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AZ CORP COMMISSION
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March 14, 2002

VIA FEDERAL EXPRESS

Docket Control Center
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007-2996

Re: <u>Docket No. T-03714A-01-0805</u>

Enclosed please find for filing an original plus eleven copies of this letter, a Filings Cover Sheet, and a Response of Tri-M Communications, Inc. d/b/a TMC Communications to Staff Data Request Relating to Fair Value Finding.

Please file-stamp the extra copy and return it in the enclosed self-addressed stamped envelope. If you have any questions or require additional information, please contact me at (415) 765-8443 or at jclark@gmssr.com.

Thank you for your assistance regarding this matter.

Very truly yours,

John Clark

Enc.

Arizona Corporation Commission
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ARIZONA CORPORATION COMMISSION

Response of Tri-M Communications, Inc. d/b/a TMC Communications To Staff Data Request Relating to Fair Value Finding

Tri-M Communications, Inc. d/b/a TMC Communications ("Applicant") hereby submits the following response to Staff's data request dated January 29, 2002, requesting information relating to fair valuation of Applicant's property for purposes of determining the reasonableness of Applicant's rates. Applicant's response was originally due on February 28, 2002; however, an extension of time to respond was granted by John F. Bostwick at Applicant's request.

Applicant has not yet commenced any local exchange operations in Arizona. Accordingly, Applicant's responses are based on projections, as contemplated by Staff's data requests shown below:

INFORMATION IN RESPONSE TO STAFF DATA REQUEST

1. Provide the projected total revenue for the first twelve months to provide telecommunications service to Arizona customers by the Applicant following certification, adjusted to reflect the **maximum rates** that the Applicant has requested in its tariff. This adjusted total revenue figure could be calculated as the number of units sold for all services offered times the maximum charge per unit.

   Response: Applicant's revenue projections are shown in Table 1 and Table 2, below. Table 1 shows projected revenues for the first year of operations, based on Applicant's proposed initial rates, which Applicant has designed to be competitive with the current rates of other carriers. Table 2 shows projected revenues for the same period, based on Applicant's proposed maximum rates. In the competitive marketplace, no carrier can sustain rates that are markedly higher than other carriers for like services. Moreover, the marketplace will drive prices for competitive services toward cost. Accordingly, the projected revenues shown in Table 2 assume parallel rate increases by other carriers and proportionate increases in costs. In the absence of both of these occurrences, Applicant would be unable to retain any customers at the proposed maximum rates and its revenues would fall to zero.

Table 1 -- Projected Revenues (Proposed Initial Rates)

Month	New Lines	Add'l Rev./Mo.	Annualized Rev.
1	120	$ 5,400	$ 64,800
2	240	$10,080	$ 118,800
3	480	$21,600	$ 216,000
4	720	$32,400	$ 291,600
5	960	$43,200	$ 345,600
6	960	$43,200	$ 302,400
7	960	$43,200	$ 259,200
8	960	$43,200	$ 216,000
9	960	$43,200	$ 172,800
10	960	$43,200	$ 129,600
11	960	$43,200	$ 86,400
12	960	$43,200	$ 43,200
Total	**9240**		**$2,246,400**

Note: Applicant intends to offer bundled local exchange and interexchange services pursuant to a number of different rate plans, the prices for which vary depending on the number of access lines served and the amount of local and interexchange usage that is included in the basic monthly service charge. Applicant's revenue projection assumes that it will recover an average of $40 per month for each access line served.

Table 2 -- Projected Revenues (Proposed Maximum Rates)

Month	New Lines	Add'l Rev./Mo.	Annualized Rev.
1	120	$ 9,450	$ 113,400
2	240	$18,900	$ 207,900
3	480	$37,800	$ 378,000
4	720	$56,700	$ 510,300
5	960	$75,600	$ 604,800
6	960	$75,600	$ 529,200
7	960	$75,600	$ 453,600
8	960	$75,600	$ 378,000
9	960	$75,600	$ 302,400
10	960	$75,600	$ 226,800
11	960	$75,600	$ 151,200
12	960	$75,600	$ 75,600
Total	**9240**		**$3,931,200**

Note: The differences between Applicant's proposed initial rates and its proposed maximum rates range between approximately 50% to 100%. The revenue projections in this table assume that Applicant's average per line revenue would be 75% higher at the proposed maximum rate than at the proposed initial rates.

