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Honorable Rick Snyder  
Governor of Michigan

Honorable Members of the Michigan Senate  
Secretary of the Senate

Honorable Members of the Michigan House of Representatives  
Clerk of the House of Representatives

Enclosed is the second annual report on the operation and administration of the Michigan Intrastate Switched Toll Access Restructuring Mechanism (ARM), as required by Public Act 182 of 2009. Public Act 182 of 2009 amended Section 310 of the Michigan Telecommunications Act (MTA) to reform intrastate switched toll access charges for telecommunications providers in Michigan. The *Michigan Intrastate Switched Toll Access Restructuring Mechanism: 2<sup>nd</sup> Annual Administrative Report* is also available on the Commission's website at [www.michigan.gov/mpsc](http://www.michigan.gov/mpsc). The report includes background, policy and operational information on the administration of the ARM.

The MTA, as amended by Public Act 182 of 2009, established the ARM as a 12-year transition fund through which eligible providers can recover a portion of the lost revenues associated with the reduced intrastate access rates. The ARM is supported by monthly contributions from all providers of retail intrastate telecommunications services in Michigan, including mobile wireless voice providers. Pursuant to the MTA, revenues associated with Voice over Internet Protocol service are exempt from the ARM contribution calculation.

The ARM is administered by the Commission with the daily administration handled by the Access Restructuring Fund Administration Section within the Telecommunications Division. These administrative tasks include tracking all contributions to the ARM, processing disbursements from the ARM, monitoring the contribution percentage to ensure sufficient funding of the ARM, and reviewing the rates in filed intrastate switched access tariffs. As described in detail in the report, the amount collected for the second year of operation totaled \$20.6 million. The total amount disbursed to eligible providers for the first twelve months of disbursements was \$15,784,390.68. The report also includes information about the Commission's administrative costs, which are recovered through the ARM.

Finally, the report addresses the broader topic of intercarrier compensation reform, of which intrastate access reform is a component. The report summarizes the federal reform

resulting from a Federal Communications Commission (FCC) order issued in late 2011. The Commission, through a comment proceeding, found that no changes to the basic operation of the ARM were necessary as a result of the FCC reforms. However, the federal reforms have significantly changed the intercarrier compensation landscape, including intrastate switched access rates. Michigan's reform of intrastate access rates largely aligned with the FCC's reforms and the report explains in detail how intrastate access rates have been impacted both over the previous year and going forward.

The Commission continues to monitor and participate in ongoing federal proceedings that may affect the ARM and the Commission will apprise the Governor and Legislature of any developments that warrant legislative action related to the ARM.

Very truly yours,

John D. Quackenbush, Chairman

Orjiakor N. Isiogu, Commissioner

Greg R. White, Commissioner