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MEMORANDUM

TO: Docket Control

FROM: Ernest G. Johnson EA for EGJ
Director
Utilities Division

DATE: October 26, 2005

RE: IN THE MATTER OF THE APPLICATION OF NATIONAL BRANDS, INC. DBA SHARENET COMMUNICATIONS COMPANY FOR A CERTIFICATE OF CONVENIENCE AND NECESSITY TO PROVIDE RESOLD LONG DISTANCE AND ALTERNATIVE OPERATORS SERVICES TELECOMMUNICATIONS SERVICES (DOCKET NO. T-02580A-05-0383)

Attached is the Staff Report for the above referenced application. The Applicant is applying for approval to provide the following services:

- Resold Long Distance Services
- Resold Local Exchange Services
- Facilities-Local Exchange Services
- Alternative Operator Services

Staff is recommending approval of the application.

EGJ: AJL:tdp

Originator: Adam Lebrecht

Attachment: Original and 13 Copies

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Service List for: National Brands, Inc. d/b/a Sharenet Communications Company
Docket No. T-02580A-05-0383

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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

NATIONAL BRANDS, INC. DBA SHARENET COMMUNICATIONS COMPANY
DOCKET NO. T-02580A-05-0383

IN THE MATTER OF THE APPLICATION OF NATIONAL BRANDS, INC. DBA SHARENET COMMUNICATIONS COMPANY FOR APPROVAL OF A CERTIFICATE OF CONVENIENCE AND NECESSITY TO PROVIDE RESOLD AND FACILITIES-BASED LOCAL EXCHANGE TELECOMMUNICATIONS SERVICES

October 24, 2005

STAFF ACKNOWLEDGMENT

The Staff Report for National Brands, Inc. d/b/a Sharenet Communications Company, Docket No. T-02580A-05-0383, was the responsibility of the Staff member listed below. Adam Lebrecht was responsible for the review and analysis of the application for a Certificate of Convenience and Necessity to provide resold long distance, resold local exchange, facilities-based local exchange services and Alternative Operator Services; and petition for a determination that its proposed services should be classified as competitive.

Adam Lebrecht
Executive Consultant I

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1. INTRODUCTION

On December 4, 1990, National Brands, Inc. d/b/a Sharenet Communications Company ("Sharenet" or "Applicant") filed an application for a Certificate of Convenience and Necessity ("CC&N") to provide resold long distance and Alternative Operator Services ("AOS") within the State of Arizona. The Docket Number assigned to this matter was T-02580A-90-0351. Between December 8, 1990 and October 20, 1995, the Applicant amended its application four times. On July 26, 2004, Sharenet submitted an updated application to provide the same services. Although the updated application did not request the authority to provide any additional services, a new docket number (T-02580A-04-0531) was assigned to the updated application. On May 27, 2005, Sharenet again updated its application to provide telecommunications services in the State of Arizona. In addition to the services requested in Sharenet's previous applications, this application also requested the authority to provide resold and facilities-based local exchange service. This application was again assigned a new docket number, T-02580A-05-0383. In summary, Sharenet is requesting a CC&N to provide resold long distance, resold local exchange, facilities-based local exchange and AOS services in the State of Arizona. The Applicant also petitioned the Arizona Corporation Commission ("Commission") for a determination that its proposed services should be classified as competitive.

Staff's review of this application addresses the overall fitness of the Applicant to receive a CC&N. Staff's analysis also considers whether the Applicant's services should be classified as competitive and if the Applicant's initial rates are just and reasonable.

2. TECHNICAL CAPABILITY TO PROVIDE THE REQUESTED SERVICES

Sharenet indicated that it currently provides resold long distance service in 18 states, including Arizona. Sharenet also indicated that it has an executive Staff of seven employees with a total combined experience of over 68 years in the telecommunications industry and plans to add three to five new, experienced employees to work on the local aspect of its business. Based on this, Staff believes Sharenet possesses the technical capabilities to provide the services it is requesting the authority to provide.

3. FINANCIAL CAPABILITY TO PROVIDE THE REQUESTED SERVICES

The Applicant provided unaudited financial statements for the twelve months ending July 31, 2005. These financial statements list assets of $5,070,171; equity of $4,315,958; and a net profit of $400,724. The Applicant did not provide notes related to the financial statements.

