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MEMORANDUM

TO: Docket Control

FROM: Ernest G. Johnson
Director
Utilities Division

EA for EGJ

DATE: May 13, 2009

RE: IN THE MATTER OF THE APPLICATION OF RELIANCE COMMUNICATIONS INTERNATIONAL, INC. FOR APPROVAL OF A CERTIFICATE OF CONVENIENCE AND NECESSITY TO PROVIDE RESOLD LONG DISTANCE TELECOMMUNICATIONS SERVICES (DOCKET NO. T-20611A-08-0405)

Attached is the Staff Report for the above referenced Application. Reliance Communications International, Inc. is applying for approval of its petition for a Certificate of Convenience and Necessity ("CC&N") to provide the following services:

- Resold Long Distance Telecommunications Services

Staff is recommending approval of the CC&N.

Arizona Corporation Commission

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MJA

EGJ:PJG:red

Originator: Pamela J. Genung

Attachment: Original and Thirteen Copies

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DOCKET NO. T-20611A-08-0405

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**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: Reliance Communications International, Inc.
Docket No.: T-20611A-08-0405

On August 11, 2008, Reliance Communications International, Inc. ("RCII" or "Applicant") filed an Application for a Certificate of Convenience and Necessity ("CC&N") to provide competitive resold interexchange long distance services within the State of Arizona. On August 19, 2008, Staff issued its First Set of Data Requests to RCII. On September 17, 2008, RCII provided Responses to Staff's First Set of Data Requests. Included in RCII's September 17, 2008 Response was replacement tariff pages, Original Page 20 & Original Page 26, to RCII's proposed Arizona Tariff No. 1.

Staff's review of this Application addresses the overall fitness of the Applicant to receive a CC&N to provide competitive resold intrastate interexchange long distance 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:

- 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. On October 22, 2008, Applicant filed an Affidavit 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:

- The Applicant is not currently providing service in Arizona.**

The Applicant is not currently providing intrastate service in any other states/jurisdictions.

The Applicant is a switchless reseller.

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

The Applicant indicated that it does not currently provide resold interexchange service, although has obtained authority to provide services in nine additional states/jurisdictions (see Attachment A). RCII also indicated that it has Applications pending in Arizona, Maryland, Massachusetts, Nebraska, New Mexico, Pennsylvania, Wisconsin, and West Virginia. RCII has stated that no requests for authorization have been denied, nor have any authorizations been revoked. Staff has contacted the nine state Public Utility Commissions to verify whether RCII is certificated or registered to provide resold long distance telecommunications services in those states. Staff also inquired whether there were any consumer complaints filed against RCII. The information that Staff has obtained indicates that there have been no consumer complaints filed against RCII.

A search of the Federal Communications Commission website found that there have been no complaints filed against RCII. The Consumer Services Section of the Utilities Division reports no complaints, inquiries, or opinions filed within Arizona from January 1, 2005 through April 14, 2009. In addition, RCII's management team currently consists of four employees with a combination of over seventy-three years experience in the telecommunications industry.

The Applicant has indicated that it provides a pre-paid and post-paid calling service purchased on its website by customer credit card. The service can be used with a customer's home phone, business phone, mobile phone, or payphone. Customers are provided an access number and PIN or the customer's telephone number is recognized to access the service.

Based on this information, Staff has determined that the Applicant has sufficient technical capabilities to provide interexchange resold long distance 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 provided audited financial statements for the years ending March 31, 2008 and March 31, 2007. The 2008 financial statements list total assets of \$25,817,361; total equity of \$3,836,342; and net income of \$1,914,398. The 2007 financial statements list total assets of \$19,595,402; total equity of \$1,921,944; and net income of \$1,869,290. The Applicant also provided notes related to the financial statements. In addition, RCII is a wholly owned

subsidiary of Reliance Communications, Inc. ("RCI") and if necessary, will rely on the financial resources of its parent company, RCI.

The Applicant stated in its proposed Arizona Tariff No. 1, at Sections 2.5.3 and 2.5.4 on Original Page 13, that it does not collect advances, deposits and/or prepayments from its resold interexchange customers. RCII has indicated in its proposed Arizona Tariff No. 1, at Sections 3.7 and 3.8 on Original Pages 21 and 22, respectively, that it intends to offer Nationwide Prepaid Long Distance.

The Commission's current bond or irrevocable sight draft Letter of Credit requirement is \$10,000 for resold long distance (for those resellers who collect advances, prepayments, deposits, or are offering prepaid calling services).

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.

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

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 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 long distance carriers operating in Arizona and comparable to the rates the Applicant charges in other jurisdictions, with adjustments based on the costs of buying service from the underlying carrier in each state. 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 long distance 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 long distance 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;
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 long 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.
2. The Applicant shall:
 - a. Procure either a performance bond or an irrevocable sight draft Letter of Credit equal to \$10,000.
 - b. Docket proof of the original performance bond or irrevocable sight draft Letter of Credit with the Commission's Business Office and copies of the performance bond or irrevocable sight draft Letter of Credit with Docket Control, as a compliance item in this docket, within 30 days of the effective date of a Decision in this matter. The performance bond or irrevocable sight draft Letter of Credit must remain in effect until further order of the Commission. The Commission may draw on the performance bond or irrevocable sight draft Letter of Credit, on behalf of, and for the sole benefit of the Company's customers, if the Commission finds, in its discretion, that the Company is in default of its obligations arising from its Certificate. The Commission may use the performance bond or irrevocable sight draft Letter of Credit funds, as appropriate, to protect the Company's customers and the public interest and take any and all actions the Commission deems necessary, in its discretion, including, but not limited to returning prepayments or deposits collected from the Company's customers.

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

Ernest G. Johnson
Director
Utilities Division

Date: _____

Originator: Pamela J. Genung

Attachment A

RCII indicated that it has authority to provide resold long distance service in the following additional states/jurisdictions:

1. Arkansas
2. California
3. Colorado
4. Florida
5. Illinois
6. Indiana
7. Montana
8. New York
9. Texas