

OPEN MEETING ITEM



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COMMISSIONERS
MARC SPITZER - Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
MIKE GLEASON
KRISTIN K. MAYES



ARIZONA CORPORATION COMMISSION

22

ORIGINAL

Arizona Corporation Commission
DOCKETED

NOV - 8 2004

DATE: November 8, 2004
DOCKET NO: T-04229A-03-0915
TO ALL PARTIES:

DOCKETED BY

Enclosed please find the recommendation of Administrative Law Judge Amanda Pope. The recommendation has been filed in the form of an Opinion and Order on:

LIGHTYEAR NETWORKS SOLUTIONS, LLC
(CC&N/FACILITIES-BASED)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00 p.m.** on or before:

NOVEMBER 17, 2004

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Working Session and Open Meeting to be held on:

NOVEMBER 23 AND 24, 2004

For more information, you may contact Docket Control at (602)542-3477 or the Hearing Division at (602)542-4250. For information about the Open Meeting, contact the Executive Secretary's Office at (602) 542-3931.

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1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 MARC SPITZER, Chairman
4 WILLIAM A. MUNDELL
5 JEFF HATCH-MILLER
6 MIKE GLEASON
7 KRISTIN K. MAYES

8 IN THE MATTER OF THE APPLICATION OF
9 LIGHTYEAR NETWORKS SOLUTIONS, LLC
10 FOR A CERTIFICATE OF CONVENIENCE AND
11 NECESSITY TO PROVIDE COMPETITIVE
12 RESOLD AND FACILITIES-BASED LOCAL
13 EXCHANGE AND INTEREXCHANGE
14 TELECOMMUNICATIONS SERVICES IN
15 ARIZONA.

DOCKET NO. T-04229A-03-0915

DECISION NO. _____

OPINION AND ORDER

11 DATE OF HEARING: May 24, 2004
12 PLACE OF HEARING: Phoenix, Arizona
13 ADMINISTRATIVE LAW JUDGE: Amanda Pope
14 APPEARANCES: Michael W. Patten, ROSHKA HEYMAN & DEWULF,
15 P.L.C., on behalf of Lightyear Networks Solutions,
16 LLC; and
17 Jason D. Gellman, Staff Attorney, Legal Division, on
18 behalf of the Utilities Division of the Arizona
19 Corporation Commission.

18 **BY THE COMMISSION:**

19 Having considered the entire record herein and being fully advised in the premises, the
20 Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

21 FINDINGS OF FACT

22 1. On December 23, 2003, Lightyear Network Solutions, LLC ("Lightyear" or
23 "Applicant") filed with the Commission an application for a Certificate of Convenience and
24 Necessity ("Certificate") to provide resold and facilities-based local exchange and interexchange
25 telecommunications services within the State of Arizona ("Application"). The Application petitioned
26 the Commission for determination that its proposed services should be classified as competitive.

27 2. On February 24, 2004, the Commission's Utilities Division Staff ("Staff") filed its
28 Staff Report, which recommended approval of the Application and included a number of additional

1 recommendations.

2 3. On March 8, 2004, a Procedural Order was issued setting this matter for hearing on
3 May 24, 2004 and setting various procedural deadlines.

4 4. On May 13, 2004, Applicant docketed an Affidavit of Publication that complies with
5 Commission rules.

6 5. On May 20, 2004, Lightyear filed a Notice of Appearance and Request for Witness to
7 Appear by Telephone, which indicated that it was represented by Michael W. Patten and requested
8 permission for its witness to appear *telephonically* at the May 24, 2004 hearing.

9 6. On May 24, 2004, a full public hearing in this matter was held as scheduled.
10 Lightyear appeared telephonically and was represented by counsel. Staff appeared and was
11 represented by counsel. The hearing was conducted before a duly authorized Administrative Law
12 Judge. Evidence was presented and testimony was taken.

13 7. In its opening remarks, Staff referenced several supplemental pages as amendments to
14 the Staff Report, which were later offered as evidence and admitted into the record as Exhibit S-2.
15 Specifically, Staff noted that in accordance with prior Commission decisions, its recommendation
16 with regard to bond cancellation should be limited to Lightyear's resold interexchange service.

17 8. Additionally, Staff argued that based upon the recent decision in *Phelps Dodge*,¹
18 Lightyear should provide information regarding its intended rates and charges for its resold and
19 facilities-based local exchange service.² Staff indicated that this information is necessary to make a
20 determination as to the comparability and to the justness and reasonableness of the proposed rates.

21 9. In response thereto, Lightyear argued that Staff's concerns can be addressed by
22 withholding a just and reasonable determination of its rates until such time as it submits its tariff 30
23 days prior to offering service. Lightyear further argued that based upon the uncertainty surrounding
24 its interconnection agreements, submission of the information proposed by Staff may result in a large
25 number of changes that would necessitate subsequent updates to its tariff.

