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MEMORANDUM

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TO: Docket Control
FROM: Steven M. Olea
Acting Director
Utilities Division

T-02811A-01-0456

DATE: October 5, 2001

RE: STAFF REPORT FOR QWEST COMMUNICATIONS CORPORATION,
APPLICATION FOR TRANSFER OF CERTIFICATES OF CONVENIENCE AND
NECESSITY Docket NO. ~~T-01051B-01-0456~~

Attached is the Staff Report for QWEST COMMUNICATIONS CORPORATION Re:
Application for Transfer of Certificates of convenience and Necessity. Staff recommends
approval. Staff further recommends that a hearing should be held in this matter.

SMO: JHJ: jhj

Originator: J. H. Johnson

Attachment: Original and ten copies

Arizona Corporation Commission

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QWEST COMMUNICATIONS CORPORATION

DOCKET NO.:

T -01051B-01-0456

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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

QWEST COMMUNICATIONS CORPORATION
APPLICATION FOR TRANSFER OF
CERTIFICATES OF CONVENIENCE
AND NECESSITY

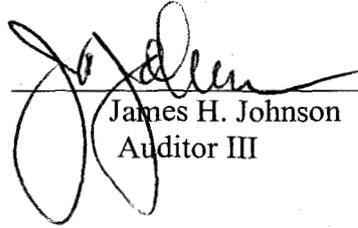
DOCKET NO. T-01051B-01-0456

OCTOBER 2001

STAFF ACKNOWLEDGEMENT

The Staff members designated below contributed elements of this Staff Report.

Contributing Staff:



James H. Johnson
Auditor III

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Introduction and Background

Qwest Communications Corporation ("QCC"), certain subsidiaries and affiliates, (LCI International Telecom Corp., ["LCI"], Phoenix Network, Inc., ["Network"], and USLD Communications Corp. ["USLD"]) made a joint application for approval by the Arizona Corporation Commission ("Commission") to transfer certificates of convenience and necessity ("CC&N") in connection with internal transactions to effectuate a corporate restructuring. All companies that are parties to these transactions are under common control. The proposed restructuring would merge six corporate entities into three entities.

The applicants are direct or indirect wholly owned subsidiaries or commonly owned affiliates of QCC which is a subsidiary of Qwest Communications International, Inc., a company publicly traded on the New York Stock Exchange.

Qwest Corporation, another subsidiary of QCC, provides various telecommunications services in Arizona subject to the jurisdiction of the Commission. These services are provided in accordance with the Company's rates and tariffs filed with the Commission. Qwest Corporation is not the subject of the joint application.

QCC is currently authorized to provide resold/inter/intra-LATA services, except local exchange, and it is also authorized to provide facilities-based long distance service.

USLD is authorized to provide alternative operator services ("AOS").

LCI International Telecom Corp., d.b.a. Qwest Communications Services, is authorized to provide resold interchange services and AOS, and resold toll service and AOS.

Network is authorized to provide competitive inter/intra-LATA resold telecommunications services except local exchange.

Transaction Description

The applicants propose to merge two entities, LCI and Network, into QCC with QCC as the surviving corporation. The joint application requests approval to transfer certificates of convenience and necessity to QCC. Any and all assets and customers will be transferred to QCC, a regulated entity, and service will be provided under QCC's tariff.

The applicants also propose to merge USLD into USLD Communications, Inc. USLD Communications, Inc. ("USLD Inc.") is not now a CC&N certificate holder but will become one upon completion of the merger of USLD into USLD Inc.

The applicants claim that Commission authorization of the proposed mergers and CC&N transfers will reduce the regulatory workload and provide economies in administration for the Qwest entities.

Once the merger of USLD into USLD Inc. is accomplished with the merger of LCI (which is the parent of USLD) into QCC, along with the merger of Network into QCC, the number of Arizona corporate entities will be reduced to three, simplifying oversight by the Commission and consolidating the corporate structure of QCC. There will be no change in control or ownership of the entities.