The Applicant indicated in its proposed local exchange service tariff (reference sections 2.5.4 and 2.5.5 on pages 23 and 24 of the Applicant's local exchange tariff) that it does collect advances, deposits and/or prepayments from its customers. Staff believes that the Applicant's local exchange customers should be protected by the procurement of

a performance bond. Since the Applicant is requesting a CC&N for more than one kind of service, and in accordance with the Commission's current bond policy, the amount of the performance bond is an aggregate of the minimum bond amount for each type of telecommunications service requested by the Applicant. The amount of bond coverage needed for each service is as follows: resold local exchange $25,000; and facilities-based local exchange $100,000. The bond coverage needs to increase in increments equal to 50 percent of the total minimum bond amount when the total amount of the advances, deposits, and/or prepayments is within 10 percent of the total minimum bond amount.

To that end, Staff recommends that the Applicant procure a performance bond in the amount of $125,000. The minimum bond amount of $125,000 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 $62,500. This increase should occur when the total amount of the advances, deposits, and prepayments is within $12,500 of the bond amount. If the Applicant desires to discontinue service, it must file an application with the Commission pursuant to A.A.C. R14-2-1107. Additionally, 60 days prior to the filing of an application to discontinue service, the Applicant must notify each of its customers and the Commission (through docket control) of that application prior to the filing of an application to discontinue service. Failure to meet this requirement should result in forfeiture of the Applicant's performance bond. Staff also 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 Commission.

Staff recommends that the Applicant docket tariffs which indicate that the Applicant 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 Commission for Commission approval. Such application must reference the decision in this docket and must explain the applicant's plans for procuring its performance bond.

4. ESTABLISHING RATES AND CHARGES

The Applicant would initially be providing service in areas where an incumbent local exchange carrier ("ILEC"), along with various competitive local exchange carriers ("CLECs") and interexchange carriers are providing telephone service. Therefore, the Applicant would have to compete with those providers in order to obtain subscribers to its services. The Applicant would be a new entrant and would face competition from both an incumbent provider and other competitive providers in offering service to its potential customers. Therefore, the Applicant would generally not be able to exert market power. Thus, the competitive process should result in rates that are just and reasonable.

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 company and has determined that its fair value rate base is $1,978,949. The rate to be ultimately charged by the company will be heavily influenced by the market. Staff has reviewed the rates to be charged by the Applicant and believes they are just and reasonable as they are comparable to other competitive local carriers, local incumbent carriers and major long distance companies offering service 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 company, it did not accord that information substantial weight in its analysis.

Both an actual rate and a maximum rate may be listed for each competitive service offered. The rate charged for a service may not be less than the Company's total service long-run incremental cost of providing the service pursuant to A.A.C. R14-2-1109.

5. LOCAL EXCHANGE CARRIER SPECIFIC ISSUES

Issues related to the provision of that Local Exchange service are discussed below.

5.1 NUMBER PORTABILITY

The Commission has adopted rules to address number portability in a competitive telecommunications services market. Local exchange competition may not be vigorous if customers, especially business customers, must change their telephone numbers to take advantage of a competitive local exchange carrier's service offerings. Consistent with federal laws, federal rules and A.A.C. R14-2-1308(A), the Applicant shall make number portability available to facilitate the ability of a customer to switch between authorized local carriers within a given wire center without changing their telephone number and without impairment to quality, functionality, reliability or convenience of use.

5.2 PROVISION OF BASIC TELEPHONE SERVICE AND UNIVERSAL SERVICE

The Commission has adopted rules to address universal telephone service in Arizona. A.A.C. R14-2-1204(A) indicates that all telecommunications service providers that interconnect into the public switched network shall provide funding for the Arizona Universal Service Fund ("AUSF"). The Applicant will make the necessary monthly payments required by A.A.C. R14-2-1204(B).

5.3 QUALITY OF SERVICE

Staff believes that the Applicant should be ordered to abide by the quality of service standards that were approved by the Commission for Qwest (f/k/a USWC) in Docket No. T-01051B-93-0183 (Decision No. 59421). Because the penalties developed

in that docket were initiated because Qwest's level of service was not satisfactory and the Applicant does not have a similar history of service quality problems, Staff does not recommend that those penalties apply to the Applicant. In the competitive market that the Applicant wishes to enter, the Applicant generally will have no market power and will be forced to provide a satisfactory level of service or risk losing its customers. Therefore, Staff believes that it is unnecessary to subject the Applicant to those penalties at this time.

