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OPEN MEETING ITEM

ORIGINAL



WILLIAM A. MUNDELL
JEFF HATCH-MILLER
MIKE GLEASON
KRISTIN K. MAYES

BRIAN C. MCNEIL
Executive Secretary
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ARIZONA CORPORATION COMMISSION

2003 OCT -6 A 11: 11

ARIZONA CORP COMMISSION
DOCUMENT CONTROL

DATE: OCTOBER 6, 2003

DOCKET NO: T-04182A-03-0325

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Amanda Pope. The recommendation has been filed in the form of an Order on:

MERCURY LONG DISTANCE, INC.
(CC&N/RESELLER)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and ten (10) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00 p.m.** on or before:

OCTOBER 15, 2003

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Working Session and Open Meeting to be held on:

OCTOBER 21, 2003 and OCTOBER 22, 2003

For more information, you may contact Docket Control at (602)542-3477 or the Hearing Division at (602)542-4250.

Arizona Corporation Commission
DOCKETED

OCT 06 2003

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BRIAN C. MCNEIL
EXECUTIVE SECRETARY

1
2 **BEFORE THE ARIZONA CORPORATION COMMISSION**

3 COMMISSIONERS

4 MARC SPITZER, Chairman
5 WILLIAM A. MUNDELL
6 JEFF HATCH-MILLER
7 MIKE GLEASON
8 KRISTIN K. MAYES

9 IN THE MATTER OF THE APPLICATION OF
10 MERCURY LONG DISTANCE, INC. FOR A
11 CERTIFICATE OF CONVENIENCE AND
12 NECESSITY TO PROVIDE COMPETITIVE
13 RESOLD INTEREXCHANGE
14 TELECOMMUNICATIONS SERVICES, EXCEPT
15 LOCAL EXCHANGE SERVICES

DOCKET NO. T-04182A-03-0325

DECISION NO. _____

ORDER

16 Open Meeting
17 October 21 and 22, 2003
18 Phoenix, Arizona

19 **BY THE COMMISSION:**

20 Having considered the entire record herein and being fully advised in the premises, the
21 Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

22 FINDINGS OF FACT

23 1. On May 21, 2003, Mercury Long Distance, Inc. ("Applicant" or "Mercury") filed with
24 the Commission an application for a Certificate of Convenience and Necessity ("Certificate") to
25 provide competitive resold interexchange telecommunications services, except local exchange
26 services, within the State of Arizona.

27 2. Applicant is a switchless reseller that purchases telecommunications services from a
28 variety of carriers for resale to its customers.

3. In Decision No. 58926 (December 22, 1994), the Commission found that resold
telecommunications providers ("resellers") are public service corporations subject to the jurisdiction
of the Commission.

4. Mercury has authority to transact business in the State of Arizona.

5. On July 22, 2003, Mercury filed an Affidavit of Publication indicating compliance
with the Commission's notice requirements.

1 6. On August 14, 2003, the Commission's Utilities Division Staff ("Staff") filed a Staff
2 Report, which includes Staff's fair value rate base determination in this matter and recommends
3 approval of the application subject to certain conditions.

4 7. In the Staff Report, Staff stated that Mercury provided financial statements for the
5 period ending December 31, 2002, which list assets of \$18.8 million, total equity of \$1.5 million, and
6 a net income of \$3.3 million.

7 8. In its Staff Report, Staff stated that based on information obtained from the Applicant,
8 it has determined that Mercury's fair value rate base ("FVRB") is zero. Staff has determined that
9 Applicant's FVRB is too small to be useful in a fair value analysis and is not useful in setting rates.
10 Staff further stated that in general, rates for competitive services are not set according to rate of return
11 regulation, but are heavily influenced by the market. Staff recommended that the Commission not set
12 rates for Mercury based on the fair value of its rate base.

13 9. Staff believes that Mercury has no market power and that the reasonableness of its
14 rates will be evaluated in a market with numerous competitors. In light of the competitive market in
15 which the Applicant will be providing its services, Staff believes that the rates in Applicant's
16 proposed tariffs for its competitive services will be just and reasonable, and recommends that the
17 Commission approve them.

18 10. Staff recommended approval of Mercury's application subject to the following:

19 (a) The Applicant should be ordered to comply with all Commission rules, orders,
20 and other requirements relevant to the provision of intrastate telecommunications
21 service;

22 (b) The Applicant should be ordered to maintain its accounts and records as
23 required by the Commission;

24 (c) The Applicant should be ordered to file with the Commission all financial and
25 other reports that the Commission may require, and in a form and at such times as the
26 Commission may designate;

26 (d) The Applicant should be ordered to maintain on file with the Commission all
27 current tariffs and rates, and any service standards that the Commission may require;

27 (e) The Applicant should be ordered to comply with the Commission's rules and
28 modify its tariffs to conform to these rules if it is determined that there is a conflict

1 between the Applicant's tariffs and the Commission's rules;

2 (f) The Applicant should be ordered to cooperate with Commission investigations
3 of customer complaints;

4 (g) The Applicant should be ordered to participate in and contribute to a universal
5 service fund, as required by the Commission;

6 (h) The Applicant should be ordered to notify the Commission immediately upon
7 changes to the Applicant's address or telephone number;

8 (i) If the Applicant, at some future, date wants to collect from its customers an
9 advance, deposit, and/or prepayment, it must file information with the Commission for
10 Staff review. Upon receipt of such filing and after review, Staff would forward its
11 recommendations to the Commission;

12 (j) The Applicant's interexchange service offerings should be classified as
13 competitive pursuant to A.A.C. R14-2-1108;

14 (k) The Applicant's maximum rates should be the maximum rates proposed by the
15 Applicant in its proposed tariffs. The minimum rates for the Applicant's competitive
16 services should be the Applicant's total service long run incremental costs of
17 providing those services as set forth in A.A.C. R14-2-1109; and

18 (l) In the event that the Applicant states only one rate in its proposed tariff for a
19 competitive service, the rate stated should be the effective (actual) price to be charged
20 for the service as well as the service's maximum rate.

21 11. Staff further recommended that Mercury's Certificate should be conditioned upon the
22 Applicant filing conforming tariffs in accordance with this Decision within 365 days of the effective
23 date of this Decision, or 30 days prior to providing service, whichever comes first.

24 12. Staff recommended that if the Applicant fails to meet the timeframes outlined in
25 Findings of Fact No. 11, that Mercury's Certificate should become null and void without further
26 Order of the Commission, and that no time extensions for compliance should be granted.

27 13. The rates proposed by this filing are for competitive services.

28 14. Staff's recommendations as set forth herein are reasonable.

15. Mercury's fair value rate base is zero.

CONCLUSIONS OF LAW

1. Applicant is a public service corporation within the meaning of Article XV of the
Arizona Constitution and A.R.S. §§ 40-281 and 40-282.

1 SERVICE LIST FOR: MERCURY LONG DISTANCE, INC.

2 DOCKET NO.: T-04182A-03-0325

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