In support of the merger requests, QCC has provided exhibits A-1, A-2, B-1, and B-2 which present textual and visual descriptions of the mergers by and between the entities. These schedules are attached as part of this Staff Report.

In Decision No. 58087, the Commission granted QCC and its subsidiaries and affiliates a limited waiver of compliance with portions of the Commission's Affiliated Interest Rules. In that Decision, the Commission required that QCC, its subsidiaries, and affiliates file a notice of intent to reorganize only when the reorganization would result in any of the following:

- result in increased capital costs to Qwest Corporation;
- result in additional costs allocated to the Arizona jurisdiction;
- result in a reduction of Qwest's net operating income.

Qwest Corporation verifies that (1) the headquarters allocation of costs will not be impacted by the restructure, (2) any transaction costs will be billed under Part 32 affiliate rules as they were prior to the restructure, and (3) the reorganization will not affect capital costs or Qwest Corporation's net income. For these reasons, the Applicants believe that the restructure falls within the scope of the limited waiver granted in Decision No. 58087.

The Applicants have voluntarily provided notice in case the Commission should decide that the waiver is not applicable to the proposed transactions.

Conclusions and Recommendations

Staff concludes that these transactions are in the public interest for the following reasons:

1. There is no financial impact on the rate-paying public.
2. The merger will be transparent to the public.
3. The merger of these entities potentially reduces the workload of Commission Staff and QCC and related entities, affiliates, and subsidiaries.

Staff also concludes that the limited waiver of the Affiliated Interest Rules in Decision No. 58087 is also in the public interest and should be reaffirmed. (A.A.C. R14-2-803)

Staff recommends that an order be prepared that includes the following:

1. Authorize the transfer of the CC&N's to the acquiring entities.
2. Waive any applicable statutory or regulatory subscriber authorization provisions regarding individual customer consent to assignment of accounts in connection with the restructuring.
3. Reaffirm the waiver in Decision No. 58087.

Staff further recommends that a hearing be held.

SCHEDULE OF EXISTING OPERATING AUTHORITY
IN ARIZONA

A. Qwest Communications Corporation

- Authorization to provide resold inter/intra LATA services, except local exchange; Docket No. T-02811B-96-0219, Decision No. 60898 (May 22, 1998).
- Authorization to provide facilities-based long distance service; Docket No. U-2811-94-352, Certificate Pending (Filed September 22, 1994).

B. LCI International Telecom Corp. (d/b/a Qwest Communications Services)

- Authorization to provide resold interexchange services and AOS; Docket No. U-2717-96-386, Certificate Pending (Filed July 15, 1996).
- Authorization to provide resold toll service and AOS; Docket No. U-2717-93-140, Certificate Pending (Filed May 28, 1993)

C. USLD Communications, Inc.

- Authorization to provide alternative operator services; Docket No. U-2541-89-228, Decision No. 58210 (February 24, 1993).

D. Phoenix Network, Inc.

- Authorization to provide competitive inter/intra LATA resold telecommunications services, except local exchange; Docket No. U-2643-91-0319, Decision No. 60174 (May 16, 1997).