26

27 ¹ *Phelps Dodge Corp. v. Arizona Elec. Power Cooperative*, 207 Ariz. 95, 83 P.3d 573, 418 Ariz. Adv. Rep. 10 (App.
2004).

28 ² Staff noted that Lightyear had previously provided a tariff for its proposed interexchange services for which Staff had
made a determination as to the justness and reasonableness of those rates.

1 10. Based upon the arguments presented, Lightyear was ordered to file proposed rates for
2 its resold and facilities-based local exchange service, and Staff was ordered to respond thereto by
3 way of amendment to its Staff Report within 30 days of that filing.

4 11. At the conclusion of the hearing, the Administrative Law Judge took the matter under
5 advisement.

6 12. On June 9, 2004, Lightyear filed a Notice of Filing Pro Forma Local Exchange Tariff
7 as Late-Filed Exhibit, which set forth its proposed rates for its resold and facilities-based local
8 exchange service.

9 13. On July 15, 2004, a Procedural Order was issued by which Staff was ordered to file its
10 response to Lightyear's pro forma local exchange tariff on or before July 19, 2004.

11 14. On July 16, 2004, Staff filed a Motion for a Continuance, which requested an
12 additional 45 days to acquire and consider information related to the reasonableness of Lightyear's
13 proposed rates in accordance with data requests designed to elicit information to assist in this
14 analysis.

15 15. On July 16, 2004, Staff issued its Second Set of Data Requests to Lightyear by which
16 Staff requested additional information relating to Lightyear's local exchange rates.

17 16. By Procedural Order dated July 19, 2004, Staff was ordered to file its response to
18 Lightyear's pro forma tariff no later than August 30, 2004, and the timeclock provisions for
19 processing the Application were suspended.

20 17. On August 23, 2004, Lightyear and Staff filed a Stipulation, which indicated that the
21 parties agreed to September 28, 2004 as the date by which Staff should be required to file its response
22 to Lightyear's pro forma tariff. Additionally, the parties agreed that the timeclock provisions should
23 be suspended.

24 18. On August 23, 2004, Lightyear filed its responses to Staff's Second Set of Data
25 Requests.

26 19. On August 24, 2004, a Procedural Order was issued by which the terms of the parties'
27 Stipulation were approved and accordingly, Staff was ordered to file its response to Lightyear's filing
28 by September 28, 2004. Additionally, the timeclock provisions remained suspended.

1 20. On October 15, 2004, Staff filed its Supplemental Staff Report in response to
2 Lightyear's pro forma tariff filing, which recommends approval of the Application and proposes an
3 amendment to its February 24, 2004 Staff Report related to Lightyear's proposed rates.

4 21. Lightyear is incorporated under the laws of the State of Kentucky and is authorized to
5 do business in Arizona.

6 22. Applicant has the technical capability to provide the services that are proposed in its
7 Application.

8 23. Currently there are several incumbent providers of local exchange and interexchange
9 services in the service territory requested by Applicant, and numerous other entities have been
10 authorized to provide competitive local and interexchange services in all or portions of that territory.

11 24. It is appropriate to classify all of Applicant's authorized services as competitive.

12 25. According to Staff, Lightyear submitted unaudited financial statements of its parent
13 company LY Acquisition, LLC³ for the five month period ending November 30, 2003. These
14 financial statements list assets of \$7.5 million, equity of \$1.4 million, and a net loss of \$569,568.

15 26. Staff recommended that Lightyear's Application for a Certificate to provide
16 competitive resold and facilities-based local exchange and interexchange telecommunications
17 services be granted subject to the following conditions:

- 18 (a) that, unless it provides services solely through the use of its own facilities,
19 Lightyear be ordered to procure an Interconnection Agreement, within 365
20 days of the effective date of the Order in this matter or 30 days prior to the
21 provision of service, whichever comes first, that must remain in effect until
22 further order of the Commission, before being allowed to offer local exchange
23 service;
- 24 (b) that Lightyear be ordered to file with the Commission, within 365 days of the
25 effective date of the Order in this matter or 30 days prior to the provision of
26 service, whichever comes first, its plan to have its customers' telephone
27 numbers included in the incumbent's Directories and Directory Assistance
databases;
- (c) that Lightyear be ordered to pursue permanent number portability
arrangements with other LECs pursuant to Commission rules, federal laws and
federal rules;
- (d) that Lightyear be ordered to abide by and participate in the AUSF mechanism

28 ³ According to Lightyear's testimony, subsequent to an asset sale consummated on March 31, 2004, LY Acquisition, LLC underwent a name change and is now referred to as LY Holdings, LLC.

