



APR - 5 2005

DOCKETED BY

RS

**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: Telrite Corporation
Docket No.: T-04288A-04-0796**

On November 4, 2004, Telrite Corporation ("Telrite" 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 24, 2005, Applicant filed Affidavits of Publication in the counties where the authority to provide resold long distance telecommunications services is requested.**

REVIEW OF TECHNICAL INFORMATION

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
DOCUMENT CONTROL

2005 APR - 5 P 2: 54

RECEIVED

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 41 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 \$2,256,422; equity of \$1,921,636; and a net income of \$405,525. The Applicant did not provide notes related to the financial statements.

The Applicant stated in its Tariff, Section 2.7.3 on page 13, that it does not collect advances, deposits and/or prepayments from its resold interexchange customers. If at some future date, the Applicant wants to collect advances, deposits and/or prepayments from its resold interexchange customers, Staff recommends that the Applicant be required to file an application with the Arizona Corporation Commission ("Commission") for Commission approval. Such application must reference the decision in this docket and must explain the applicant's plans for procuring a 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.

X

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. If at some future date, the Applicant wants to collect advances, deposits and/or prepayments from its resold interexchange customers, Staff recommends that the Applicant be required to file an application with the Commission for Commission approval. Such application must reference the decision in this docket and must explain the applicant's plans for canceling its performance bond;
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 docket a conforming tariff within 365 days from the date of an Order in this matter or 30 days prior to providing service, which ever comes first, and in accordance with the Decision.

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

for Ernest G. Johnson
Director
Utilities Division

Date: 4/4/05

Originator: Adam Lebrecht

Attachment A

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

1. Alabama
2. Arkansas
3. California
4. Colorado
5. Florida
6. Georgia
7. Idaho
8. Illinois
9. Indiana
10. Iowa
11. Kansas
12. Kentucky
13. Maine
14. Massachusetts
15. Michigan
16. Minnesota
17. Mississippi
18. Missouri
19. Montana
20. Nevada
21. New Hampshire
22. New Jersey
23. New Mexico
24. New York
25. North Carolina
26. North Dakota
27. Ohio
28. Oklahoma
29. Oregon
30. Pennsylvania
31. Rhode Island
32. South Carolina
33. South Dakota
34. Texas
35. Utah
36. Vermont
37. Virginia
38. Washington
39. West Virginia
40. Wisconsin
41. Wyoming

SERVICE LIST FOR: Telrite Corporation
DOCKET NO. T-04288A-04-0796

Ms. Monica Haab
Nowalsky, Bronston & Gothard
3500 North Causeway Boulevard, Suite 1442
Metairie, Louisiana 70002

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

Telrite Corporation
 Balance Sheet
 Period Ending June 30, 2004
 (Unaudited)

	<u>Amount</u>	<u>Percent of Assets</u>
Cash Available	\$ 143,802	6.4%
Accounts Receivable	\$ 512,925	22.7%
Prepaid Expenses	\$ 16,389	0.7%
Notes Receivable	\$ -	0.0%
TOTAL CURRENT ASSETS	\$ 673,116	29.8%
Property, Plant & Equipment	\$ 1,726,431	76.5%
Less: Accumulated Depreciation	\$ 148,126	6.6%
NET P, P & E	\$ 1,578,306	69.9%
Deposits	\$ 5,000	0.2%
Intangible Assets, Net	\$ -	0.0%
Non-Current Notes Receivable	\$ -	0.0%
TOTAL ASSETS	\$ 2,256,422	100.0%
Accounts Payable \$ Accrued Liabilities	\$ 316,661	14.0%
Unearned Revenue	\$ 18,125	0.8%
Current Portion Long term Debt	\$ -	0.0%
Notes Payable	\$ -	0.0%
TOTAL CURRENT LIABILITIES	\$ 334,786	14.8%
Long Term Debt	\$ -	0.0%
Stock Incl Additional P-I-C	\$ 1,389,985	61.6%
Current Year Earnings	\$ 408,526	18.1%
Retained Earnings	\$ 123,126	5.5%
TOTAL EQUITY	\$ 1,921,636	85.2%
TOTAL LIABILITIES and EQUITY	\$ 2,256,422	100.0%

Telrite Corporation
Income Statement
For the Period Ending June 30, 2004
(in thousands)

	<u>Amount</u>	<u>Percent of Revenue</u>
REVENUES	\$ 2,940,844.88	100.0%
COST of SALES	<u>\$ 1,130,487.08</u>	<u>38.4%</u>
GROSS PROFIT	\$ 1,110,347.78	48.6%
EXPENSES:		
Supplies & Office Expense	\$ 22,205.04	1.0%
Office Maintenance	\$ 9,281.84	0.4%
Billing & Collection	\$ 70,280.07	2.4%
Advertising	\$ 3,818.30	0.2%
Commissions	\$ 164,780.98	7.4%
Rent - Office Space	\$ 12,722.25	0.8%
Rent - Copier & Telephone Equipment	\$ -	0.0%
Legal & Accounting fees	\$ 37,785.00	1.7%
Salaries & Benefits	\$ 183,828.50	8.2%
Independent Contractors and Contract Labor	\$ 96,537.00	4.3%
Telephone & Utilities	\$ 3,560.48	0.2%
Postage & Shipping	\$ 1,689.48	0.1%
Tariffs and taxes	\$ 9,889.34	0.4%
Other expenses	<u>\$ 5,895.98</u>	<u>0.3%</u>
TOTAL SG&A	\$ 822,073.42	27.8%
EBITDA	\$ 488,274.36	21.8%
Depreciation	\$ 79,748.50	3.6%
Amortization	<u>-</u>	<u>0.0%</u>
	\$ 79,748.50	
EBIT	\$ 408,525.86	18.2%
Interest expense	\$ -	0.0%
Interest & other income	<u>\$ -</u>	<u>0.0%</u>
INCOME BEFORE TAXES	\$ 408,525.86	18.2%
Income Tax Expense (Benefit)	<u>\$ -</u>	<u>0.0%</u>
NET INCOME	\$ 408,525.86	18.2%