SCHEDULE OF PROPOSED OPERATING AUTHORITY
IN ARIZONA

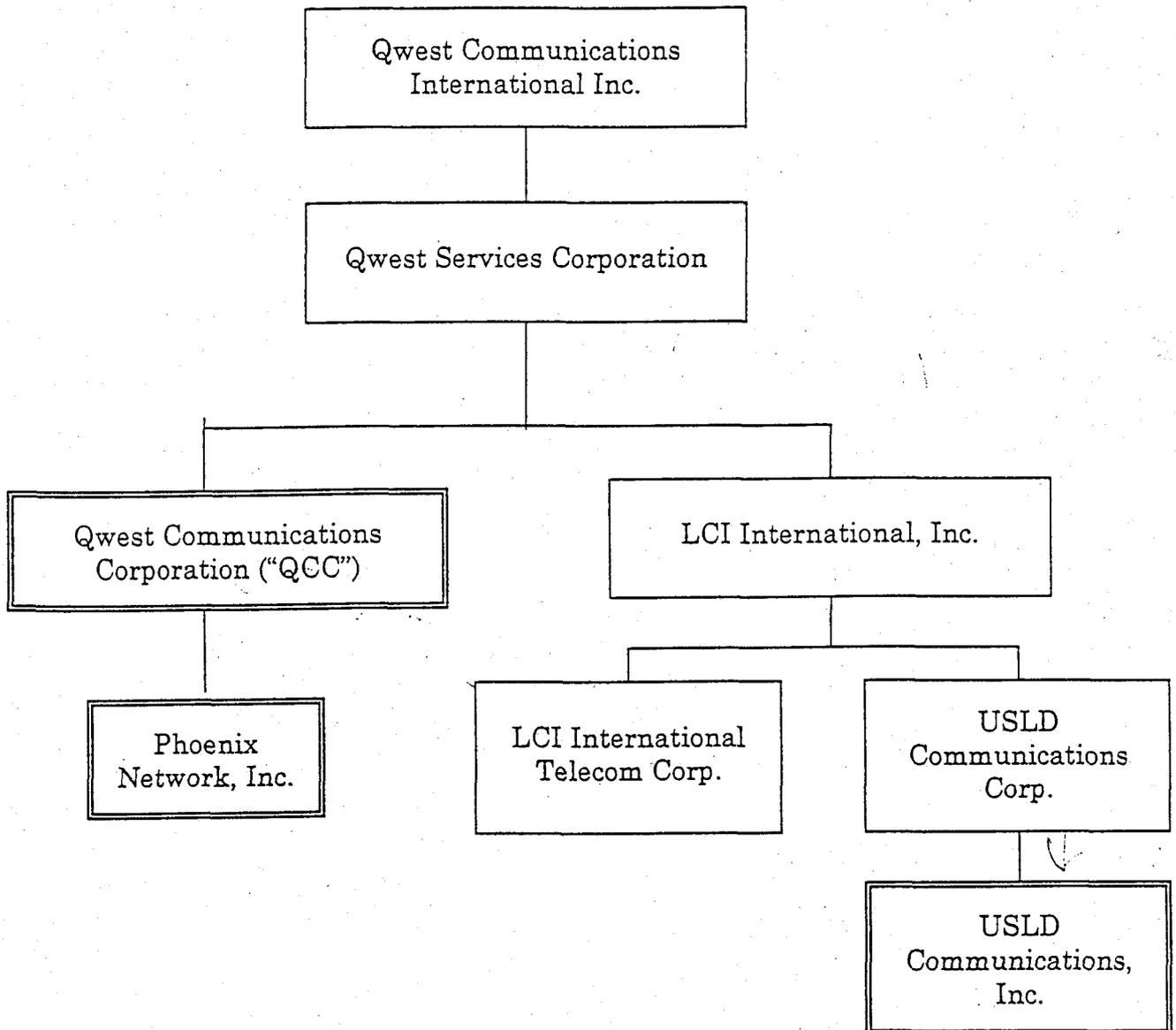
A. Qwest Communications Corporation

- Authorization to provide resold inter/intra LATA services, except local exchange; Docket No. T-02811B-96-0219, Decision No. 60898 (May 22, 1998).
- Authorization to provide facilities-based long distance service; Docket No. U-2811-94-352, Certificate Pending (Filed September 22, 1994).
- Authorization to provide competitive inter/intra LATA resold telecommunications services, except local exchange; Docket No. U-2643-91-0319, Decision No. 60174 (May 16, 1997).
- Authorization to provide resold interexchange services and AOS; Docket No. U-2717-96-386, Certificate Pending (Filed July 15, 1996).
- Authorization to provide resold toll service and AOS; Docket No. U-2717-93-140, Certificate Pending (Filed May 28, 1993)

