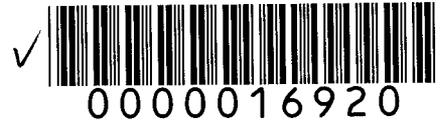


ORIGINAL



STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

30

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

Applicant: Red River Networks, LLC
Docket No.: T-04296A-04-0897

On December 15, 2004, Red River Networks, LLC ("Red River" or "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 technical and financial capabilities, and whether the Applicant's proposed rates will be just and reasonable.

REVIEW OF APPLICANT INFORMATION

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

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

The Applicant has published legal notice of the application in all counties where service will be provided. On January 26, 2005, Applicant filed an Affidavit of Publication with the Arizona Republic requesting the authority to provide resold long distance telecommunications services.

Arizona Corporation Commission

DOCKETED

FEB 28 2005

REVIEW OF TECHNICAL INFORMATION

DOCKETED BY *KD*

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

The Applicant is currently providing service in Arizona.

The Applicant is currently providing service in other states.

The Applicant is a switchless reseller.

AZ CORP COMMISSION
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In the event the Applicant experiences financial difficulty, end users can access other interexchange service providers.

The Applicant indicated that it currently offers resold interexchange service in 18 states, excluding Arizona (see Attachment A). Based on this information, Staff has determined that the Applicant has sufficient technical capabilities to provide resold interexchange telecommunications services in Arizona.

REVIEW OF FINANCIAL INFORMATION

The Applicant is required to have a performance bond to provide resold interexchange service in the State of Arizona.

The Applicant did provide unaudited financial statements for the six months ending June 30, 2004. These financial statements list assets of \$2,086,036; negative equity of \$707,222; and a net income of \$332,687. The Applicant did not provide notes related to the financial statements.

The Applicant stated in its Application/Tariff, (reference Section 2.6.1 on page 16), that it collects advances, deposits and/or prepayments from its customers. As a result, Staff recommends that the Applicant procure a performance bond equal to \$10,000. The minimum bond amount of \$10,000 should be increased if at any time it would be insufficient to cover advances, deposits, and/or prepayments collected from the Applicant's customers. The bond amount should be increased in increments of \$5,000. This increase should occur when the total amount of the advances, deposits, and prepayments is within \$1,000 of the bond amount. Staff further recommends that proof of the above mentioned performance bond be docketed within 365 days of the effective date of an Order in this matter or 30 days prior to the provision of service, whichever comes first, and must remain in effect until further order of the Arizona Corporation Commission ("Commission").

If at some time in the future, the Applicant does not collect from its customers an advance, deposit, and/or prepayment, Staff recommends that the Applicant be allowed to file a request for cancellation of its established performance bond regarding its resold interexchange service. Such request must reference the decision in this docket and must explain the applicant's plans for canceling its performance bond.

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

The applicant indicated that none of its officers, directors or partners have been involved in any civil or criminal investigations, formal or informal complaints. The applicant also indicated that none of its officers, directors or partners have been convicted of any criminal acts in the past ten (10) years.

REVIEW OF PROPOSED TARIFF AND FAIR VALUE DETERMINATION

- The Applicant has filed a proposed tariff with the Commission.**
- The Applicant has filed sufficient information with the Commission to make a fair value determination.**

The rates proposed by this filing are for competitive services. In general, rates for competitive services are not set according to rate of return regulation. Staff obtained information from the Applicant and has determined that its fair value rate base is zero. Accordingly, the Applicant's fair value rate base is too small to be useful in a fair value analysis. Staff has reviewed the rates to be charged by the Applicant and believes they are just and reasonable as they are comparable to several long distance carriers operating in Arizona and comparable to the rates the Applicant charges in other jurisdictions. Therefore, while Staff considered the fair value rate base information submitted by the Applicant, the fair value rate base information provided should not be given substantial weight in this analysis.

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 Arizona Administrative Code ("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. 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 application for a Certificate of Convenience and Necessity to offer intrastate interexchange services as a reseller and the Applicant's 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. In addition, Staff further recommends that:

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 including, but not limited to customer complaints;
7. The Applicant should be ordered to participate in and contribute to the Arizona Universal Service Fund, as required by the Commission;
8. The Applicant should be ordered to notify the Commission immediately upon changes to the Applicant's name, address or telephone number;

9. The Applicant's intrastate interexchange service offerings should be classified as competitive pursuant to A.A.C. R14-2-1108;
10. 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;
11. 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;
12. The rates proposed by this filing are for competitive services. In general, rates for competitive services are not set according to rate of return regulation. Staff obtained information from the Applicant and has determined that its fair value rate base is zero. Accordingly, the Applicant's fair value rate base is too small to be useful in a fair value analysis. Staff has reviewed the rates to be charged by the Applicant and believes they are just and reasonable as they are comparable to several distance carriers operating in Arizona and comparable to the rates the Applicant charges in other jurisdictions. Therefore, while Staff considered the fair value rate base information submitted by the Applicant, the fair value rate base information provided should not be given substantial weight in this analysis;
13. In the event the Applicant requests to discontinue and/or abandon its service area it must provide notice to both the Commission and its customers. Such notice(s) shall be in accordance with A.A.C. R14-2-1107.

Staff recommends that the Applicant be ordered to comply with the following. If it does not do so, the Applicant's CC&N shall be null and void without further order of the Commission and no time extensions shall be granted.

