

ORIGINAL



0000068665

STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

RECEIVED

2001 NOV 13 P 12: 14

Application For a Certificate of Convenience and Necessity to Provide Resold
Interexchange Service and For Determination that Services of the Applicant are Competitive

AZ. CORP. COMMISSION
DOCUMENT CONTROL

Applicant: Global Crest Communications, Inc.
Docket No.: T-04024A-01-0461

On June 6, 2001, Global Crest Communications, Inc. ("Applicant") filed an application for a Certificate of Convenience and Necessity (CC&N) to provide resold interexchange services within the State of Arizona.

Staff's review of this application addresses the overall fitness of the Applicant to receive a CC&N to provide competitive resold intrastate interexchange telecommunications services. Staff's review considers the Applicant's technical and financial capabilities, and whether the Applicant's proposed rates will be competitive, just, and reasonable.

REVIEW OF APPLICANT INFORMATION

Staff makes the following finding, indicated by an "X," regarding information filed by the Applicant:

- The necessary information has been filed to process this application, and the Applicant has authority to transact business in the State of Arizona.
- The Applicant has published legal notice of the application in all counties where service will be provided.

REVIEW OF TECHNICAL INFORMATION

The Applicant has demonstrated sufficient technical capability to provide the proposed services for the following reasons, which are marked:

- The Applicant is currently providing service in Arizona.
- The Applicant is currently providing service in other states.
- The Applicant is a switchless reseller.

Arizona Corporation Commission

DOCKETED

NOV 13 2001

| | |
|-------------|------------|
| DOCKETED BY | <i>nae</i> |
|-------------|------------|

The Applicant has provided a system diagram that depicts its network that is used for completing calls within Arizona. Local exchange carrier facilities are used to originate and terminate calls carried on the Applicant's interexchange network. The Applicant does not currently own any interexchange facilities. The facilities that are used to complete calls are obtained from a facilities-based carrier operating in the state.

In the event the Applicant's network fails, end users can access other interexchange service providers.

The Applicant is currently providing resold interexchange service in Florida and is approved to offer similar services in twenty-four (24) other states. Based on this information, Staff has determined that the Applicant has sufficient technical capabilities to provide resold interexchange telecommunications services.

REVIEW OF FINANCIAL INFORMATION

The Applicant has provided its unaudited financial statements for the year ending December 31, 2000. These financial statements list assets of \$334,077; equity of \$208,154; and a net income of \$334,077. The Applicant did not provide notes related to the financial statements. Based upon this information, Staff believes the Applicant lacks sufficient financial resources to be allowed to charge customers any prepayments or deposits without posting a performance bond to cover such customer prepayments or deposits.

To that end, Staff recommends that the Applicant procure a performance bond equal to \$10,000. The minimum bond amount of \$10,000 should be increased if at any time it would be insufficient to cover prepayments and/or deposits collected from the Applicant's customers. The bond amount should be increased in increments of \$5,000. This increase should occur when the total amount of the prepayments and deposits is within \$1,000 of the bond amount. Staff further recommends that proof of the above mentioned performance bond be docketed within 180 days of the effective date of an order in this matter or 30 days prior to the provision of service, whichever comes first, and must remain in effect until further order of the Arizona Corporation Commission ("Commission").

If at some time in the future the Applicant's financial outlook improves, Staff recommends that the Applicant be allowed to file a request for cancellation of its performance bond. Such request should be accompanied by information demonstrating the Applicant's financial viability. Upon receipt of such filing and after Staff review, Staff will forward its recommendation to the Commission.

If this Applicant experiences financial difficulty, there should be minimal impact to the customers of this Applicant because there are many other companies that provide resold telecommunications service or the customers may choose a facilities-based provider. If the customer wants service from a different provider immediately, that customer is able to dial a 101XXXX access code. In the longer term, the customer may permanently switch to another company.

REVIEW OF PROPOSED TARIFF AND FAIR VALUE DETERMINATION

The Applicant has filed a proposed tariff with the Commission.

The Applicant has filed sufficient information with the Commission to make a fair value determination.

The Applicant has submitted proposed tariffs. At this time, Staff has not asked the Applicant to provide Staff with fair value information. Without this information, Staff is unable to provide tariff analysis and recommendations in terms of a fair value finding. Therefore, Staff recommends that, if the Applicant wishes to proceed with its certificate application, any tariffs filed in this matter be approved on an interim basis. If a certificate is conditionally granted and tariffs are authorized on an interim basis, the Applicant should be required to file in this Docket, within 18 months of the date it first provides service following certification, sufficient information for Staff analysis and recommendation for a fair value finding, as well as for an analysis and recommendation for permanent tariff approval. This information must include, at a minimum, the following:

1. A dollar amount representing the total revenue for the first twelve months of telecommunications service provided 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.
2. The total actual operating expenses for the first twelve months of telecommunications service provided to Arizona customers by the Applicant following certification.
3. The value of **all assets**, listed by major category, including a description of the assets, used for the first twelve months of telecommunications service provided to Arizona customers by the Applicant following certification. Assets are not limited to plant and equipment. Items such as office equipment and office supplies should be included in this list.

Staff further recommends that the Applicant's failure to meet the condition to timely file sufficient information for a fair value finding and analysis and recommendation of permanent tariffs should result in the expiration of the certificate and of the tariffs.

