

**BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION**

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In the matter of the application filed by)
SBC COMMUNICATIONS INC., MICHIGAN)
BELL TELEPHONE COMPANY, and)
SOUTHWESTERN BELL COMMUNICATIONS)
SERVICES, INC., for provision of in-region,)
InterLATA services in Michigan.)
_____)

Case No. 03-138

**SUPPLEMENTAL REPORT OF THE
MICHIGAN PUBLIC SERVICE COMMISSION**

July 2, 2003

Introduction and Background

On January 13, 2003, the Michigan Public Service Commission (MPSC) issued a 144 page report in Case No. U-12320 in which the MPSC concluded: “after consideration of all the information incorporated into this and other related proceedings, the Commission now concludes that SBC has complied with Section 271(c) of the FTA and the rules and regulations promulgated by the FCC.” The MPSC also concluded that there was overwhelming evidence that the competitive market is thriving in Michigan.

The report further addressed specific compliance by SBC with each of the 14 point checklist items and the public interest criteria of the FTA. The report was filed with the Federal Communication Commission (FCC) on January 13, 2003.

Also on January 13, 2003, the MPSC issued a separate order and opinion in Case No. U-12320 that required SBC to develop performance improvement plans for certain aspects of its operations support systems. The order required SBC to address the following areas:

- Pre-order Processing via EDI
- Line Loss Notifiers
- Customer Service Record and Directory Listing Database Accuracy
- Trouble Report Closure Coding
- Wholesale Billing Auditability and Dispute Resolution
- Change Management Communications
- Line Sharing/Line Splitting
- Access to the CNAM Database

SBC was ordered to file its improvement plans by February 13, 2003. A collaborative meeting with CLECs was scheduled for March 4, 2003, with SBC to file modified plans as

necessary by March 13, 2003 to reflect input from the collaborative. A copy of the March 13, 2003 order in Case No. U-12320 was filed with the FCC in the MPSC reply comments on March 4, 2003.

On January 16, 2003, SBC filed its application for Section 271 approval with the FCC in docket WC 03-16.

In conformance with the MPSC's order of January 13, 2003 in Case No. U-12320, SBC filed its performance improvement plans on February 13, 2003. Collaborative discussions with CLECs were held on March 4 and 5 and on March 13, SBC filed updated performance plans. On March 20, 2003 several CLECs filed comments on those plans. On March 26, 2003, the MPSC issued an order in Case No. U-12320 approving, with modification, the performance improvement plans of SBC. The order directed that implementation should proceed immediately and imposed various reporting requirements. This order was filed with the FCC in docket WC 03-16 on April 2, 2003.

Status reports on the performance improvement plans have subsequently been filed with the MPSC.

Also included in the MPSC's order of January 13, 2003 in Case No. U-12320 was a directive to Ernst and Young LLP (E & Y) to complete its audit activities involving SBC's OSS systems and to file a progress report on February 28, 2003 and subsequently at such time as it completed its audit activities. E & Y issued an interim audit report on February 28, 2003 and its final report on April 16, 2003.

Furthermore, in its January 13, 2003 order the MPSC directed BearingPoint to continue to completion its Performance Metrics Testing in conformance with the Michigan Master Test Plan and to issue a final report on the Transaction Verification and Validation (TVV) and

Processes and Procedures Review (PPR) test items that were given a “not satisfied” or “indeterminate” result in the October 30, 2002 report. Reports to comply with these directives were issued on February 28 and April 30, 2003, and will continue until completion.

On April 16, 2003, SBC withdrew its Section 271 application, docket WC 03-16.

In May 2003, the MPSC issued its 4th Competitive Market Conditions Survey in Case No. U-12320. This report concluded that CLEC market share in the SBC service area was approximately 26% as of the end of 2002. This report is attached as Attachment A.

On June 16, 2003, the MPSC issued its 3rd Annual Report on the Status of Telecommunication Service in Michigan. This report concluded that a viable competitive market in telecommunications services has been achieved and that competition continues to grow. This report is attached as Attachment B.

On June 19, 2003, SBC re-filed its Section 271 application, which has been docketed by the FCC as WC 03-138.

Comments on SBC Filing

The SBC filing in WC 03-138 relies on the information submitted in the WC 03-16 docket plus supplementary information on four subjects:

1. Performance Measurements.
2. Change Management.
3. Wholesale Billing.
4. Miscellaneous Issues:
 - Post-to-bill Notifications.
 - Line-loss Notifications.

-Line splitting.

The MPSC will generally limit its comments to those topics and requests the FCC incorporate the previous filings by the MPSC in docket WC 03-16 in its consideration of this matter.