5.4 ACCESS TO ALTERNATIVE LOCAL EXCHANGE SERVICE PROVIDERS

Staff expects that there will be new entrant providers of local exchange service who will install the plant necessary to provide telephone service to, for example, a residential subdivision or an industrial park much like existing local exchange companies do today. There may be areas where the Applicant installs the only local exchange service facilities. In the interest of providing competitive alternatives to the Applicant's local exchange service customers, Staff recommends that the Applicant be prohibited from barring access to alternative local exchange service providers who wish to serve such areas. This way, an alternative local exchange service provider may serve a customer if the customer so desires. Access to other providers should be provided pursuant to the provisions of the 1996 Telecommunications Act, the rules promulgated there under and Commission rules on interconnection and unbundling.

5.5 911 SERVICE

The Commission has adopted rules to address 911 and E911 services in a competitive telecommunications services market. The Applicant has certified that in accordance with A.A.C. R14-2-1201(6)(d) and Federal Communications Commission 47 CFR Sections 64.3001 and 64.3002, it will provide all customers with 911 and E911 service, where available, or will coordinate with ILECs and emergency service providers to provide 911 and E911 service.

5.6 CUSTOM LOCAL AREA SIGNALING SERVICES

Consistent with past Commission decisions, the Applicant may offer Caller ID provided that per call and line blocking, with the capability to toggle between blocking and unblocking the transmission of the telephone number, are provided as options to which customers could subscribe with no charge. Also, Last Call Return service that will not return calls to telephone numbers that have the privacy indicator activated, indicating that the number has been blocked, must be offered.

6. REVIEW OF COMPLAINT INFORMATION

The Applicant certified that it entered into a settlement agreement in the State of Ohio. Staff has reviewed this settlement agreement and in an effort to gain a further understanding of this matter, contacted the Applicant and Public Utilities Commission of Ohio ("Ohio Commission") Staff person, Mr. Charlie Loutzenhiser.

This settlement agreement concerned the Applicant's AOS tariff that like AT&T and several other AOS providers included a "Non-Subscriber Surcharge" of $2.50. The Applicant, AT&T and the other AOS providers in Ohio were informed that the "Non-Subscriber Surcharge" is not lawful under the Ohio Commission's rules and under the Ohio Commission's AOS Rate Cap. Rather than challenge or question the Ohio Commission, the Applicant and the other companies, including AT&T, that charged Non-Subscriber Surcharges entered into settlement agreements with the Ohio Commission. The details of the settlement agreement that the Applicant entered into include the following:

1. Amending the Applicant's tariff to cancel First Revised Page 31, section 3.6 of its Ohio Commission tariff, the Non-Subscriber Surcharge.
2. Payment in the amount of $30,278 to the State of Ohio in 4 installments of $7569.50.

Mr. Loutzenhiser stated that all the Applicant's payments were in a timely manner and that since this settlement agreement has been entered into, the Ohio Commission has not received any other complaints concerning the Applicant. In Section 5.3 on Original Sheet 31 of the Applicant's proposed AOS tariff, the Applicant states that there will be a $1.99 charge for "Non-subscriber Service." Staff has reviewed the tariffs of several AOS providers in the State of Arizona, including AT&T and found that those tariffs list non-subscriber service surcharges. Because other providers of AOS service charge a non-subscriber service surcharge, Staff believes the Applicant should have the authority to do the same.

The Applicant indicated that there have been, no formal complaint proceedings involving the Applicant. The Applicant also certified that there have not been any civil or criminal proceedings against the Applicant. Consumer Services reports no complaint history within Arizona.

The Applicant certified 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 years.

Staff contacted each of the 16 other jurisdictions in which the Applicant currently provides telecommunications service in and inquired about the Sharenet's complaint history. The only jurisdiction in which Sharenet has a complaint history is the State of Texas. In the State of Texas, Sharenet was the subject of two complaints in 2004. These complaints were filed by the same end-user and concerned allegations of cramming and over charging for collect calls. The Texas Public Utilities Commission closed both complaints with no finding of wrong doing by the Applicant. The other 15 jurisdictions indicated that Sharenet has not been the subject of any formal or informal complaints.