2. Provide the projected **operating expenses** for the first twelve months to provide service to Arizona customers by the Applicant following certification.

   Response: Applicant's projected expenses shown in Table 3 are incremental to those of its other operations and are based on an assumed marketing cost of $40 per line, plus current costs of unbundled network elements and wholesale toll services (network costs) that Applicant will utilize to provide its bundled service offerings. Applicant estimates these network costs would average $27 per line, per month. The projected expenses exclude, among other things, general and administrative overheads, billing and customer support, uncollectibles, costs of debt, and income taxes. As noted above, it is extremely improbable that Applicant would be able to retain customers at the projected maximum rates unless costs of service were to increase proportionately for all carriers. Accordingly, for purposes of comparison with projected revenues based on the proposed maximum rates, it should be assumed that expenses would be approximately 75% higher than those shown in Table 3. Table 4 shows projected costs based on this assumption.

Table 3 -- Projected Expenses (Current)

Month	New Lines	Marketing Cost	Monthly Network Cost	Annualized Network Cost
1	120	$ 4,800	$ 3,240	$ 38,880
2	240	$ 9,600	$ 6,480	$ 71,280
3	480	$ 19,200	$12,960	$ 129,600
4	720	$ 28,800	$19,440	$ 174,960
5	960	$ 38,400	$25,920	$ 207,360
6	960	$ 38,400	$25,920	$ 181,440
7	960	$ 38,400	$25,920	$ 155,520
8	960	$ 38,400	$25,920	$ 129,600
9	960	$ 38,400	$25,920	$ 103,680
10	960	$ 38,400	$25,920	$ 77,760
11	960	$ 38,400	$25,920	$ 51,840
12	960	$ 38,400	$25,920	$ 25,920
Sub-Total	9240	$369,600		$1,347,840
			Total Cost	**$1,717,440**

Table 4 -- Projected Expenses (175% of Current)

Month	New Lines	Marketing Cost	Monthly Network Cost	Annualized Network Cost
1	120	$ 8,400	$ 5,670	$ 68,040
2	240	$ 16,800	$ 11,340	$ 124,740
3	480	$ 33,600	$12,960	$ 226,800
4	720	$ 50,400	$22,680	$ 306,180
5	960	$ 67,200	$45,360	$ 362,880
6	960	$ 67,200	$45,360	$ 317,520
7	960	$ 67,200	$45,360	$ 272,160
8	960	$ 67,200	$45,360	$ 226,800
9	960	$ 67,200	$45,360	$ 181,440
10	960	$ 67,200	$45,360	$ 136,080
11	960	$ 67,200	$45,360	$ 90,720
12	960	$ 67,200	$45,360	$ 45,360
Sub-Total	9240	$646,800		$2,358,720
			Total Cost	**$3,005,520**

3. Provide the book value (original cost less accumulated depreciation) of **all Arizona jurisdictional assets** projected to be providing telecommunications service to Arizona customers at the end of the first twelve months of operation. If the projected fair value of those assets is different from the projected original cost net book value, also provide the corresponding projected fair value amounts. Assets are not limited to plant and equipment. Items such as office equipment and office supplies should be included in this list. If the projected value of all assets is zero, please specifically state this in your response.

   Response: Applicant does not currently plan to devote hard assets exclusively to service in Arizona. Proportionate allocations of Applicant's hard assets to Arizona service are nominal. Applicant expects that its requirements for working cash to support its proposed Arizona operations during the first year, may exceed revenues from those operations (notwithstanding the foregoing revenue and expense estimates). However, Applicant has no way to accurate project those requirements at this time.

Respectfully submitted this 14th day of March 2002.

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