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MEMORANDUM

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FROM: Deborah R. Scott
Director
Utilities Division

DATE: March 27, 2001

RE: STAFF REPORT FOR ALLTEL CORPORATION, ALLTEL COMMUNICATIONS, INC., AND 360° LONG DISTANCE, INC.'S APPLICATION FOR APPROVAL TO TRANSFER ASSETS, INCLUDING A CERTIFICATE OF CONVENIENCE AND NECESSITY (DOCKET NO. T-03285A-00-0874)

Attached is the Staff Report for Alltel Corporation, Alltel Communications, Inc., and 360° Long Distance, Inc.'s application for approval to transfer assets, including a certificate of convenience and necessity. Staff recommends approval subject to a hearing.

DRS:JMR:jbc

Originator: Joel M. Reiker

Arizona Corporation Commission

DOCKETED

MAR 28 2001

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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

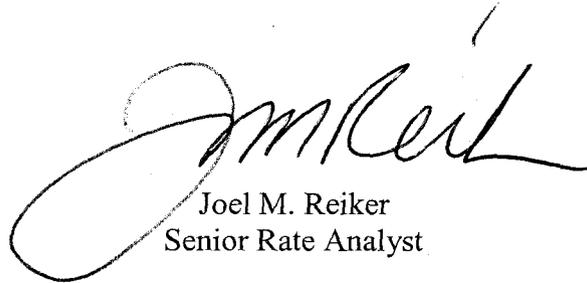
ALLTEL CORPORATION,
ALLTEL COMMUNICATIONS, INC., AND
360° LONG DISTANCE, INC.
DOCKET NO. T-03285A-00-0874

APPLICATION FOR APPROVAL TO TRANSFER ASSETS,
INCLUDING A CERTIFICATE OF CONVENIENCE AND NECESSITY

MARCH 2001

STAFF ACKNOWLEDGEMENT

The financial analysis contained in the Staff Report Alltel Corporation, Alltel Communications, Inc., and 360° Long Distance, Inc., Docket No. T-03285A-00-0874 was prepared by Joel M. Reiker.

A handwritten signature in black ink, appearing to read "J. Reiker", with a large, sweeping flourish at the end.

Joel M. Reiker
Senior Rate Analyst

TABLE OF CONTENTS

	<u>PAGE</u>
Introduction.....	1
Background.....	1
Parties to the Transaction.....	1
The Proposed Transaction.....	2
Effect on Operations.....	2
Financial Analysis.....	2
Related Issues.....	2
Conclusion and Recommendation.....	3

Introduction

On October 30, 2000, Alltel Corporation ("Alltel"), Alltel Communications, Inc. ("ACI"), and 360° Long Distance, Inc. ("360°") (collectively "Applicants"), filed an application seeking Arizona Corporation Commission ("Commission") approval of the transfer of assets, including the Certificate of Convenience and Necessity ("CC&N"), from 360° to ACI. The Application also constituted a Notice of Restructure of Holding Company pursuant to A.A.C. R14-2-801, et seq. On December 4, 2000, the Applicants filed an amended application, which indicated that the requirements of A.A.C. R14-2-801, et seq. do not apply to this transaction because the intrastate revenues of 360° do not qualify the applicants as Class A utilities.¹ Consequently, the amended application only seeks approval of the transfer of assets and attendant CC&N.

The applicants published noticed of the proposed transaction in the March 7, 2001 edition of *The Arizona Republic*.

Background

ACI has two pending applications for CC&Ns with the Commission. The first seeks authority to provide intrastate long-distance service as a reseller.² The second application seeks authority to provide facilities-based and resold competitive local exchange services.³ If the Commission approves the transfer of assets and CC&N of 360° to ACI, ACI would no longer be required to seek approval of a separate CC&N to provide intrastate long-distance service as a reseller. It would, however, still be required to obtain a CC&N to provide facilities-based and resold competitive local exchange services, if it intends to provide those services.

Parties to the Transaction

Alltel provides local, long-distance, wireless and Internet service to approximately 10 million customers in 23 states. Alltel is the parent corporation of both ACI and 360°. It owns 100 percent of the outstanding stock of Alltel Mobile Communications, Inc., which owns 100 percent of the outstanding stock of ACI. Alltel also owns 100 percent of the outstanding stock of 360° Communications Company, which owns 100 percent of the outstanding stock of 360°.

360° is a national reseller of long-distance service. It was granted a CC&N to provide competitive intrastate telecommunications services within the State of Arizona in Decision No. 62280, dated February 1, 2000. 360° operates in Arizona under the "Alltel" name and serves 780 Arizona long distance customers.