7. COMPETITIVE SERVICES ANALYSIS

The Applicant has petitioned the Commission for a determination that the services it is seeking to provide should be classified as competitive. The Applicant has published legal notice of the application in all the counties in which it is requesting the authorization to provide service. The Applicant has certified that all notification requirements have been completed. Staff's analysis and recommendations are discussed below.

7.1 COMPETITIVE SERVICES ANALYSIS FOR LOCAL EXCHANGE SERVICES

7.1.1 A DESCRIPTION OF THE GENERAL ECONOMIC CONDITIONS THAT EXIST, WHICH MAKES THE RELEVANT MARKET FOR THE SERVICE ONE THAT, IS COMPETITIVE.

The local exchange market that the Applicant seeks to enter is one in which a number of new CLECs have been authorized to provide local exchange service. Nevertheless, ILECs hold a virtual monopoly in the local exchange service market. At locations where ILECs provide local exchange service, the Applicant will be entering the market as an alternative provider of local exchange service and, as such, the Applicant will have to compete with those companies in order to obtain customers. In areas where ILECs do not serve customers, the Applicant may have to convince developers to allow it to provide service to their developments.

7.1.2 THE NUMBER OF ALTERNATIVE PROVIDERS OF THE SERVICE.

Qwest and various independent LECs are the primary providers of local exchange service in the State. Several CLECs and local exchange resellers are also providing local exchange service.

7.1.3 THE ESTIMATED MARKET SHARE HELD BY EACH ALTERNATIVE PROVIDER OF THE SERVICE.

Since Qwest and the independent LECs are the primary providers of local exchange service in the State, they have a large share of the market. Most CLECs and local exchange resellers have a limited market share.

7.1.4 THE NAMES AND ADDRESSES OF ANY ALTERNATIVE PROVIDERS OF THE SERVICE THAT ARE ALSO AFFILIATES OF THE TELECOMMUNICATIONS APPLICANT, AS DEFINED IN A.A.C. R14-2-801.

None.

7.1.5 THE ABILITY OF ALTERNATIVE PROVIDERS TO MAKE FUNCTIONALLY EQUIVALENT OR SUBSTITUTE SERVICES READILY AVAILABLE AT COMPETITIVE RATES, TERMS AND CONDITIONS.

ILECs have the ability to offer the same services that the Applicant has requested in their respective service territories. Similarly many of the CLECs and local exchange resellers also offer substantially similar services.

7.1.6 OTHER INDICATORS OF MARKET POWER, WHICH MAY INCLUDE GROWTH AND SHIFTS IN MARKET SHARE, EASE OF ENTRY AND EXIT, AND ANY AFFILIATION BETWEEN AND AMONG ALTERNATIVE PROVIDERS OF THE SERVICE(S).

The local exchange service market is:

a. One in which ILECs own networks that reach nearly every residence and business in their service territories and CLECs have also entered the market.

b. One in which new entrants will be dependent upon ILECs:

   1. To terminate traffic to customers.
   2. To provide essential local exchange service elements until the entrant's own network has been built.
   3. To interconnect.

c. One in which ILECs have had an existing relationship with their customers that the new entrants will have to overcome if they want to compete in the market since new entrants do not have a long history with any customers.

d. One in which Qwest provides a quality of service that has generated a significant number of complaints. These complaints led the Commission to adopt service quality rules that contain penalties if the service quality standards are not met. A provider of alternative service, such as the Applicant, should provide Qwest--as well as other providers--with the incentive to produce higher quality service including service installation and repair on a timely basis.

e. One in which most customers have few, if any choices since there is generally only one or two providers of local exchange service in each service territory.

f. One in which the Applicant will not have the capability to adversely affect prices or restrict output to the detriment of telephone service subscribers.

7.2 COMPETITIVE SERVICES ANALYSIS FOR INTEREXCHANGE SERVICES.

7.2.1 A DESCRIPTION OF THE GENERAL ECONOMIC CONDITIONS THAT EXIST, WHICH MAKES THE RELEVANT MARKET FOR THE SERVICE ONE THAT IS COMPETITIVE.

The interexchange market is one in which numerous facilities-based and resold interexchange carriers have been authorized to provide service throughout the State. The Applicant will be a new entrant in this market and, as such, will have to compete with those companies in order to obtain customers.

