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MEMORANDUM

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TO: Docket Control

FROM: Ernest G. Johnson
Director
Utilities Division

EA for EGJ

THRU: Matthew Rowell
Chief, Telecommunications and Energy Section
Utilities Division

MR

DATE: July 19, 2006

RE: IN THE MATTER OF THE JOINT APPLICATION OF ALLTEL COMMUNICATIONS, INC. AND ALLTEL HOLDING CORPORATE SERVICES, INC. FOR APPROVAL OF THE TRANSFER OF THE CERTIFICATE OF CONVENIENCE AND NECESSITY TO PROVIDE RESOLD LONG DISTANCE TELECOMMUNICATIONS SERVICES AND ASSETS TO ALLTEL HOLDING CORPORATE SERVICES, INC. PURSUANT TO A.R.S. §40-285; APPROVAL OF TERMINATION OF SERVICE UNDER A.A.C. R14-2-1107 AND OF LIMITED WAIVER OF THE SLAMMING RULES, A.A.C. R14-2-1901 ET SEQ. (DOCKET NOS. T-03887A-05-0909 AND T-20436A-05-0909)

AZ CORP COMMISSION
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Attached is the Staff Report on the Joint Application of Alltel Communications, Inc. and Alltel Holding Corporate Services, Inc. For Approval Of The Transfer Of The Certificate Of Convenience And Necessity To Provide Resold Long Distance Telecommunications Services And Assets To Alltel Holding Corporate Services, Inc.; Approval Of Termination Of Service and of a Limited Waiver Of The Slamming Rules Staff recommends approval of the application

EGJ:WMS:tdp

Originator: Wilfred Shand, Jr.

Arizona Corporation Commission

DOCKETED

JUL 19 2006

DOCKETED BY	<i>MR</i>
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SERVICE LIST FOR: Alltel Communications, Inc. and Alltel Holding Corporate Services, Inc.
DOCKET NOS. T-03887A-05-0909 and T-20436A-05-0909

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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

ALLTEL COMMUNICATIONS, INC AND
ALLTEL HOLDING CORPORATE SERVICES, INC.
DOCKET NOS. T-03887A-05-0909 AND T-20436A-05-0909

IN THE MATTER OF THE JOINT APPLICATION OF ALLTEL COMMUNICATIONS, INC.
AND ALLTEL HOLDING CORPORATE SERVICES, INC. FOR APPROVAL OF THE
TRANSFER OF THE CERTIFICATE OF CONVENIENCE AND NECESSITY TO PROVIDE
RESOLD LONG DISTANCE TELECOMMUNICATIONS SERVICES AND ASSETS TO
ALLTEL HOLDING CORPORATE SERVICES, INC. PURSUANT TO A.R.S. §40-285;
APPROVAL OF TERMINATION OF SERVICE UNDER A.A.C. R14-2-1107 AND OF
LIMITED WAIVER OF THE SLAMMING RULES, A.A.C. R14-2-1901 ET SEQ.

July 19, 2006

STAFF ACKNOWLEDGEMENT

The Staff Report for the Joint Application of Alltel Communications, Inc. and Alltel Holding Corporate Services, Inc. For Approval Of The Transfer Of The Certificate Of Convenience And Necessity To Provide Resold Long Distance Telecommunications Services And Assets To Alltel Holding Corporate Services, Inc.; Approval Of Termination Of Service and of a Limited Waiver Of The Slamming Rules (Docket Nos. T-03887A-05-0909 and T-20436A-05-0909) was the responsibility of the staff member listed below. Wilfred Shand, Jr. was responsible for the review and analysis of the application.


Wilfred Shand, Jr.
Public Utilities Analyst Manager

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I. INTRODUCTION

On December 22, 2005, Alltel Communications, Inc. ("ACI") and Alltel Holdings Corporate Services, Inc. ("AHCSI") filed an application requesting:

Approval of the transfer of ACI's Certificate of Convenience and Necessity ("CC&N") to provide resold long distance service to AHCSI;

Approval of the transfer of long distance customers from ACI to AHCSI;

Approval of the termination of resold long distance service by ACI upon the transfer of the CC&N; and

The granting of a limited waiver of the Commission's Slamming rules.