¹ R14-2-801, et seq. are applicable to all investor-owned telecommunications utilities under the jurisdiction of the Commission with Arizona jurisdictional revenues exceeding \$1,000,000.

² Docket No. T-03887A-00-0386

³ Docket No. T-03387A-00-0529

The Proposed Transaction

The Applicants have indicated that the purpose of the transfer is to consolidate Alltel's long distance operations into a single subsidiary, allowing it to operate more efficiently, and amounts to an internal restructuring.

At the close of the proposed transaction, the accounts receivable and CC&N of 360° will be transferred to ACI. All outstanding shares of 360° stock will then be cancelled.

Effect on Operations

ACI will remain a wholly owned subsidiary of Alltel, doing business as Alltel. According to the Applicants, the customers of 360° will continue to receive service under the existing Alltel tariff currently on file with the Commission. The Applicants assert that the proposed transaction will be transparent to the customers of 360°.

Financial Analysis

The only assets to be transferred from 360° to ACI are 360°'s accounts receivable. The Applicants have indicated that because Alltel owns both 360° and ACI, no financing costs will be incurred as a result of the transfer. Nevertheless, the Applicants have provided audited financial statements for Alltel Corporation for the period ending December 31, 1999. These financial statements list total assets of \$10.7 billion, equity of \$4.2 billion, and net income of \$783 million.

Related Issues

ACI does not hold a CC&N to operate as a reseller in Arizona at this time. The Applicants have indicated that if the Commission approves the transfer of assets and CC&N of 360° to ACI, ACI would withdraw its pending application for a CC&N to provide intrastate long-distance services. Because ACI would obtain a CC&N under the proposed transaction, a discussion of the information reviewed for companies seeking new CC&N's is warranted.

Review of Technical Information. Staff believes that the transfer of the assets and CC&N of 360° to ACI amounts to a reorganization of Alltel's long distance subsidiaries. Therefore, ACI's technical capability to provide the telecommunications services currently offered by 360° will continue. The Applicants have indicated that the management, customer services, and support services of the company will not change.

Review of Financial Information. Normally, an applicant seeking to obtain a CC&N to provide intrastate long-distance service as a reseller would need to show that it has sufficient financial resources to be allowed to charge customers any prepayments or deposits without posting a performance bond to cover such items. Staff believes that based on the financial information discussed above, and the fact that the ultimate parent company will remain, a

performance bond is not necessary in this case. Further, the Applicants have stated that neither 360° nor ACI require deposits for long distance services, and therefore hold no deposits.

Review of Proposed Tariff and Fair Value Determination. The applicants have stated that after the close of the proposed transaction, customers will continue to receive service under the same rates, terms, and conditions of service contained in the 360°/Alltel tariff on file with the Commission. Again, Staff believes that the proposed transaction amounts to a reorganization of Alltel's long distance subsidiaries. Customers will ultimately receive the same service at the same rates, from the same provider. These rates were approved in Decision No. 62280, dated February 1, 2000. Therefore, a review of the tariff is not necessary.

Conclusion and Recommendation

Staff believes the proposed transaction would be transparent to 360°'s Arizona customers.

Staff believes the consolidation of Alltel's long distance operations into a single subsidiary would allow it to operate more efficiently, and may result in decreased administrative expenses resulting from economies of scale.

Staff recommends approval of the Applicants' request to transfer the assets and CC&N of 360° to ACI subject to a hearing.

REQUEST FOR HEARING DATE

DKT_TYPE - NUMBER DIV - YEAR - MATTER COMPANY and DBA CASE_TYPE ASSIGNMENTS DATE TIME HEARING CITY/LOCATION FOR HEARING

T - 03285A - 00 - 0874	360Ø Long Distance, Inc. d/b/a ALLTEL	Sale of Assets / Cancel CC&N	STAFF Reiker LEGAL Wolfe HEARING	ESTIMATED TIME REQUIRED	
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OTHER INFORMATION:

03/27/2001 HEARING, LEGAL, 3 COMMISSIONERS COPIED WITH APPLICATION

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REQUEST FOR HEARING DATE

DKT_TYPE -NUMBER DIV -YEAR -MATTER COMPANY and DBA CASE_TYPE ASSIGNMENTS DATE TIME HEARING CITY/LOCATION FOR HEARING

T - 03887A - 00 - 0874	ALLTEL Communications, Inc	Sale of Assets / Cancel CC&N	STAFF <u>Reiker</u> LEGAL <u>Wolfe</u> HEARING	<p align="center"><i>30min</i></p> <p align="center">ESTIMATED TIME REQUIRED</p>	
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