7.2.2 THE NUMBER OF ALTERNATIVE PROVIDERS OF THE SERVICE.

There are a large number of facilities-based and resold interexchange carriers providing both interLATA and intraLATA interexchange service throughout the State. In addition, various ILECs provide intraLATA interexchange service in many areas of the State.

7.2.3 THE ESTIMATED MARKET SHARE HELD BY EACH ALTERNATIVE PROVIDER OF THE SERVICE.

The large facilities-based interexchange carriers (AT&T, Sprint, Qwest, etc.) hold a majority of the interLATA interexchange market, and the ILECs provide a large portion of the intraLATA interexchange market. Numerous other interexchange carriers have a smaller part of the market.

7.2.4 THE NAMES AND ADDRESSES OF ANY ALTERNATIVE PROVIDERS OF THE SERVICE THAT ARE ALSO AFFILIATES OF THE TELECOMMUNICATIONS APPLICANT, AS DEFINED IN A.A.C. R14-2-801.

None.

7.2.5 THE ABILITY OF ALTERNATIVE PROVIDERS TO MAKE FUNCTIONALLY EQUIVALENT OR SUBSTITUTE SERVICES READILY AVAILABLE AT COMPETITIVE RATES, TERMS AND CONDITIONS.

Both facilities-based and resold interexchange carriers have the ability to offer the same services that the Applicant has requested in their respective service territories.

7.2.6 OTHER INDICATORS OF MARKET POWER, WHICH MAY INCLUDE GROWTH AND SHIFTS IN MARKET SHARE, EASE OF ENTRY AND EXIT, AND ANY AFFILIATION BETWEEN AND AMONG ALTERNATIVE PROVIDERS OF THE SERVICE(S).

The interexchange service market is:

a. One with numerous competitors and limited barriers to entry.

b. One in which established interexchange carriers have had an existing relationship with their customers that the new entrants will have to overcome if they want to compete in the market.

c. One in which the Applicant will not have the capability to adversely affect prices or restrict output to the detriment of telephone service subscribers.

8. ALTERNATIVE OPERATOR SERVICES

AOS is a service industry that provides resold telecommunications and operator services to large distinct customers, such as hotels, motels, health care and correctional facilities. The AOS provider will contract with the hotel or correctional facility to provide services. The hotel or correctional facility is referred to as an "aggregator." The patrons of the "aggregator" are referred to as "end-users." AOS services are provided by routing all calls originating from the aggregator premise to the AOS provider, which then handles the call to meet the needs of the end-user.

"End-users" have no control over the aggregator's subscription for long distance service, and as such are essentially captive customers for telecommunications services. The Commission has previously determined that it is in the public interest to ensure that an end user using the telecommunications services of an AOS provider be charged rates consistent with the corresponding rates and service charges of certified facilities-based toll carriers available to the calling public.

Staff has reviewed the authorized rates and service charges applicable to AOS providers. Staff reviewed the rates of AT&T Communications of the Mountain States, Inc. ("AT&T"), MCI Telecommunications Corporation, ("MCI"), Sprint, Allnet Communications Services, Inc., ("Allnet"), and Qwest Corporation ("Qwest"). Staff then developed the attached Schedule 1 and 2, establishing maximum rates for the AOS services. These maximum rates coupled with discounting authority provide the market participants with the ability to compete on price and service quality. The Commission adopted these maximum rates in Decision No. 61274.

8.1 RATE REVIEW PROCESS

Staff has reviewed the rates of five major toll carriers to establish the maximum AOS rates, service charges and operator-dialed surcharges set forth on Schedule 1 and 2. If any of the carriers forming the rate group obtain higher rates, the Applicant should be authorized to allow its rates to float in accordance with the carriers revised higher rates so long as the AOS provider complies with the following tariff filing requirements. The Applicant is required to file: 1) an estimate of the value of its plant to serve Arizona

customers; 2) a tariff setting forth the new maximum rates, which do not exceed the maximum rates of the five major carriers set; and 3) all information required by R14-2-1110.

For example, AT&T currently has maximum rates in the night/weekend rate period in mileage bands 0 through 292 for the first minute and additional minutes in Schedule 1. In the event AT&T was to increase its rates in these mileage bands, the rates changed would establish new maximum rates in Schedule 1. Pursuant to Staff's recommendation, the Applicant would be allowed to seek authorization to increase its maximum rates and/or service charges accordingly by complying with the filing requirements described above.