B. USLD Communications, Inc.

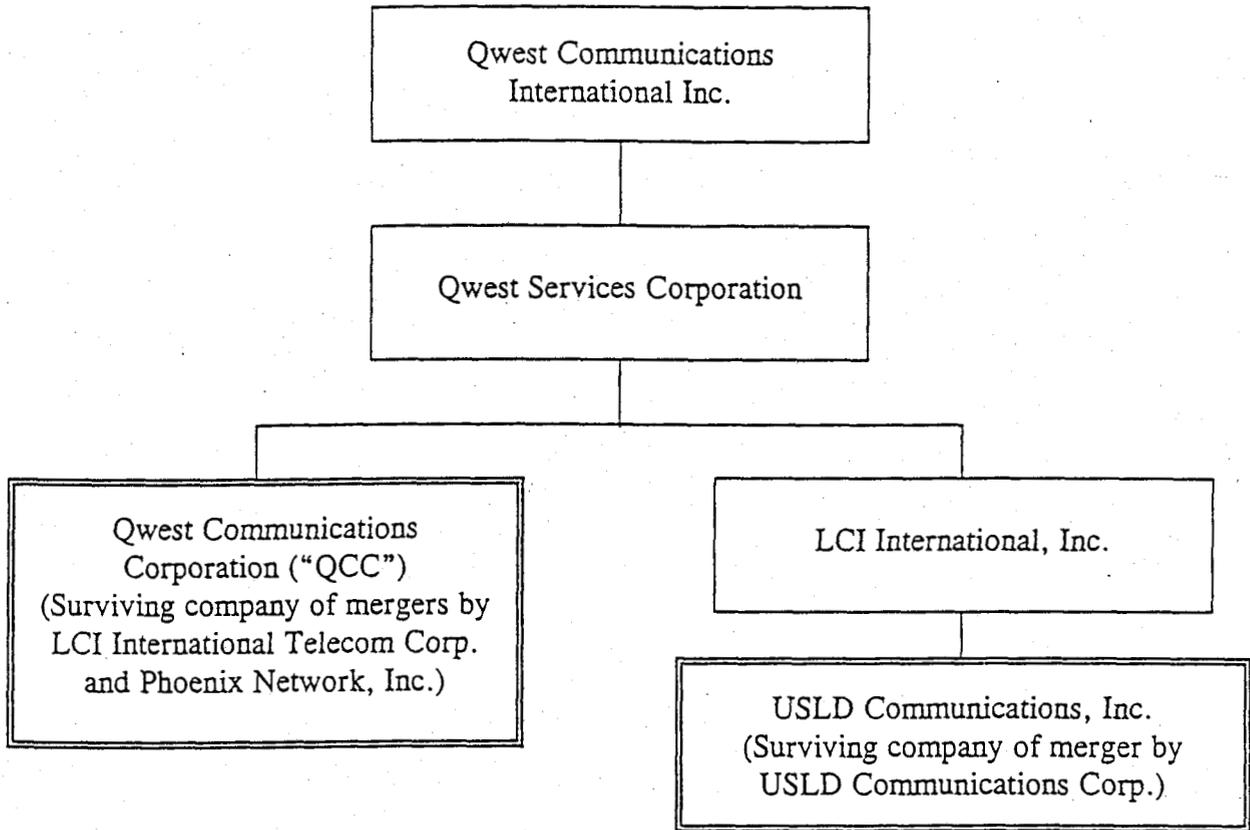
- Authorization to provide alternative operator services; Docket No. U-2541-89-228, Decision No. 60898 (February 24, 1993).

CHART OF CURRENT ORGANIZATIONAL STRUCTURE
FOR THE AFFECTED ENTITIES



Note: Subsidiaries with double borders hold certificates of authority. Other subsidiaries, which are not affected by the restructuring, are not represented.

CHART OF PROPOSED ORGANIZATIONAL STRUCTURE
FOR THE AFFECTED ENTITIES



Note: Subsidiaries with double borders hold certificates of authority. Other subsidiaries, which are not affected by the restructuring, are not represented.