1 instituted in Decision No. 59623, dated April 24, 1996 (Docket No. RT-
00000E-95-0498);

- 2 (e) that Lightyear be ordered to abide by the quality of service standards that were
3 approved by the Commission for Qwest in Docket No. T-0151B-93-0183;
- 4 (f) that in areas where it is the sole provider of local exchange service facilities,
5 Lightyear be ordered to provide customers with access to alternative providers
6 of service pursuant to the provisions of Commission rules, federal laws and
7 federal rules;
- 8 (g) that Lightyear be ordered to certify, through the 911 service provider in the
9 area in which it intends to provide service, that all issues associated with the
10 provision of 911 service have been resolved with the emergency service
11 providers within 365 days of an Order in this matter or 30 days prior to the
12 provision of service, whichever comes first, which certification must remain in
13 effect until further Order of the Commission;
- 14 (h) that Lightyear be ordered to abide by all the Commission decisions and
15 policies regarding CLASS services;
- 16 (i) that Lightyear be ordered to provide 2-PIC equal access;
- 17 (j) that Lightyear be required to notify the Commission immediately upon
18 changes to its name, address or telephone number;
- 19 (k) that Lightyear be ordered to comply with all Commission rules, orders, and
20 other requirements relevant to the provision of intrastate telecommunications
21 service;
- 22 (l) that Lightyear be ordered to maintain its accounts and records as required by
23 the Commission;
- 24 (m) that Lightyear be ordered to file with the Commission all financial and other
25 reports that the Commission may require, and in a form and at such times as
26 the Commission may designate;
- 27 (n) that Lightyear be ordered to maintain on file with the Commission all current
28 tariffs and rates, and any service standards that the Commission may require;
- (o) that Lightyear be ordered to cooperate with Commission investigations
including, but not limited to, customer complaints;
- (p) that Lightyear be ordered to participate in and contribute to a universal service
fund, as required by the Commission; and
- (q) that Lightyear be subject to the Commission's rules governing interconnection
and unbundling and the 1996 Telecommunications Act and the rules
promulgated thereunder. In the event that Lightyear provides essential services
or facilities that potential competitors need in order to provide their services to
these providers on non-discriminatory terms and conditions pursuant to federal
laws, federal rules, and state rules.

1 27. Staff additionally recommended that Lightyear's application for a CC&N to provide
2 intrastate telecommunications services should be granted subject to the following conditions:

- 3 (a) Lightyear be ordered to file conforming tariffs within 365 days from the date
4 of an Order in this matter or 30 days prior to providing service, whichever
5 occurs first, and in accordance with the Decision;
- 6 (b) If the above timeframe is not met, that Lightyear's CC&N should become null
7 and void without further Order of the Commission and no extensions for
8 compliance should be granted;
- 9 (c) if Lightyear desires to discontinue service, it should be required to file an
10 application with the Commission pursuant to A.A.C. R14-2-1107; and
- 11 (d) Lightyear should be required to notify each of its customers and the
12 Commission 60 days prior to filing an application to discontinue service
13 pursuant to A.A.C. R14-2-1107, and any failure to do so should result in
14 forfeiture of the Applicant's performance bond.

15 28. Based upon Lightyear's indication that it collects advances, deposits, and/or
16 prepayments from its customers, Staff recommended:

- 17 (a) that Lightyear should be ordered to procure a performance bond equal to
18 \$235,000. The minimum bond amount of \$235,000 should be increased if at
19 any time it would be insufficient to cover prepayments or deposits collected
20 from Lightyear's customers. The bond amount should be increased in
21 increments of \$117,500 whenever the total amount of the advances, deposits
22 and prepayments is within \$23,500 of the bond amount;
- 23 (b) that Lightyear should docket proof of the performance bond within 365 days of
24 the effective date of this Order or 30 days prior to the provision of service,
25 whichever comes first, and must remain in effect until further Order of the
26 Commission;
- 27 (c) if at some time in the future, Lightyear does not collect from its resold
28 interexchange customers an advance , prepayment, or deposit, that Lightyear
should be allowed to file with the Commission a request for cancellation of its
established performance bond for the resold interexchange portion of the bond
only. Staff stated that after Staff's review of such filing, Staff would forward
its recommendation on the matter to the Commission for a Decision; and
- (c) If the above timeframe is not met, that Lightyear's CC&N should become null
and void without further Order of the Commission and no extensions for
compliance should be granted.

1 29. Lightyear testified that in reference to Staff's bond recommendation, it requests the
2 option of setting up an escrow account under terms and conditions satisfactory to Staff as an
3 alternative means of meeting Staff's security requirements.