8.2 DISCOUNTING AUTHORITY

Staff recommends that the Applicant should be allowed to discount its rates and service charges to the marginal cost of providing the services. Discount authority will provide the company with pricing flexibility to compete with other providers, as well as allow the potential benefits of price competition to accrue to end-users.

8.3 INTERLATA TOLL CHARGES

Staff recommends interLATA rates and service charges to be based on the maximum rates and service charges authorized for certain interexchange carriers ("IXCs") certificated in Arizona as described above.

Staff recommends that the Commission authorize the Applicant to charge the maximum rate in each mileage band, respective of the day of the week and time of the day, currently authorized for any of the facilities-based IXC's as set forth in Schedule 1. In addition, Staff recommends that the Commission limit the Company's service charges to the highest authorized maximum service charge of any of the facilities-based IXC's as set forth in Schedule 1.

8.4 INTRALATA TOLL CHARGES

Staff recommends IntraLATA rates and service charges to be based on the maximum rates and service charges of the various facilities-based carriers certified to carry intraLATA toll calls in Arizona as described above.

Staff recommends that the Commission authorize the Applicant to charge the maximum rate in each mileage band, respective of the day of the week and time of the day, currently authorized for any of the various facilities-based intraLATA carries set forth in Schedule 2. Furthermore, Staff recommends that the Commission limit the Company's service charges to the highest authorized maximum service charge of any of the facilities-based intraLATA carriers set forth in Schedule 2.

The attached Schedule 1 and 2 set forth Staff's recommended surcharges for interLATA and intraLATA toll calls respectively.

8.5 OPERATOR-DIALED SURCHARGE AND PROPERTY SURCHARGE

An operator-dialed surcharge is imposed when an end user has the capability to dial the call, but requests the operator to dial and make the call. A property surcharge is a per call bonus paid to the aggregator by the AOS Company. In prior decisions, the Commission has approved both an operator-dialed surcharge and a property (location-specific or subscriber) surcharge.

Staff recommends that the property surcharge be limited to $1.00 per call. The Commission has approved a property surcharge of $1.00 for the majority of AOS carriers certified in Arizona. Limiting the property surcharge provides a level playing field for the competitors. Staff recommends consistency in the property surcharge to stress the importance of providing service to the end-users, rather than higher payments to aggregators for the opportunity to serve end-users.

Staff recommends approval of the operator-dialed surcharge and the property surcharge as described in Schedule 1 and 2.

8.6 ZERO MINUS CALLS

The term "zero-minus" refers to calls by individuals who dial "0." The Commission adopted AAC R14-2-1006(A), which requires the AOS provider to route all zero-minus calls to the originating LEC. The Commission also provided a waiver from the requirement upon a showing that the AOS provider could provide the caller with equally quick and reliable service. The Applicant has not requested such a waiver.

8.7 PROPOSED TARIFF

The Applicant proposed tariff does agree with the recommendations in the above sections. The Applicant's proposed rates and service charges for either interLATA or intraLATA telephone services are identical to or less than the rates and service charges contained in Staff's attached rate Schedule 1 and 2. Therefore, Staff believes the Applicant's proposed tariffs are reasonable and should be approved at this time.

9. RECOMMENDATIONS

Staff recommends that Applicant's application for a CC&N to provide intrastate telecommunications services, as listed in this Report, be granted. In addition, Staff further recommends:

1. That the Applicant complies with all Commission Rules, Orders and other requirements relevant to the provision of intrastate telecommunications services;

2. That the Applicant abides by the quality of service standards that were approved by the Commission for Qwest in Docket No. T-01051B-93-0183;

3. That the Applicant be prohibited from barring access to alternative local exchange service providers who wish to serve areas where the Applicant is the only provider of local exchange service facilities;

4. That the Applicant be required to notify the Commission immediately upon changes to the Applicant's name, address or telephone number;

5. That the Applicant cooperate with Commission investigations including, but not limited to customer complaints;

6. 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 company and has determined that its fair value rate base is $1,978,949. Staff has reviewed the rates to be charged by the Applicant and believes they are just and reasonable as they are comparable to other competitive local carriers, local incumbent carriers and major long distance companies offering service in Arizona and comparable to the rates the Applicant charges in other jurisdictions. The rate to be ultimately charged by the company will be heavily influenced by the market. Therefore, while Staff considered the fair value rate base information submitted by the company, the fair value information provided was not given substantial weight in this analysis;