Alltel Corporation ("Alltel") is in the process of spinning off its wireline telecommunications business. ACI will remain a subsidiary of Alltel. AHCSI will become a subsidiary of a separate publicly traded holding company. At the time that the application was submitted, the holding Company's name was Valor Communications Group. On June 15, 2006, Alltel submitted an amendment to the application in which it states that AHCSI has changed its name to Windstream Communications, Inc. ("Windstream"). Windstream also submitted a proposed tariff that is identical to the current Alltel tariff on file with the Commission except that the name has been changed from Alltel Communications, Inc. to Windstream Communications, Inc.

In its application, ACI stated that it provided resold long distance service to 3072 residential and 2240 business customers. ACI further stated that none of its customers are provided service under contract and therefore they are able to switch their service provider with no early termination penalty. ACI indicated that it bills in arrears and consequently holds no prepayments that would not be transferred to or honored by Windstream.

The applicants state that AHCSI will provide the same telecommunications services to ACI's customers, customers will continue to receive their existing telecommunications services at the same rates, terms, and conditions, the only change apparent to customers will be in the change of the name of the customers' service provider and that from a customer's point of view, the transfer will be transparent and the service will be seamless and uninterrupted.

II. THE APPLICANTS

Alltel Communications, Inc.

ACI is a privately held Delaware corporation. ACI was granted a CCN to provide resold long distance services in Decision No. 63937, dated August 6, 2001.

Alltel Holding Corporate Services, Inc.

AHCSI now known as Windstream Communications, Inc. is a wholly owned subsidiary of Alltel Corporation. According to the application, AHCSI/Windstream was established by Alltel Corporation to enable it to move ACI's long distance resale business, as well as wireline local

business of other companies that do not operate in Arizona, to a separate publicly traded company. After the merger, AHCSI/Windstream will become a subsidiary of a separate publicly traded holding company, currently known as Valor Communications Group.

III. DISCONTINUANCE OF SERVICE PURSUANT TO RULE 1107

ACI requests that its resold long distance CC&N be transferred to AHCSI. In connection with that request, ACI seeks to discontinue its long distance service in Arizona. In accordance with A.A.C. R14-2-1107, ACI has provided the following information:

- a. ACI seeks discontinuance because it is transferring its CC&N and customers to AHCSI.
- b. ACI notified its customers of the discontinuance through a letter a sample of which was included as Exhibit C in the Application. ACI indicated that unless the notified customers elect to change carriers after receipt of the notice, they will be transferred to AHCSI and will continue to receive resold long distance service at the same rates, terms and conditions as they presently receive. ACI stated that all of its customers are on month-to-month service arrangements and can transfer to any other long distance carrier upon request.
- c. ACI holds no deposits or prepayments. AHCSI will honor any existing ACI prepaid calling cards,
- d. Numerous other providers offer long distance service in Arizona, including ATT and MCI (now Verizon).

IV. LIMITED WAIVER OF ARIZONA SLAMMING RULES

The applicants seek a limited waiver of the Commission's Slamming Rules in connection with the transfer of ACI's Arizona subscriber base to AHCSI. ACI and AHCSI will comply with the FCC's slamming rules regarding transfer of the subscriber base by providing notice to the FCC and to customers. The applicants state that waivers of this kind have previously been granted by the Commission for SBC Telecom, Inc. in Decision No. 67827 and for XO Arizona, Inc. in Decision No. 67460. The applicants state that such a waiver is particularly appropriate given that the exact same rates, terms and conditions will be offered by the new provider.

V. TRANSFER OF CUSTOMERS

According to ACI, the proposed transfer of customers from ACI to AHCSI will have no adverse impact on customers. After the effective date of the transfer, AHCSI will provide the same resold long distance telecommunication services to former customers of ACI. Customers will continue to receive their existing services at the same rates, terms, and conditions and any future changes in the rates, terms and conditions will be made consistent with Commission's requirements. To ensure a seamless transaction and avoid customer confusion or inconvenience, ACI provided advance written notice to the affected customers in May and June 2006. The

notice describes the change in service provider and the customers' right to select another carrier if they so chose, in accordance with the applicable Federal Communications Commission rules.