4 30. Staff testified that based upon the language in Arizona Administrative Code
5 ("A.A.C.") R14-2-1105.D, an escrow account may be set up to hold advances or deposits. Staff
6 further indicated that it has no reason to request a waiver of that rule in this instance; however, any
7 proposed escrow account must perform the same function as the performance bond. Furthermore,
8 Staff indicated that it would be willing to work with Lightyear in pursuing such an option if it is
9 determined that Lightyear is unable to procure the recommended performance bond.

10 31. While A.A.C. R14-2-1105.D provides that customer advances and/or deposits may, as
11 an alternative to the procurement of a performance bond, be held in an escrow or trust account, we do
12 not believe that the establishment of such an account is in the public interest as the performance bond
13 requirement is intended not only as a safeguard for customers of companies that collect advances,
14 deposits, or prepayments, but also provides a non-subjective and non-discriminatory means of
15 protecting customers from the inconvenience associated with potential future insolvency of the
16 telecommunications provider.⁴ We do not believe that the creation of an escrow account would
17 provide the necessary safeguards, and therefore, we decline to authorize Lightyear's request.

18 32. In its Staff Report, Staff stated that based on information obtained from the Applicant,
19 it has determined that Lightyear's fair value rate base is zero, and is too small to be useful in a fair
20 value analysis.

21 33. Staff further stated that in general, rates for competitive services are not set according
22 to rate of return regulation, and Staff reviewed the rates to be charged by the company and believes
23 that they are just and reasonable as they are comparable to other competitive local carriers, local
24 incumbent carriers, several operating long distance carriers, and comparable to the rates that
25 Lightyear charges in other jurisdictions. Therefore, while Staff considered the fair value rate base
26 information submitted by Lightyear, the fair value rate base information provided should not be given
27 substantial weight in this analysis.

28 ⁴ See Decision No. 66940 (April 21, 2004).

ORDER

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IT IS THEREFORE ORDERED that the Application of Lightyear Network Solutions, LLC for a Certificate of Convenience and Necessity for authority to provide competitive facilities-based local exchange and resold local exchange and interexchange telecommunications services in Arizona shall be, and is hereby, granted, conditioned upon Lightyear Network Solution's timely compliance with the following three Ordering Paragraphs.

IT IS FURTHER ORDERED that Lightyear Network Solutions, LLC shall file conforming tariffs in accordance with this Decision within 365 days of this Decision or 30 days prior to providing service, whichever comes first.

IT IS FURTHER ORDERED that Lightyear Network Solutions, LLC shall procure and docket proof of a performance bond equal to \$235,000 the earlier of 365 days from the effective date of this Order or 30 days prior to the commencement of service.

IT IS FURTHER ORDERED that Lightyear Network Solutions, LLC shall comply with all of the Staff recommendations set forth in the above-stated Findings of Fact and Conclusions of Law.

IT IS FURTHER ORDERED that if Lightyear Network Solutions, LLC fails to meet the timeframes outlined in the Ordering Paragraphs above, that the Certificate of Convenience and Necessity conditionally granted herein shall become null and void without further Order of the Commission.

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1 IT IS FURTHER ORDERED that if Lightyear Network Solutions, LLC fails to notify each of
2 its customers and the Commission at least 60 days prior to filing an application to discontinue service
3 pursuant to A.A.C. R14-2-1107, that in addition to voidance of its Certificate of Convenience and
4 Necessity, Lightyear Network Solutions, LLC's performance bond shall be forfeited.

5 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

6 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

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CHAIRMAN

COMMISSIONER

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COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this ____ day of _____, 2004.

BRIAN C. McNEIL
EXECUTIVE SECRETARY

DISSENT _____

DISSENT _____

AP:mlj

1 SERVICE LIST FOR: LIGHTYEAR NETWORK SOLUTIONS, LLC

2 DOCKET NO.: T-04229A-03-0915

3

4 Michael W. Patten
5 Roshka Heyman & DeWulf, P.L.C.
6 One Arizona Center
7 400 East Van Buren Street, Suite 800
8 Phoenix, Arizona 85004

9 William B. Wilhelm
10 Swidler, Berlin, Shereff Friedman, LLP
11 3000 K Street NW, Suite 300
12 Washington, DC 20007-5116

13 Christopher Kempley, Chief Counsel
14 Legal Division
15 ARIZONA CORPORATION COMMISSION
16 1200 West Washington Street
17 Phoenix, Arizona 85007

18 Ernest Johnson, Director
19 Utilities Division
20 ARIZONA CORPORATION COMMISSION
21 1200 West Washington Street
22 Phoenix, Arizona 85007

23

24

25

26

27

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