7. If at some future date, the Applicant wants to collect advances, deposits and/or prepayments from its resold interexchange service 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 procuring its performance bond;

8. That the Applicant offer Caller ID with the capability to toggle between blocking and unblocking the transmission of the telephone number at no charge;

9. That the Applicant offer Last Call Return service that will not return calls to telephone numbers that have the privacy indicator activated;

10. Staff further recommends that the Commission authorize the Applicant to discount its rates and service charges to the marginal cost of providing the services;

11. That the Applicant submit interexchange tariffs indicating that it does not collect advances, deposits and or prepayments;

12. The Applicant's interLATA rates and service charges for AOS services should be based on the maximum rates and service charges as set forth in Schedule 1;

13. The Applicant's intraLATA rates and service charges for AOS services should be based on the maximum rates and service charges as set forth in Schedule 2;

14. The Applicant's property surcharge for AOS services be limited to $1.00 per call.

Staff further 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.

1. The Applicant shall docket conforming tariffs for each service within its CC&N within 365 days from the date of an Order in this matter or 30 days prior to providing service, whichever comes first. The tariffs submitted shall coincide with the application and state that the Applicant does not collect advances, deposits and/or prepayments from its customers.

2. The Applicant shall:

   a. procure a performance bond equal to $125,000. The minimum bond amount of $125,000 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 $62,500. This increase should occur when the total amount of the advances, deposits, and prepayments is within $12,500 of the bond amount.

   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. The performance bond must remain in effect until further order of the Commission.

9.1 RECOMMENDATION ON THE APPLICANT'S PETITION TO HAVE ITS PROPOSED SERVICES CLASSIFIED AS COMPETITIVE

Staff believes that the Applicant's proposed services should be classified as competitive. There are alternatives to the Applicant's services. The Applicant will have to convince customers to purchase its services, and the Applicant has no ability to adversely affect the local exchange or interexchange service markets. Therefore, the Applicant currently has no market power in the local exchange or interexchange service markets where alternative providers of telecommunications services exist. Staff therefore recommends that the Applicant's proposed services be classified as competitive.

The Applicant indicated that it is providing long distance service in the following states:

1. Arizona
2. California
3. Colorado
4. Idaho
5. Indiana
6. Kentucky
7. Michigan
8. Minnesota
9. Montana
10. New Mexico
11. Nevada
12. New Jersey
13. New York
14. Ohio
15. Oregon
16. Texas
17. Wyoming
18. Utah

Schedule 1

Alternative Operator Services
Maximum InterLata Usage Charges

Mileage Band	Day Time (a)		Evening/Holiday (b)		Night/Weekend (c)	
	First Minute	Addtl. Minute	First Minute	Addtl. Minute	First Minute	Addtl. Minute
0-10	0.3000	0.3000	0.3000	0.3000	0.3000	0.3000
11-16	0.4000	0.3000	0.3000	0.3000	0.3000	0.3000
17-22	0.4000	0.3000	0.3000	0.3000	0.3000	0.3000
23-30	0.4500	0.3000	0.3135	0.3000	0.3000	0.3000
31-40	0.5065	0.3000	0.3135	0.3000	0.3000	0.3000
41-55	0.5307	0.3332	0.3135	0.3000	0.3000	0.3000
56-70	0.5560	0.3732	0.3590	0.3000	0.3000	0.3000
71-124	0.5560	0.3865	0.3590	0.3000	0.3000	0.3000
125-196	0.5560	0.4265	0.3590	0.3000	0.3000	0.3000
197-292	0.5560	0.4799	0.3590	0.3000	0.3000	0.3000
293 & Over	0.5800	0.4820	0.3908	0.3000	0.3000	0.3000

Rate Periods

(a) Day time is Monday through Friday 8:00 a.m. to 5 p.m.

(b) Evening/Holiday is Sunday through Friday 5:00 p.m. to 11:00 p.m.
Officially recognized holidays are: New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving and Christmas Day. Evening rates are applicable during all holiday hours, except for hours when a lower rate (i.e. Night/Weekend) is applicable.

