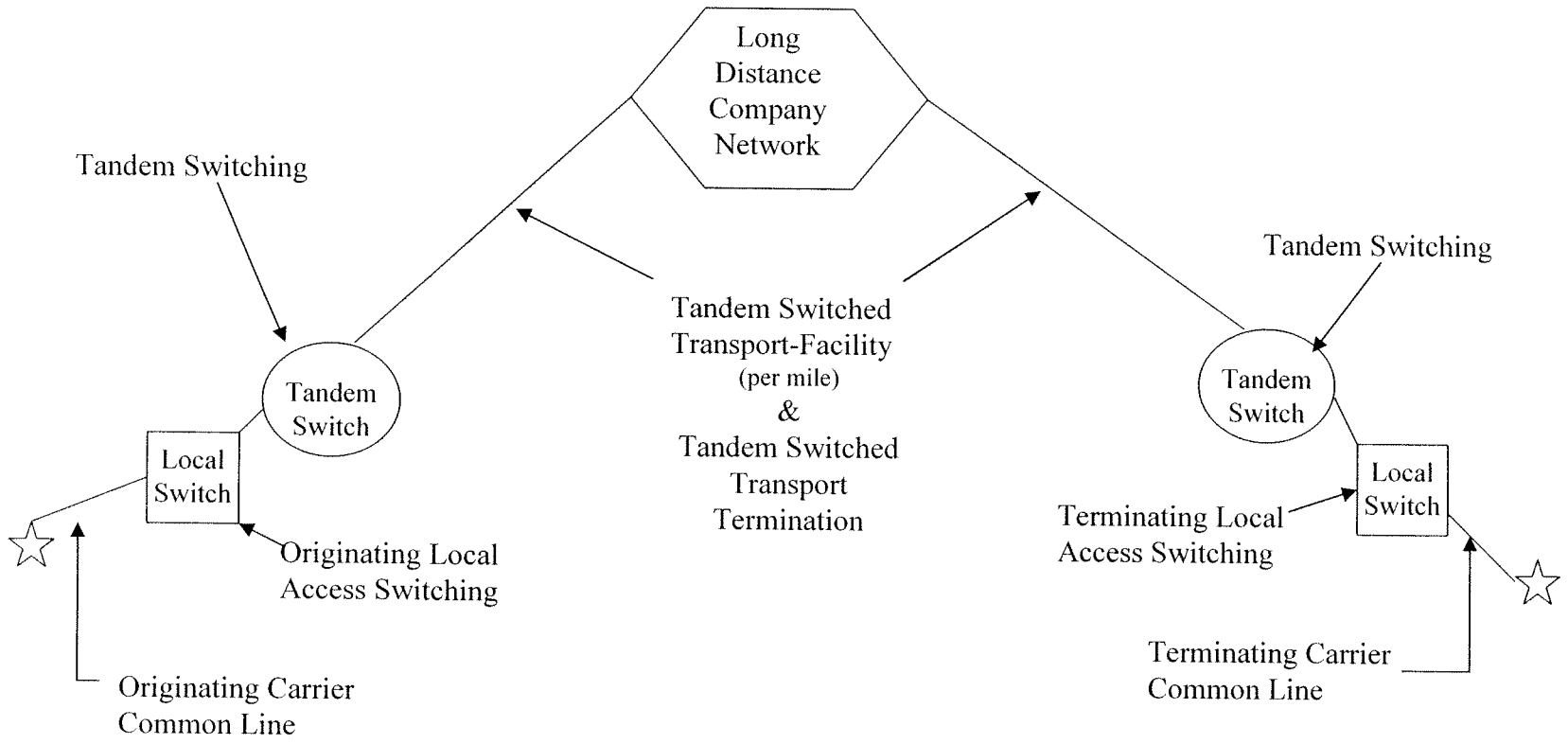
Charges by Call-Type
(Provider-to-Provider Compensation)

- Local Call – Reciprocal Compensation/ Local Call Terminating Service
  - Rates are set pursuant to a formal cost study
- **Intrastate Toll Call – Intrastate Switched Access Service**
  - **Providers set the rates subject to provisions of the MTA**
- Interstate Toll Call – Interstate Switched Access Service
  - Rates are set by the FCC

Components of Intrastate Access Service

- Originating and Terminating Carrier Common Line
- Originating and Terminating Local Access Switching
- Originating Tandem Switching
- Tandem Switched Transport-Facility
- Tandem Switched Transport-Termination

Components of Intrastate Access Service



Michigan Telecommunications Act (MTA)

Rates for Intrastate Access Service

- MTA Section 310(2) -
  - Providers of access service set the rates for access service.
  - Intrastate access service rates and charges are just and reasonable if they do not exceed the rates allowed by the federal government for interstate access service.
  - Providers may agree to a rate that is less than the rate allowed by the federal government.
- Current **Exclusion:** MTA Section 310(7) -

  "This section shall not apply to basic local exchange providers that have 250,000 or fewer customers in the state."

Proposed Access Rate Reform: Impact on Providers

- Commission-approved cost studies show that costs for smaller companies are greater than for large ILECs (AT&T, Verizon).
- Some smaller ILECs have intrastate access rates that are significantly higher than their corresponding interstate rates.
  - If the intrastate rates were lowered, the providers would lose revenue.
- The switching cost policy adopted by the Commission for small ILECs provides for all users of a company's switch to pay for use of the switch.
- Smaller company access rates are not currently rate regulated, however the rates should provide for recovery of costs.
  - A provider may need another means of cost recovery if intrastate rates are lowered.

Proposed Access Rate Reform: Impact on Customers

- Primary Basic Local Exchange Service (PBLES), a residential service rate, is the only basic service rate that is regulated pursuant to the MTA.
- The amount of intrastate access charges paid to a company directly impacts the overall PBLES rate, as this amount offsets the overall cost of the service.
- If a reduction in intrastate rates were to occur, the impact would be on the local service rates of the small companies, which would have to increase if all other factors are held constant.
- Another option would be a state fund (similar to a Universal Service Fund) to compensate the providers that would lose revenues.
  - This would be a separate charge on all customers' bills.
  - The impact of the rate increase would effectively be spread among all customers of local service, as opposed to only those customers served by the affected providers.

Intrastate Access Reform in Other States

The Commission is aware of one state that has instituted reform of intrastate access rates.

- New Mexico
  - In April 2006, the New Mexico Public Regulation Commission (pursuant to legislation) started the phase-in of reductions in intrastate access charges. In May 2008, the intrastate access charges were set equal to the interstate access charges established by the FCC.

Some states (Colorado, Nebraska, Kentucky) have opened investigations or proceedings regarding Intrastate Access Charge reform; these proceedings are still pending.

- Example: Nebraska
  - The Nebraska Public Service Commission opened a docket February 24, 2009 seeking comment on intrastate access policies and regulation.
- Example: Kentucky
  - On March 11, 2009, the Kentucky Public Service Commission agreed to review the intrastate access rates of a provider pursuant to a complaint brought by several long distance companies.

But, others await action from the FCC on Interstate Access Charge reform.

- Example: Pennsylvania
  - The Pennsylvania Public Utility Commission has stayed a proceeding investigating intrastate access charges until there is further action from the FCC regarding federal intercarrier compensation reform.