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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

Arizona Corporation Commission

MARC SPITZER, Chairman
JIM IRVIN
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
MIKE GLEASON

DOCKETED

AUG 13 2003

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IN THE MATTER OF THE APPLICATION OF
CONSOLIDATED COMMUNICATIONS
OPERATOR SERVICES, INC. FOR A
CERTIFICATE OF CONVENIENCE AND
NECESSITY TO PROVIDE ALTERNATIVE
OPERATOR SERVICES.

DOCKET NO. T-04164A-03-0071

DECISION NO. 66182

ORDER

Open Meeting
August 12 and 13, 2003
Phoenix, Arizona

BY THE COMMISSION:

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

FINDINGS OF FACT

1. On February 3, 2003, Consolidated Communications Operator Services, Inc. ("Applicant" or "Consolidated") filed with the Arizona Corporation Commission ("Commission") an application for a Certificate of Convenience and Necessity ("Certificate") to provide alternative operator services ("AOS") within the State of Arizona.

2. In Decision No. 57339 (April 5, 1991), the Commission found that AOS providers were public service corporations subject to the jurisdiction of the Commission.

3. In Decision No. 58421 (October 1, 1993), the Commission adopted A.A.C. R14-2-1001 through R14-2-1014 to regulate AOS providers.

4. Consolidated is a Delaware corporation, with authority to transact business in the State of Arizona since September 19, 2002

5. On April 21, 2003, Consolidated filed an Affidavit of Publication indicating

1 compliance with the Commission's notice requirements.

2 6. On July 14, 2003, the Commission's Utilities Division Staff ("Staff") filed a letter
3 indicating that Consolidated's application was administratively complete, and on July 24, 2003, filed
4 a Staff Report in which Staff recommends approval of the application subject to certain conditions.

5 7. In the Staff Report, Staff stated that Consolidated provided unaudited financial
6 statements for the month ending January 31, 2003, which list assets of \$1,762,000, equity of
7 \$1,097,000, and net income of \$177,000.

8 8. According to the Staff Report, Consolidated is a start-up AOS provider currently
9 employing 287 people with a combined experience of 1,240 years in the telecommunications
10 industry. Staff states that in the event that Applicant encounters financial or technical difficulty, there
11 should be minimal impact on AOS customers because of numerous competitors willing to replace
12 any provider.

13 9. In its Staff Report, Staff stated that based on information obtained from the Applicant,
14 it has determined that Consolidated's fair value rate base ("FVRB") is zero. Staff has determined that
15 Applicant's FVRB is too small to be useful in a fair value analysis, and is not useful in setting rates.
16 Staff further stated that in general, rates for competitive services are not set according to rate of return
17 regulation, but are heavily influenced by the market. Staff recommended that the Commission not set
18 rates for Consolidated based on the fair value of its rate base.

19 10. The Commission adopted maximum rates for AOS service in Decision No. 61274
20 (December 14, 1998), and these rates are reflected in Schedules 1 and 2 attached to the Staff Report.
21 These maximum rates when coupled with discounting authority provide AOS providers with the
22 ability to compete on price and service quality.

23 11. Staff recommended approval of Consolidated's application subject to the following:

24 (a) that Applicant should be ordered to comply with all Commission rules, orders,
25 and other requirements relevant to the provision of intrastate telecommunications
26 service;

27 (b) that Applicant should be ordered to maintain its accounts and records as
28 required by the Commission;

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

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

6 (e) that Applicant should be ordered to comply with the Commission's rules and
7 modify its tariffs to conform to these rules if it is determined that there is a conflict
8 between the Applicant's tariffs and the Commission's rules;

9 (f) that Applicant should be ordered to cooperate with Commission investigations
10 including, but not limited to customer complaints;

11 (g) that Applicant should be ordered to notify the Commission immediately upon
12 changes to the Applicant's address or telephone number;

13 (h) that the maximum rates for these services should be the maximum rates
14 proposed by the Applicant in its proposed tariffs. The minimum rates for the
15 Applicant's competitive services should be the Applicant's total service long run
16 incremental costs of providing those services as set forth in A.A.C. R14-2-1109;

17 (i) that Applicant is authorized to discount its rates and service charges to the
18 marginal cost of providing the services;

19 (j) that Applicant's interLATA rates and service charges for AOS services should
20 be based on the maximum rates and service charges as set forth in Schedule 1 attached
21 to the Staff Report;

22 (k) that Applicant's intraLATA rates and service charges for AOS services should
23 be based on the maximum rates and service charges as set forth in Schedule 2 attached
24 to the Staff Report; and

25 (l) that Applicant's property surcharge for AOS services be limited to \$1.00 per
26 call.