1. Performance Measurements

The supplemental filing by SBC focuses on the issue of reliance on the performance measurement audit of E & Y and its correlation with the performance measurement testing conducted by BearingPoint.

In its January 13, 2003 report, the MPSC found that it was appropriate to use the E & Y audit, and what had been completed of the BearingPoint testing, to conclude that SBC's performance measure reporting system could be relied upon and that performance results were adequate. Subsequent progress by both E & Y and BearingPoint provide further evidence to support and strengthen that conclusion.

E & Y has completed its Corrective Action Report documenting SBC's responses to all of the open items found in its earlier audit activities. This completes E & Y's involvement in the performance measurement audit.

BearingPoint has also made considerable progress in its performance measurement testing process and has now found SBC to have satisfied nearly 50% of its performance measure testing criteria, as compared to only about 10% in October of 2002. It is expected that several more months will be necessary to complete its activities.

The MPSC has reviewed the final report of E & Y filed with the MPSC by SBC on April 30, 2003 and the recent and continuing reports filed by BearingPoint and the MPSC concludes

that the high correlation in issues identified, and audit/test results, do confirm that reliance on the E & Y audit is appropriate. Given that there are methodology differences, such as 1% versus 5% materiality standard, the results of the E & Y and BearingPoint efforts are remarkably consistent.

The MPSC reiterates its January 2003 findings that there is sufficient evidence to rely on SBC's performance metrics reporting systems and metrics results. Subsequent testing by BearingPoint and the completion of E & Y's audit and verification of SBC's correction actions all provide even more conclusive evidence that performance metrics are satisfactory for Section 271 approval.

2. Change Management

In its January 13, 2003 report to the FCC, the MPSC did not find SBC's change management processes and procedures to be materially defective or an impediment to Section 271 approval. However, the MPSC did find that further improvements were achievable and in its companion order in Case No. U-12320 directed SBC to prepare and file a performance improvement plan for change management processes.

A plan was filed on February 13, 2003. It was discussed at a collaborative with CLECs on March 4 and 5 and was approved by the MPSC on March 26, 2003. This plan addresses rigorous adherence to the 13 state SBC change management process and certainty of communication of any changes that may be implemented by SBC that affect CLECs. The MPSC will continue to monitor SBC's progress on change management and any issues that may arise.

The MPSC believes that SBC's change management processes and procedures, and the administration of same, are adequate to support its Section 271 application.

In its January 19, 2003 application, SBC makes certain assertions about its preparation for and implementation of L SOG 6 for pre-ordering and ordering on June 14, 2003. The MPSC is not providing any comments about this event or the application of change management processes to it. The MPSC has not yet been made aware on any record of the results of the new offering or of any complaints that have or may result, therefore, we cannot comment at this time.

3. Wholesale Billing

In its January 13, 2003 report, the MPSC found SBC to be sufficiently in compliance with wholesale billing timeliness and accuracy such that it was not an impediment to Section 271 approval. These conclusions were based on billing testing by BearingPoint, the audit by E & Y, and the lack of substantive complaints by CLECs that demonstrated systematic problems with billing systems.

Subsequent to the close of the Michigan record upon which the MPSC relied for its recommendations, issues arose regarding the conversion of UNE-P billing systems to CABS, and in particular the reconciliation of the ACIS and CABS databases. The reconciliation results were released by SBC in January of 2003. In the 03-16 docket, issues arose regarding that reconciliation, the magnitude of adjustments that were necessary and whether there were continuing problems that would adversely affect billing on a going forward basis. The MPSC believes that these issues were the principal reason that SBC withdrew its January application in response to serious concerns raised by the FCC Staff as well as CLECs.

SBS now asserts that its analysis of the issues is complete, all necessary corrective actions implemented and has submitted an affidavit by E & Y that it has examined the assertions

by SBC regarding billing systems reliability and found them accurate. Among the SBC assertions validated by E & Y are:

- That the methodology employed by SBC for the reconciliation was appropriate.
- 99% of CABS records are identical to the corresponding records in ACIS.
- Mechanical posting of billing service orders had reached 96% in March 2003, therefore the potential for error due to manual processing was reduced.
- Rate tables from interconnection agreements and tariffs are updated in a timely and accurate manner.
- Monthly recurring charges are posted with 98.4% accuracy.
- Non-recurring charges are posted with 98.6% accuracy.
- Updating rates from interconnection agreements is 99% accurate.

SBC also discovered in the audit process with E & Y certain errors in its ordering system, these involved incorrect rates being applied in 11 Michigan central offices and the misclassification of certain UNE loops resulting in failure to apply merger loop discounts. SBC asserts it has corrected these problems and E & Y has validated those assertions, including validation of refunds and credits.

