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MEMORANDUM

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TO: Docket Control

FROM: Ernest G. Johnson
Director
Utilities Division

THRU: Wilfred Shand, Jr.
Manager, Telecommunications & Energy Section
Utilities Division

DATE: May 25, 2007

RE: **AMENDED** - IN THE MATTER OF THE APPLICATION OF INTEGRATED SERVICES, INC. FOR APPROVAL OF A CERTIFICATE OF CONVENIENCE AND NECESSITY TO PROVIDE COMPETITIVE RESOLD LONG DISTANCE TELECOMMUNICATIONS SERVICES. DOCKET NO. T-20463A-06-0394

Attached is the Staff Report for the above referenced application. The Applicant is applying for approval to provide the following services:

- Resold Long Distance Services

Staff is recommending approval of the application.

EGJ:AFF:red

Originator: Armando Fimbres

Attachment: Original and thirteen copies

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AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission
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SERVICE LIST FOR: Integrated Services, Inc.
DOCKET NO. T-20463A-06-0394

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Arizona Corporation Commission
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Phoenix, Arizona 85007

STAFF REPORT

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

INTEGRATED SERVICES, INC.

DOCKET NO. T-20463A-06-0394

IN THE MATTER OF THE APPLICATION OF INTEGRATED SERVICES, INC. FOR APPROVAL OF A CERTIFICATE OF CONVENIENCE AND NECESSITY TO PROVIDE COMPETITIVE RESOLD LONG DISTANCE TELECOMMUNICATIONS SERVICES

MAY 25, 2007

STAFF ACKNOWLEDGMENT

The Staff Report for Integrated Services, Inc., Docket No. T-20463A-06-0394, was the responsibility of the Staff member listed below. Armando Fimbres was responsible for the review and analysis of the application for a Certificate of Convenience and Necessity to provide resold long distance and petition for a determination that its proposed services should be classified as competitive.

Armando Fimbres
Public Utilities Analyst V

STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

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

Applicant: Integrated Services, Inc.
Docket No.: T-20463A-06-0394

On June 12, 2006, Integrated Services, Inc. ("ISI" or "Applicant") filed an application for a Certificate of Convenience and Necessity ("CC&N") to provide resold interexchange services within the State of Arizona.

On March 5, 2007, ISI filed a change of ownership notice with the Arizona Corporation Commission ("Commission"). ISI informed the Commission that Larry Gilleland was acquiring control of ISI through the purchase of 100 percent of the issued and outstanding stock of William Koca. The ownership transfer took place on January 2, 2007. The Company will continue to operate as Integrated Services, Inc. and only the underlying ownership of ISI will change as a result of this transaction. A copy of the notice sent to customers outside of Arizona was provided to the Commission.

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 just and reasonable.

REVIEW OF APPLICANT INFORMATION

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

[X] **The necessary information has been filed to process this application, and the Applicant has authority to transact business in the State of Arizona.**

[X] **The Applicant has published legal notice of the application in all counties where service will be provided. On October 19, 2006, Applicant filed Affidavits of Publication in the counties where the authority to provide resold long distance telecommunications services is requested.**

REVIEW OF TECHNICAL INFORMATION

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

[X] **The Applicant is not currently providing service in Arizona.**

[X] **The Applicant is not currently providing service in other states.**

[X] **The Applicant is a switchless reseller.**

[X] **In the event the Applicant experiences financial difficulty, end users can access other interexchange service providers.**

At the time this application was filed, ISI indicated that it was approved to provide resold long distance in 40 states plus the District of Columbia. The states in which Integrated has not sought resold long distance authority are Alabama, Connecticut, Delaware, Hawaii, Illinois, Mississippi, New Hampshire, South Carolina, and Tennessee. Since this application was filed, ISI indicates that it has gained approval in approximately 36 additional states. The Applicant does not have any applications pending any states at this time. At this point in time, Mr. Larry Gilleland is the only employee within the Company. He will handle all of the Management, Sales & Marketing, Technical and All Contract issues. The Company will outsource its back office functions. Staff recognizes that ISI has few direct employees compared to other long distance service providers, however, given the limited scope of service authority being requested, Staff has determined that the Applicant has sufficient technical capabilities to provide resold interexchange telecommunications services in Arizona.

REVIEW OF FINANCIAL INFORMATION

[ ] **The Applicant is required to have a performance bond to provide resold interexchange service in the State of Arizona.**

The Applicant states that it began operations on March 31, 2006 and only provided unaudited financial statements for the three months ending March 31, 2006. These financial statements list assets of $62,133; equity of $60,819; and a net income of ($39,181). The Applicant did not provide notes related to the financial statements.

The Applicant stated in its Tariff, Sections 2.8 and 2.9 on page 18, that it does not collect advances, deposits and/or prepayments from its resold interexchange customers. If at some future date, the Applicant 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 a performance bond.

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

The applicant indicated that none of its officers, directors or partners have been involved in any civil or criminal investigations, formal or informal complaints. The applicant also indicated that none of its officers, directors or partners have been convicted of any criminal acts in the past ten (10) years.

REVIEW OF PROPOSED TARIFF AND FAIR VALUE DETERMINATION

[X] **The Applicant has filed a proposed tariff with the Commission.**

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

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 the Applicant and has determined that its fair value rate base is zero. Accordingly, the Applicant'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 the Applicant and finds they are above those of most providers, however, Staff believes they are just and reasonable as they are comparable to the rates the Applicant charges in other jurisdictions and customers are free to choose among a large number of competitive carriers in Arizona. Staff also emphasizes that the Applicant does collect deposits or prepayments. 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.

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 ("A.A.C.") 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. 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 A.A.C. R14-2-1109.

Minimum and Maximum Rates

A.A.C. 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 A.A.C. R14-2-1110.

STAFF RECOMMENDATIONS

Staff has reviewed the application for a Certificate of Convenience and Necessity to offer intrastate interexchange services as a reseller and the Applicant's 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. In addition, Staff further recommends that:

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 including, but not limited to customer complaints;

7. The Applicant should be ordered to participate in and contribute to the Arizona 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 name address or telephone number; if at some future date, the Applicant 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;

9. The Applicant's intrastate interexchange service offerings should be classified as competitive pursuant to A.A.C. R14-2-1108;

10. 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 A.A.C. R14-2-1109;

11. 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;

12. 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 the Applicant and has determined that its fair value rate base is zero. Accordingly, the Applicant'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 the Applicant and believes they are just and reasonable as they are comparable to several distance carriers operating in Arizona and comparable to the rates the Applicant charges in other jurisdictions. 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;

13. In the event the Applicant 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.

Staff recommends that the CC&N granted to the Applicant be considered Null and Void after due process if the Applicant fails to meet the conditions stated below:

1. The Applicant shall file conforming tariffs within 365 days from the date of an Order in this matter or 30 days prior to providing service, which ever comes first, and in accordance with the Decision. The Applicant shall be required to maintain its performance bond consistent with the findings in this Staff report. If at some time in the future, the Applicant does not collect from its customers advances, deposits and/or prepayments, the Applicant shall file a request for cancellation of its established performance bond. Such request should be filed with the Commission for Staff review. Upon receipt of such filing and after Staff review, Staff will forward its recommendations to the Commission

This application may be approved without a hearing pursuant to A.R.S. § 40-282.

for _____ Date: 5/22/07

Ernest G. Johnson
Director
Utilities Division

Originator: Armando Fimbres