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UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

Application For a Certificate of Convenience and Necessity to Provide Resold Interexchange Service and For Determination that Services of the Applicant are Competitive

Applicant: **Convergent Communications Services, Inc.**
Docket No.: **T-03628A-98-0537**

On September 23, 1998, the Applicant filed an application for a Certificate of Convenience and Necessity (CC&N) to provide resold interexchange services within the State of Arizona.

Staff's review of this application addresses the overall fitness of the Applicant to receive a CC&N to provide competitive resold intrastate interexchange telecommunications services. Staff's review considers the Applicant's integrity, technical, and financial capabilities, and whether the Applicant's proposed rates will be competitive, just, and reasonable.

REVIEW OF APPLICANT INFORMATION

Staff makes the following finding, indicated by an "X," regarding information filed by the Applicant:

[X] The necessary information has been filed to process this application, and the Applicant has authority to transact business in the State of Arizona.

[X] The Applicant has published legal notice of the application in all counties where service will be provided.

REVIEW OF TECHNICAL INFORMATION

The Applicant has demonstrated sufficient technical capability to provide the proposed services for the following reasons, which are marked:

[X] The Applicant is currently providing service in Arizona.

[X] The Applicant is currently providing service in other states.

[X] The Applicant is a switchless reseller.

[ ] The Applicant has provided a system diagram that depicts its network that is used for completing calls within Arizona. Local exchange carrier facilities are used to originate and terminate calls carried on the Applicant's interexchange network. The Applicant does not currently own any interexchange facilities. The facilities that are used to complete calls are obtained from a facilities-based carrier operating in the state.

[X] In the event the Applicant's network fails, end users can access other interexchange service providers.

REVIEW OF FINANCIAL INFORMATION

The Applicant has provided the financial statements of its parent company, Convergent Communications, Inc., for the year ended December 31, 1999. These financial statements list assets of $295.21 million, shareholders' equity of $36.62 million, and an accumulated deficit of ($168.67) million. Based upon all financial information submitted, Staff believes the Applicant lacks sufficient financial resources to be allowed to charge customers any prepayments, advances, or deposits without either establishing an escrow account or posting a surety bond to cover such customer prepayments, advances, or deposits.

Since this Applicant does not appear to have sufficient financial resources, it has filed a letter stating that it does not currently, and will not in the future, charge its customers for any prepayments, advances, or deposits. If at some future date, the Applicant wants to charge customers any prepayments, advances, or deposits, it must file information with the Commission that demonstrates the Applicant's financial viability. Upon receipt of such filing, Staff will review the information and the Commission will make a determination concerning the Applicant's financial viability and whether customer prepayments, advances, or deposits should be allowed.

If this Applicant experiences financial difficulty, there should be minimal impact to the customers of this Applicant because there are many other companies that provide resold telecommunications service or the customers may choose a facilities-based provider. If the customer wants service from a different provider immediately, that customer is able to dial a 101XXXX access code. In the longer term, the customer may permanently switch to another company.

COMPETITIVE SERVICES' RATES AND CHARGES

Competitive Services

The Applicant is a reseller of services it purchases from other telecommunications companies. It is not a monopoly provider of service nor does it control a significant portion of the telecommunications market. The Applicant cannot adversely affect the intrastate interexchange market by restricting output or raising market prices. In addition, the entities from which the Applicant buys bulk services are technically and financially capable of providing alternative services at comparable rates, terms, and conditions. Staff has concluded that the Applicant has no market power and that the reasonableness of its rates will be evaluated in a market with numerous competitors. In light of the competitive market in which the Applicant will be providing its services, Staff believes that the Applicant's proposed tariffs for its competitive services will be just and reasonable.

Effective Rates

The Commission provides pricing flexibility by allowing competitive telecommunication service companies to price their services at or below the maximum rates contained in their tariffs as long as the pricing of those services complies with A.A.C. R14-2-1109. The Commission's rules require the Applicant to file a tariff for each competitive service that states the maximum rate as well as the effective (actual) price that will be charged for the service. Because Staff believes that the market in which these services will be offered is competitive, Staff recommends that the Applicant's competitive services be priced at the rates proposed by the Applicant in its most recently filed tariffs. In the event that the Applicant states only one rate in its tariff for a competitive service, Staff recommends that the rate stated be the effective (actual) price to be charged for the service as well as the service's maximum rate. Any changes to the Applicant's effective price for a service must comply with A.A.C. R14-2-1109.

Minimum and Maximum Rates

A.A.C. R14-2-1109(A) provides that minimum rates for the Applicant's competitive services must not be below the Applicant's total service long run incremental costs of providing the services. The Applicant's maximum rates should be the maximum rates proposed by the Applicant in its most recent tariffs on file with the Commission. Any future changes to the maximum rates in the Applicant's tariffs must comply with A.A.C. R14-2-1110.

STAFF RECOMMENDATIONS

Staff has reviewed the Applicant's application for a Certificate of Convenience and Necessity to offer intrastate interexchange services as a reseller and its Petition to classify its intrastate interexchange services as competitive. Based on its evaluation of the Applicant's technical and financial capabilities to provide resold intrastate interexchange services, Staff recommends approval of the application subject to the following:

1. The Applicant should be ordered to comply with all Commission rules, orders, and other requirements relevant to the provision of intrastate telecommunications service;

2. The Applicant should be ordered to maintain its accounts and records as required by the Commission;

3. The Applicant should be ordered to file with the Commission all financial and other reports that the Commission may require, and in a form and at such times as the Commission may designate;

4. The Applicant should be ordered to maintain on file with the Commission all current tariffs and rates, and any service standards that the Commission may require;

5. The Applicant should be ordered to comply with the Commission's rules and modify its tariffs to conform to these rules if it is determined that there is a conflict between the Applicant's tariffs and the Commission's rules;

6. The Applicant should be ordered to cooperate with Commission investigations of customer complaints;

7. The Applicant should be ordered to participate in and contribute to a universal service fund, as required by the Commission;

8. The Applicant should be ordered to file its tariffs within 30 days of an Order in this matter, and in accordance with the Decision;

9. The Applicant should be ordered to notify the Commission immediately upon changes to the Applicant's address or telephone number;

10. If at some future date, the Applicant wants to charge customers any prepayments, advances or deposits, it must file information with the Commission that demonstrates the Applicant's financial viability. Upon receipt of such filing, Staff will review the information and the Commission will make a determination concerning the Applicant's financial viability and whether customer prepayments, advances or deposits should be allowed;

11. The Applicant's intrastate interexchange service offerings should be classified as competitive pursuant to A.A.C. R14-2-1108;

12. The Applicant's competitive services should be priced at the rates proposed by the Applicant in its most recently filed tariffs. The maximum rates for these services should be the maximum rates proposed by the Applicant in its proposed tariffs. The minimum rates for the Applicant's competitive services should be the Applicant's total service long run incremental costs of providing those services as set forth in A.A.C. R14-2-1109; and

13. In the event that the Applicant states only one rate in its proposed tariff for a competitive service, the rate stated should be the effective (actual) price to be charged for the service as well as the service's maximum rate.

This application may be approved without a hearing pursuant to A.R.S. § 40-282.

Barbara Wytteke for

Deborah R. Scott
Director
Utilities Division

Date: 8-25-00

Originator: Marta Kalleberg

Date: August 24, 2000

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Convergent Comm. Serv. Inc.