SBC also submitted a wholesale billing performance improvement plan to the MPSC in compliance with its January 13, 2003 order. This plan was approved on March 26, 2003 and requires, among other things, provision of USOC reference guides and adherence to regional dispute resolution procedures.

Based upon the evidence provided in the 03-138 filing by SBC, and verified by E & Y, it appears that the problems that came to light in January involving the ACIS-CABS reconciliation have been corrected and are not a serious issue at this time or going forward. The MPSC has not

been provided with any substantive evidence to the contrary. If the FCC reaches the same conclusion based on the evidence presented, wholesale billing should not be an obstacle to Section 271 approval.

4. Miscellaneous Issues

In its January 13, 2003 order, the MPSC directed SBC to submit performance improvement plans or undertake further collaboration in eight OSS areas. Two of those, Change Management and Wholesale Billing have already been discussed. Two additional of these subject areas have been addressed in SBC's filing: Line-Loss Notification and Line Splitting¹.

On March 26, 2003, the MPSC issued an order adopting, with modification, the performance improvement plans submitted by SBC. The Line-Loss Plan provides for specific notice to CLECs of line loss notifier failure and monthly reports to the MPSC detailing issues and corrective actions. The MPSC is committed to supervising this process to minimize problems associated with customer migrations.

Also on January 13, 2003, the MPSC addressed line sharing/splitting, required further collaboration between SBC and the CLEC community, and directed this to be scheduled for March 4 and 5, 2003. The MPSC did not require a performance improvement plan from SBC on line sharing/splitting, having found that SBC's compliance plan previously submitted on December 12, 2002 was sufficient and in conformance with the MPSC order of October 3, 2002. However, the MPSC did see value in the collaboration of SBC and CLECs to further discuss other possible scenarios not addressed in the December 2002 plan. At the March 4/5

¹ For the remaining four areas, (Pre-order Processing via EDI, Customer Service Record and Directory Assistance Database Accuracy, Trouble Report Closure Coding and Access to the CNAM Database), SBC has submitted performance improvement plans that were approved by the MPSC and that are being monitored as to implementation and effect. However, these areas are not addressed in the SBC application.

collaboratives, parties agreed to set aside further discussion until the Triennial Review Order was issued by the FCC.

Line-splitting is a complicated subject, one in which there are many possible variations of service and provider partnerships each requiring the establishment of processes and procedures. This subject seems particularly to call for specific contractual agreements between providers, although regulatory oversight will undoubtedly be required.

The MPSC has found SBC's line sharing/line splitting offerings, prices and processes to be satisfactory and in conformance with Section 271 and FCC requirements. The MPSC has no new information that would change that conclusion.

Sustainable Competition

The report includes Attachments A and B, which are recent reports issued by the MPSC on competitive market share and the status of competition in Michigan. These reports document a continued robust growth in competitive local lines in Michigan.

As stated in its Reply Comments to the FCC filed on March 4, 2003, the MPSC has in place the necessary and reliable performance measurement systems, audits and self-executing remedy plans to assure there will be no backsliding. Michigan also has statutory authority for expeditious dispute resolution and complaint processing.

The MPSC believes that the framework and commitment are in place to assure that competition is here to stay.

Summary

The MPSC, in its January 13, 2003 report to the FCC, concluded that SBC had met the requirement for approval of inter-LATA service in the state of Michigan and recommended that the FCC grant such approval. This was the result of three years of intensive review and testing of SBC's operating support systems and readiness to offer non-discriminatory access to its systems and networks. The MPSC did identify several issues at that time, while not considered barriers to Section 271, that did require further improvement by SBC. Those plans have been approved and the MPSC is monitoring and supervising their implementation.

The FCC and USDOJ raised certain concerns with the January 16, 2003 application of SBC. The supplemental application of SBC filed on June 19, 2003 does appear to address in great detail those concerns, identify corrective actions that have been undertaken and provides a verification from E & Y that the corrective actions have been completed and have had the desired impact.

There appears to be no further question that the Section 271 statutory requirement and FCC rules have been complied with. E & Y has issued its final audit report on SBC's performance measurement systems and this can be fully relied on as valid and consistent with the testing activity to date of BearingPoint. The reports to date from BearingPoint provide assurance that SBC's wholesale processes, procedures and transactions are sufficient for CLEC purposes. The MPSC has in place sufficient and reliable performance monitoring systems and remedy plans to assure no deterioration in the OSS system and procedures. All of the pieces are in place to grant SBC's application and afford the citizens of Michigan the full benefits of local and long distance competition.

The MPSC once again concludes, with even greater confidence, that SBC has met the requirements for Section 271 authorization and recommends that the FCC so find.