VI. REQUEST FOR APPROVAL OF THE TRANSFER OF ACI'S CC&N TO AHCSI

In connection with the requested transfer of ACI's Resold Long Distance CCN to AHCSI, AHCSI provided information that it believes is consistent with the Commission's standard form application for a resold long distance CCN.

AHCSI stated that it would use the ACI tariff currently on file with the Commission and would refile the tariff reflecting the new name. On June 15, 2006, Alltel filed a supplement to the Application which noted that AHCSI had changed its name to Windstream Communications, Inc. and also included a proposed tariff that reflected the name change. AHCSI proposes to provide resold long distance service on a statewide basis

AHCSI states that neither AHCSI nor its officers or directors have been or are currently subject to any formal or informal complaint proceedings before any state or federal regulatory agency and that neither AHCSI nor its officers or directors have been or are currently involved in any civil or criminal investigations, or have had judgments entered in any civil matter, judgments levied by any administrative or regulatory agency or been convicted of any criminal acts within the last ten years.

AHCSI does not require deposits or prepayments for its service and does not believe a performance bond is necessary.

AHCSI does not currently offer resold long distance service in any state and does not have financial statements for the past two years because it is a recently formed entity. The applicant will rely on the financial resources of its parent company. In response to Staff's request for information, Alltel indicated that the parent upon which AHCSI will rely is Valor Communications Group. Applicant does not have an Arizona-specific estimate of its projected total revenues and expenses for the first twelve months of operation. Applicant does not and will not have any physical assets in Arizona during the first twelve months of operation. Therefore, the value of its assets is zero.

VII. RECOMMENDATIONS

Staff recommends that AHCSI/Windstream be granted a CC&N to provide resold interexchange service. Staff further recommends approval of AHCSI/Windstream's requested waiver of the Commission's Slamming and Cramming rules in this matter. Staff further recommends cancellation of ACI's CC&N to provide telecommunications services in the State of Arizona. Staff further recommends the following:

1. AHCSI should be ordered to comply with all Commission rules, orders, and other requirements relevant to the provision of intrastate telecommunications service;

2. AHCSI should be ordered to maintain its accounts and records as required by the Commission;
3. AHCSI should be ordered to file with the Commission all financial and other reports that the Commission may require, and in a form and at such times as the Commission may designate;
4. AHCSI should be ordered to maintain on file with the Commission all current tariffs and rates, and any service standards that the Commission may require;
5. AHCSI should be ordered to comply with the Commission's rules and modify its tariffs to conform to these rules if it is determined that there is a conflict between AHCSI's tariffs and the Commission's rules;
6. AHCSI should be ordered to cooperate with Commission investigations including, but not limited to customer complaints;
7. AHCSI should be ordered to participate in and contribute to the Arizona Universal Service Fund, as required by the Commission;
8. AHCSI should be ordered to notify the Commission immediately upon changes to the Applicant's name address or telephone number;
9. AHCSI should be ordered to immediately certify to the Commission that it does not block access to alternative telecommunications providers by its customers via 101XXXX dialing;
10. If at some future date, AHCSI 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;
11. AHCSI's intrastate interexchange service offerings should be classified as competitive pursuant to A.A.C. R14-2-1108;
12. The maximum rates for these services should be the maximum rates proposed by AHCSI in its proposed tariffs. The minimum rates for AHCSI's competitive services should be the AHCSI's total service long run incremental costs of providing those services as set forth in A.A.C. R14-2-1109;
13. In the event that AHCSI states only one rate in its proposed tariff for a competitive service, the rate stated should be the effective (actual) price to be charged for the service as well as the service's maximum rate;

14. 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 AHCSI and has determined that its fair value rate base is zero. Accordingly, AHCSI's fair value rate base is too small to be useful in a fair value analysis. Staff has reviewed the rates to be charged by AHCSI and believes they are just and reasonable as they are comparable to several long distance carriers operating in Arizona. Therefore, while Staff considered the fair value rate base information submitted by the Applicant, the fair value rate base information provided should not be given substantial weight in this analysis;
15. In the event AHCSI requests to discontinue and/or abandon its service area it must provide notice to both the Commission and its customers. Such notice(s) shall be in accordance with A.A.C. R14-2-1107.