1. The Applicant shall file a conforming tariff within 365 days from the date of an Order in this matter or 30 days prior to providing service, whichever ever comes first, and in accordance with the Decision;
2. The Applicant shall:
 - a. procure a performance bond equal to \$10,000. The minimum bond amount of \$10,000 should be increased if at any time it would be insufficient to cover advances, deposits, and/or prepayments collected from the Applicant's customers. The bond amount should be increased in increments of \$5,000. This increase should occur when the total amount of the advances, deposits, and prepayments is within \$1,000 of the bond amount; and
 - b. docket proof of the performance bond within 365 days of the effective date of an Order in this matter or 30 days prior to the provision of service, whichever comes first, and must remain in effect until further order of the Commission. However, if at some time in the future, the Applicant does not collect from its customers an advance, deposit, and/or

prepayment, Staff recommends that the Applicant be allowed to file a request for cancellation of its established performance bond regarding its resold interexchange service. Such request should be filed with the Commission for Staff review. Upon receipt of such filing and after Staff review, Staff will forward its recommendation to the Commission.

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

for Ernest G. Johnson

Ernest G. Johnson
Director
Utilities Division

Date: 2/28/05

Originator: Adam Lebrecht

Attachment A

Red River indicated that it is currently providing resold long distance service in the following states:

1. Arkansas
2. Colorado
3. Florida
4. Iowa
5. Kentucky
6. Louisiana
7. Mississippi
8. Missouri
9. New Jersey
10. New York
11. North Carolina
12. Ohio
13. Oklahoma
14. Texas
15. Utah
16. Minnesota
17. Montana
18. Virginia

SERVICE LIST FOR: Red river Networks, LLC
DOCKET NO. T-04296A-04-0897

Ms. Judith Riley
Telecom Professionals, Inc.
2912 Lakeside Drive, Suite 100
Oklahoma City, Oklahoma 73120

Mr. Ernest G. Johnson
Arizona Corporation Commission
Utilities Division
1200 West Washington
Phoenix, Arizona 85007

Mr. Christopher C. Kempley
Arizona Corporation Commission
Legal Division
1200 West Washington
Phoenix, Arizona 85007

Ms. Lyn Farmer
Chief Administrative Law Judge
Arizona Corporation Commission
Hearing Division
1200 West Washington
Phoenix, Arizona 85007

Red River Networks LLC-Current
Balance Sheet
June 30, 2004

ASSETS

OK Depository	\$ 13,980.95	
OK Payroll	<131.00>	
BOK Carrier	83.33	
Cash - Customer Deposit	3,827.59	
Cash - ESB Depository	7,177.95	
Cash - ESB Depository (Old)	5,421.46	
Cash - ESB Cellular Acct	6.00	
Cash - Tax Escrow	83.00	
A/R - Trade - OKC	1,352,074.26	
A/R - Trucking/Public	<20.00>	
A/R-Blue Sky Telecommunication	13,059.51	
A/R - Carrier Disputes (MCI)	252,389.48	
Prepaid Expenses - Other	5,000.00	
Prepaid Insurance - GL	931.10	
	<hr/>	
Total Current Assets		1,653,883.63
Property and Equipment		
Office/Computer Equipment	3,591.00	
Software	1,345.00	
Switching Equipment	339,884.45	
Accumulated Depreciation	<11,633.27>	
	<hr/>	
Total Property and Equipment		333,187.18
Other Assets		
Zenex Customer List	27,666.67	
Software Development Costs	73,158.57	
Accumulated Amortization	<8,004.98>	
Deposits	5,395.00	
Suspense/Clearing Account	750.00	
	<hr/>	
Total Other Assets		98,965.26
		<hr/>
Total Assets	\$	<u><u>2,086,036.07</u></u>

LIABILITIES AND CAPITAL

Current Liabilities		
Accounts Payable	\$ 1,425,096.13	
Accounts Payable - Iowa	41,568.04	
Accounts Payable - MCI	846,354.51	
Accounts Payable - Other	693.86	
A/P-Carrier Disputes(Novatel)	35,817.29	
A/P - Carrier Disputes (MCI)	90,957.54	
Accrued Expenses	153,089.57	
A/P - Time Advisors, LP	23,443.56	
Accrued Salaries	24,161.71	
Accrued Payroll Taxes	10,506.61	
Accrued Federal Excise Tax	10,050.15	
Accrued Federal TRS Tax	238.63	
Accrued State/Local Sales Tax	65,717.20	
Accrued Insurance- W. Comp	220.45	
Customer Deposits	20,735.00	
N/P - A&M Investments, LLC	17,155.75	
N/P - TRD Investments, LLC	24,604.62	
		<hr/>
		Unaudited - For Management Purposes Only

ed River Networks LLC-Current
Balance Sheet
June 30, 2004

2,847.71

2,793,258.33

0.00

2,793,258.33

20,736.67

20,736.67

20,736.66

<1,102,119.60>

332,687.34

<787.34

\$ 2,086,036.07

Investments, LLC
Investments, LLC
GrayJack, L.P.
Earnings - 2002
Income
Total Liabilities & Capital

uite 100
73120

APPLICANT INDICATED
THIS IS EQUITY (NEGATIVE)

Networks LLC-Current
Income Statement
June 30, 2004

Per Month		Year to Date	
29.93	0.00	1,482.24	0.04
2,765.88	0.42	2,847.88	0.07
605.61	0.09	1,156.31	0.03
0.00	0.00	3,434.60	0.09
30,000.00	4.54	160,875.00	4.19
37,604.61	5.69	160,525.89	4.18
8,472.88	1.28		8.66

NET INCOME AS OF

For Management Purposes Only

asure

Judith