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Honorable Jennifer Granholm
Governor of Michigan

Honorable Members of the Senate Energy Policy and Public Utilities Committee
Secretary of the Senate

Honorable Members of the House Energy and Technology Committee
Clerk of the House of Representatives

The enclosed annual report, *Status of Telecommunications Competition in Michigan*, is submitted on behalf of the Michigan Public Service Commission in accordance with Section 103 of the Michigan Telecommunications Act. This report, as well as reports from previous years, will be available on the Commission website at www.michigan.gov/mpsc. The purpose of this report is to describe the status of competition in telecommunications services in Michigan, including, but not limited to, the toll and local exchange markets in the state. As in previous years, this report includes information on the traditional wireline industry as well as services provided via diverse telecommunications technologies, such as wireless and Voice over Internet Protocol (VoIP).

In a trend that began in 2002, the total number of wirelines in Michigan has again decreased. For 2007 the total number of wirelines in Michigan decreased 6.8% from the previous year. In both 2005 and 2006, there was also a decrease in the percentage of lines served by competitive providers. However, for 2007 we see a reversal of this trend, with the competitive providers' market share increasing from 18.3% to 20.7%.

A significant regulatory event played a large role in the levels of competition in Michigan over the past few years. As mentioned in previous reports, the Federal Communications Commission (FCC) and the courts overturned portions of the FCC's Triennial Review Order in 2005, and eliminated the incumbents' obligation to provide an unbundled network element platform (UNE-P) to the competitors at a regulated price. Competitive providers' transition away from regulated UNE-P was completed in 2006. This transition to alternate means of serving customers was likely a large factor in the decrease in competitive market share seen in 2005 and 2006.

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The data for 2007 indicate that the competitive market is rebounding in Michigan, largely due to the investment in infrastructure of the competitive providers. While competitive providers can offer service to customers through a variety of methods that use the incumbent providers' networks, in 2007 we see a large increase, from 14.8% to 25.1%, in the percentage of competitive lines served via the competitive providers' own facilities. While the competitive market share is still below the 2004 high of 27.5%, the additional network investment by competitive providers is a very positive sign, as it indicates a higher probability of more stable competition in the future.

Additional data available to the Commission allows for the monitoring of other non-wireline telecommunications market developments. These areas continue to experience rapid growth. The number of wireless subscriptions in Michigan continues to increase; the FCC reports that there over 7.3 million wireless subscriptions in Michigan as of June 30, 2007. High speed internet connections have also increased substantially; over 1 million additional lines were reported to the FCC for the 12 month period between June 30, 2006 and June 30, 2007 bringing Michigan's total high speed lines to just under 3 million as of June 30, 2007. The availability of high speed access to the internet affects emerging telecommunications services such as VoIP. VoIP service in Michigan is being offered by many different companies—from cable television providers to traditional telecommunications companies. The number of reported VoIP connections in Michigan has also increased over the previous year.

The *Status of Telecommunications Competition in Michigan* report for 2007 finds that while the total number of wirelines continues to decrease, competitive providers are beginning to regain market share that was lost in 2005 and 2006. Additionally, competitive providers are serving more lines via their own facilities. This requires the competitive provider to make additional significant investment, which is an indication that the provider has the intent of remaining in the marketplace in the long term. The Commission will continue to strive to meet its obligations under the MTA to ensure a just and reasonable primary basic local exchange service rate; enforce basic consumer protections, including prohibitions against slamming and cramming; and resolve disputes that arise under the MTA. At the same time, the Commission is committed to monitoring new technology developments and any impacts on the competitive landscape in Michigan. The Commission will also apprise the Governor and the Legislature of any future developments that may warrant action.

Sincerely,

Orjiakor N. Isiogu, Chairman

Monica Martinez, Commissioner

Steven A. Transeth, Commissioner