House Energy and Technology Committee
HB 4257 – Access Charge Reductions
Testimony of Verizon
July 14, 2009

Mr. Chairman and members of the Committee, my name is **David Vehslage**, State Director – Government Affairs for Verizon. I would also like to introduce **Paul Fuglie**, who is Verizon's Vice President – Public Affairs, Policy, and Communications for Michigan and Wisconsin. We both appreciate the opportunity to provide testimony and explain Verizon's perspective on this important subject.

There is a Problem to be Solved

First of all, there appears to be general agreement that High Intrastate Access rates are a problem that needs to be addressed. Otherwise none of us would be here this morning discussing possible solutions. As a provider that is on the paying end of these high access charges, Verizon is very interested in finding a reasonable solution to this problem.

As introduced, HB 4257 would have eliminated the exemption for providers under 250,000 customers which has lead to the problem that we face today. At the start of this year, it became very clear that many members were interested in seeing if some type of industry solution could be developed that would please everyone. While Verizon has not been involved in the TAM negotiations, we have been trying to develop reasonable solutions and talking with a number of individual companies and legislators for the past several months in an effort to exchange ideas and try to craft a reasonable solution.

What Verizon Supports

- **Ability of any company to recover its costs plus a reasonable Rate of Return.** In separate cost study cases involving AT&T, a number of small RLECs, and currently Verizon, the Commission has used an ROR of 10.6% which in today's economy is a very good return on your investment.

- **Requiring individual companies to justify their rates based on their costs.** Cost reviews in the telecom industry are not a new concept. At the interstate level, small RLECs are required to submit cost data for Universal Service and High Cost subsidies as well as determining their interstate access rates. Federal law also permits a state commission to look at a company's costs when determining the proper level of rates for interconnection agreements with wireless providers. In fact, a number of small RLECs recently were involved in a cost study proceeding at the MPSC. Verizon is in the final stages of our cost study proceeding and AT&T has had their costs looked at in the past. While a number of companies have undergone cost review, several companies have not had their access costs reviewed in over a decade. If a company is unable or unwilling to justify their rates, they should not be allowed to continue to charge them.

- **Transition Time** – Although the 250,000 customer carve-out in the law has only been around since June 2000, it is understood that companies have used the revenue from these excessive rates for various purposes, including operating their business. In lieu of a state pool or High Cost Fund, Verizon supports allowing a reasonable amount of transition time for a company to adjust its business plans. The Michigan Telecom Act provides plenty of flexibility for a firm to make any necessary business plan adjustments. In 2000, AT&T and Verizon were not allowed any transition time to reduce our access rates to interstate levels, so this is a very reasonable proposal.

Specific Problems with TAM's Proposal

- **Overly Complex, Expensive, and Bureaucratic Solution to an Easy Problem**
  Rather than solve the issue of high access charges in a way that could be easily done in a page or less, TAM's proposal replaces 1 page of language with 14 pages and creates a new and burdensome process that will affect all providers in Michigan, including wireless providers and VOIP providers.

- **No Justification of a Company's Need for Support and No Reference to a Company's Cost**
  In searching the proposed substitute H-3, there are no references to a company's costs. The proposal simply states that a small ILEC will recover any loss of revenue from reducing its access charge rates. The only reference to cost is to the costs of an audit and the new Fund Administrator's costs. In fact, the proposed elimination of Section 316a removes any chance of a company being required to justify its rates based on a review of its individual costs.

- **No Information on the Size of the Fund, no Caps on the Fund Size, and Potential for Fund to Grow in the Future.**
  The most troubling aspect of this proposal is that there has been no information provided that supports the need for such a fund or tells legislators what the size of the fund will be. In effect, it is a request for a blank check with no end date. In addition, there is language in the bill that states that if certain federal rules are changed, it could have an impact on the size of this Michigan fund. If this were the Appropriations Committee, most legislators would expect to see more detail and justification before supporting any such proposal.

- **Puts Cart before the Horse**
  Interestingly, the TAM proposal provides absolutely no process for companies to justify the amount of support they need. It is just determined by an upfront formula without any way to question whether the support is needed or warranted. However; there is tremendous specificity on how the fund would work and payments made by Contributing Providers. A better approach may be to allow the Commission to conduct a proceeding to first determine need. Creating a new pool is not in our opinion the most efficient way to address this issue.

- **Shifts Burdens from Old Technology to New Technology**
  The 2005 rewrite in the MTA focused more on competition between technology platforms rather than companies. The MPSC recently testified that this change in policy appears to be working for Michigan consumers. However; the TAM proposal would impose new burdens on wireless and VOIP customers in order to prop up old landline technology.

- **Moves Away from Deregulation**
  This would be the first regulatory burden placed on wireless service by the State Commission since the 2005 Rewrite clarified that wireless service was not subject to state regulation. While the proposal says that the Commission could not regulate other aspects of the wireless and VOIP services, it is not hard to imagine additional future requirements being placed on wireless and VOIP. This is a form of creeping regulation that runs counter to the successful 2005 Rewrite.

Concluding Remarks

- Verizon has given this issue serious thought with the objective of actually solving the problem and not just shifting the problem from one set of providers to another.

- Our recommended approach is Simple, Cost Justified, and Consistent with the Direction of the MTA's policies created by past Legislatures.

- Proposed 310(7):

  > A carrier that has 250,000 or fewer customers in this state may be permitted to charge intrastate switched access rates that exceed its rates for the same interstate services to the extent that it demonstrates to the Commission that its cost of providing intrastate toll access services exceeds its interstate switched access rates.

- The approach could allow providers a reasonable time period to make the necessary adjustments to their business plans.

Thank you for your time and consideration of our remarks. We would be glad to answer any questions that the Committee may have.