COMPETITIVE SERVICES' RATES AND CHARGES

Competitive Services

The Applicant is a reseller of services it purchases from other telecommunications companies. It is not a monopoly provider of service nor does it control a significant portion of the telecommunications market. The Applicant cannot adversely affect the intrastate interexchange market by restricting output

or raising market prices. In addition, the entities from which the Applicant buys bulk services are technically and financially capable of providing alternative services at comparable rates, terms, and conditions. Staff has concluded that the Applicant has no market power and that the reasonableness of its rates will be evaluated in a market with numerous competitors. In light of the competitive market in which the Applicant will be providing its services, Staff believes that the Applicant's proposed tariffs for its competitive services will be just and reasonable.

Effective Rates

The Commission provides pricing flexibility by allowing competitive telecommunication service companies to price their services at or below the maximum rates contained in their tariffs as long as the pricing of those services complies with Arizona Administrative Code ("AAC") R14-2-1109. The Commission's rules require the Applicant to file a tariff for each competitive service that states the maximum rate as well as the effective (actual) price that will be charged for the service. Because Staff believes that the market in which these services will be offered is competitive, Staff recommends approval on an interim basis of the rates proposed by the Applicant in its most recently filed tariffs. In the event that the Applicant states only one rate in its tariff for a competitive service, Staff recommends that the rate stated be the effective (actual) price to be charged for the service as well as the service's maximum rate. Any changes to the Applicant's effective price for a service must comply with AAC R14-2-1109.

Minimum and Maximum Rates

AAC R14-2-1109 (A) provides that minimum rates for the Applicant's competitive services must not be below the Applicant's total service long run incremental costs of providing the services. The Applicant's maximum rates should be the maximum rates proposed by the Applicant in its most recent tariffs on file with the Commission. Any future changes to the maximum rates in the Applicant's tariffs must comply with AAC R14-2-1110.

STAFF RECOMMENDATIONS

Staff has reviewed the Applicant's application for a Certificate of Convenience and Necessity to offer intrastate interexchange services as a reseller and its petition to classify its intrastate interexchange services as competitive. Based on its evaluation of the Applicant's technical and financial capabilities to provide resold intrastate interexchange services, Staff recommends approval of the application subject to the following:

1. The Applicant should be ordered to comply with all Commission rules, orders, and other requirements relevant to the provision of intrastate telecommunications service;
2. The Applicant should be ordered to maintain its accounts and records as required by the Commission;

3. The Applicant 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. The Applicant 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. The Applicant 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 the Applicant's tariffs and the Commission's rules;
6. The Applicant should be ordered to cooperate with Commission investigations of customer complaints;
7. The Applicant should be ordered to participate in and contribute to a universal service fund, as required by the Commission;
8. The Applicant should be ordered to notify the Commission immediately upon changes to the Applicant's address or telephone number;
9. If at some time in the future the Applicant's financial outlook improves, the Applicant should be allowed to file a request for cancellation of its established performance bond, and that such request be accompanied by information demonstrating the Applicant's financial viability. Upon receipt of such filing and after Staff review, Staff would forward its recommendation to the Commission;
10. The Applicant's intrastate interexchange service offerings should be classified as competitive pursuant to AAC R14-2-1108;
11. The rates proposed by the Applicant in its most recently filed tariffs should be approved on an interim basis. The maximum rates for these services should be the maximum rates proposed by the Applicant in its proposed tariffs. The minimum rates for the Applicant's competitive services should be the Applicant's total service long run incremental costs of providing those services as set forth in AAC R14-2-1109;
12. In the event that the Applicant 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; and

Staff recommends approval of the application subject to the following conditions:

1. The Applicant be ordered to file conforming tariffs within 30 days of an Order in this matter, and in accordance with the Decision;
2. The Applicant be required to file in this Docket, within 18 months of the date it first provides service following certification, sufficient information for Staff analysis and recommendation for a fair value finding, as well as for an analysis and recommendation for permanent tariff approval.

The Applicant's failure to meet the condition to timely file sufficient information for a fair value finding and analysis and recommendation of permanent tariffs should result in the expiration of the certificate and of the tariffs. This information must include, at a minimum, the following:

- a. A dollar amount representing the total revenue for the first twelve months of telecommunications service provided 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.
 - b. The total actual operating expenses for the first twelve months of telecommunications service provided to Arizona customers by the Applicant following certification.
 - c. The value of **all assets**, listed by major category, including a description of the assets, used for the first twelve months of telecommunications service provided to Arizona customers by the Applicant following certification. Assets are not limited to plant and equipment. Items such as office equipment and office supplies should be included in this list.
3. In order to protect the Applicant's customers,
- a. the Applicant should be ordered to procure a performance bond equal to \$10,000;
 - b. the minimum bond amount of \$10,000 should be increased if at any time it would be insufficient to cover prepayments and/or deposits collected from the Applicant's customers. The bond amount should be increased in increments of \$5,000. This increase should occur when the total amount of prepayments and deposits is within \$1,000 of the bond amount;
 - c. proof of the performance bond should be docketed within 180 days of the effective date of an order in this matter or 30 days prior to the provision of service, whichever comes first, and must remain in effect until further order of the Commission; however
 - d. if at some time in the future the Applicant's financial outlook improves, Staff recommends that the Applicant be allowed to file a request for cancellation of its established performance bond. Such request should be accompanied by information demonstrating the Applicant's financial viability. Upon receipt of such filing and after Staff review, Staff will forward its recommendation to the Commission.

This application may be approved without a hearing pursuant to Arizona Revised Statutes § 40-282.



Ernest G. Johnson
Director
Utilities Division

Date: 11-9-01

Originator: John Bostwick

Date: November 8, 2001