27 12. Staff further recommended that Consolidated's Certificate should be conditioned upon
28 the Applicant filing conforming tariffs in accordance with this Decision within 365 days from the
date of an Order in this matter, or 30 days prior to providing service, whichever comes first.

13. Staff recommended that if the Applicant fails to meet the timeframes outlined in
Findings of Fact No. 12, that Consolidated's Certificate should become null and void without further
Order of the Commission, and that no time extensions for compliance should be granted.

14. The rates proposed by this filing are for competitive services.

1 15. Staff's recommendations as set forth herein are reasonable.

2 16. Consolidated's fair value rate base is zero.

3 **CONCLUSIONS OF LAW**

4 1. Applicant is a public service corporation within the meaning of Article XV of the
5 Arizona Constitution and A.R.S. §§ 40-281 and 40-282.

6 2. The Commission has jurisdiction over Applicant and the subject matter of the
7 application.

8 3. Notice of the application was given in accordance with the law.

9 4. Applicant's provision of interLATA and intraLATA AOS service in Arizona is in the
10 public interest.

11 5. Applicant is a fit and proper entity to receive a Certificate as conditioned herein for
12 providing AOS in Arizona.

13 6. Staff's recommendations in Findings of Fact No. 9, 11, 12, and 13 should be adopted.

14 7. Consolidated's fair value rate base is not useful in determining just and reasonable
15 rates for the competitive services it proposes to provide to Arizona customers.

16 8. Consolidated's rates, as they appear in its proposed tariffs, are just and reasonable and
17 should be approved.

18 9. Pursuant to A.R.S. § 40-282(c)(2), a hearing is not required for the issuance of a
19 Certificate to a reseller or an AOS provider.

20 **ORDER**

21 IT IS THEREFORE ORDERED that the application of Consolidated Communications
22 Operator Services, Inc. for a Certificate of Convenience and Necessity for authority to provide AOS
23 is hereby granted, conditioned upon its compliance with the conditions recommended by Staff as set
24 forth in Findings of Fact No. 12 above.

25 IT IS FURTHER ORDERED that Staff's recommendations set forth in Findings of Fact Nos.
26 9, 11, 12, and 13 above are hereby adopted.

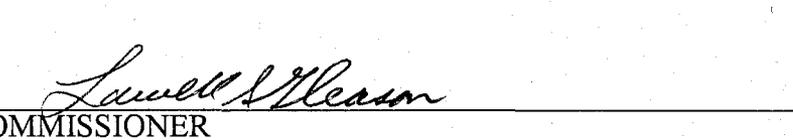
27 IT IS FURTHER ORDERED that Consolidated Communications Operator Services, Inc.
28 shall comply with the adopted Staff recommendations as set forth in Findings of Fact No. 11 above.

1 IT IS FURTHER ORDERED that if Consolidated Communications Operator Services, Inc.
2 fails to meet the timeframes outlined in Findings of Fact. No. 12 above that the Certificate
3 conditionally granted herein shall become null and void without further Order of the Commission.

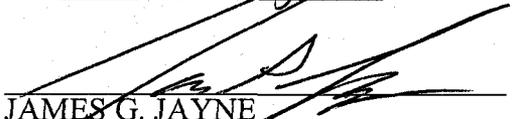
4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

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8 CHAIRMAN COMMISSIONER COMMISSIONER

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11 COMMISSIONER COMMISSIONER

12 IN WITNESS WHEREOF, I, JAMES G. JAYNE, Interim
13 Executive Secretary of the Arizona Corporation Commission,
14 have hereunto set my hand and caused the official seal of the
15 Commission to be affixed at the Capitol, in the City of Phoenix,
16 this 13th day of August, 2003.

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19 JAMES G. JAYNE
20 INTERIM EXECUTIVE SECRETARY

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1 SERVICE LIST FOR: CONSOLIDATED COMMUNICATIONS OPERATOR
2 SERVICES, INC.

3 DOCKET NO.: T-04164A-03-0071

4 Craig Neeld
5 Technologies Management, Inc.
6 210 N. Park Avenue
7 Winter Park, FL 32789

8 Christopher Kempley, Chief Counsel
9 Legal Division
10 ARIZONA CORPORATION COMMISSION
11 1200 West Washington Street
12 Phoenix, Arizona 85007

13 Ernest G. Johnson, Director
14 Utilities Division
15 ARIZONA CORPORATION COMMISSION
16 1200 West Washington Street
17 Phoenix, Arizona 85007

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