(c) Night/Weekend is Sunday through Thursday 11:00 p.m. to 8:00 a.m., 11:00 p.m. Friday through 5:00 p.m. Sunday.

Alternative Operator Services
Maximum InterLata Services Charges

Service (1) (2)	Maximum Charge
Customer Dialed Calling or Credit Card	$1.50
Operator Dialed Calling or Credit Card	$2.50
Station – to – Station Collect	$2.33
Person – to – Person Collect	$4.66
Third Party Person – to – Person	$4.66
Third Party Station – to Station	$2.33
Person—to – Person	$4.50
Station – to – Station	$3.50
Directory Assistance	$2.00

(1) An Operator Dialed Surcharge of $2.00 will be applied to an end user who has the capability to call, but requests the operator to do so instead. In accordance with A.A.C. R14-2-1005, end users shall be informed of this charge before call completion. This surcharge will not be imposed in cases of equipment failure or where the end user is experiencing a disability.

(2) A Property Surcharge, Subscriber Surcharge or Location Specific Charge may be added to all operator assisted calls completed from Company subscriber locations. This surcharge will appear on the customer's bill and will be capped at $1.00 per call; all of this surcharge will be remitted to the aggregator; however, this surcharge will not be collected by the Company if the aggregator is also collecting a surcharge.

Company_____
Docket No. _____
Decision No._____

Schedule 2

Alternative Operator Services
Maximum IntraLata Usage Charges

Mileage Band	Day Time (a)		Evening/Holiday (b)		Night/Weekend (c)	
	First Minute	Addtl. Minute	First Minute	Addtl. Minute	First Minute	Addtl. Minute
0-10	0.3000	0.3000	0.3000	0.3000	0.3000	0.3000
11-16	0.4000	0.3000	0.3000	0.3000	0.3000	0.3000
17-22	0.4000	0.3000	0.3000	0.3000	0.3000	0.3000
23-30	0.4500	0.3000	0.3135	0.3000	0.3000	0.3000
31-40	0.4500	0.3000	0.3135	0.3000	0.3000	0.3000
41-55	0.4500	0.3000	0.3135	0.3000	0.3000	0.3000
56-70	0.5200	0.3300	0.3590	0.3000	0.3000	0.3000
71-124	0.5200	0.3300	0.3590	0.3000	0.3000	0.3000
125-196	0.5300	0.3600	0.3590	0.3000	0.3000	0.3000
197-292	0.5800	0.3600	0.3590	0.3000	0.3000	0.3000
293 & Over	0.5800	0.3800	0.3980	0.3000	0.3300	0.3000

Rate Periods

(a) Day time is Monday through Friday 8:00 a.m. to 5 p.m.

(b) Evening/Holiday is Sunday through Friday 5:00 p.m. to 11:00 p.m.
Officially recognized holidays are: New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving and Christmas Day. Evening rates are applicable during all holiday hours, except for hours when a lower rate (i.e. Night/Weekend) is applicable.

(c) Night/Weekend is Sunday through Thursday 11:00 p.m. to 8:00 a.m., 11:00 p.m. Friday through 5:00 p.m. Sunday.

Alternative Operator Services
Maximum IntraLata Services Charges

Service (1) (2)	Maximum Charge
Customer Dialed Calling or Credit Card	$1.50
Operator Dialed Calling or Credit Card	$2.50
Station – to – Station Collect	$2.30
Person – to – Person Collect	$4.50
Third Party Person – to – Person	$4.50
Third Party Station – to Station	$2.30
Person—to – Person	$4.50
Station – to – Station	$3.50
Directory Assistance	$2.00

(1) An Operator Dialed Surcharge of $2.00 will be applied to the capability to call, but requests the operator to do so instead. In accordance with A.A.C. R14-2-1005, end users shall be informed of this charge before call completion. This surcharge will not be imposed in cases of equipment failure or where the end user is experiencing a disability.

(2) A Property Surcharge, Subscriber Surcharge or Location Specific Charge may be added to all operator assisted calls completed from Company subscriber locations. This surcharge will appear on the customer's bill and will be capped at $1.00 per call; all of this surcharge will be remitted to the aggregator; however, this surcharge will not be collected by the Company if the aggregator is also collecting a surcharge.

Company_____
Docket No. _____
Decision No._____