

ORIGINAL

OPEN MEETING



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MEMORANDUM
Arizona Corporation Commission

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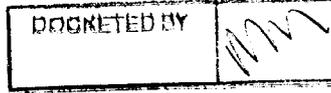
TO: THE COMMISSION

SEP 29 2009

2009 SEP 29 P 1:23

FROM: Utilities Division

DATE: September 29, 2009



AZ CORP COMMISSION
DOCKET CONTROL

RE: IN THE MATTER OF THE APPLICATION OF PAETEC COMMUNICATIONS, INC. TARIFF FILING TO ADD NEW LANGUAGE AND A NEW RATE TO SECTION 3.2.8 AS WELL AS THE DELETION OF ONE BILLING CATEGORY SUBSECTION (DOCKET NO. T-03663A-07-0061)

On January 26, 2007, PAETEC Communications, Inc. ("PAETEC" or "Company") filed a tariff revision for the addition of a new rate and new language to Section 3.2.8 in its AZ C.C. Tariff No. 1 as well as the deletion of one billing category subsection. More specifically, PAETEC is seeking to change the rounding convention the Company currently utilizes to rate and bill business customers' long distance calls.

Under the terms of the Applicant's current tariff, the charge for a business customer's call is rounded down to the next whole cent, if the computed cost of the call includes a fraction of a cent amount that is less than half a cent. If the computed cost of the call includes a fraction of a cent amount that is half a cent or greater, the charge for the call is rounded up to the next whole cent. Currently, residential customers' long distance calls are rounded up to the nearest cent at the termination of the call. Under the proposed tariff change, each business customer call will be rounded up to the next whole cent at the termination of the call. Since residential and business customers currently have different rounding conventions, approval of this filing will rate and bill both business and residential customers' long distance usage in the same manner. Therefore, the Company is requesting the deletion of one billing category subsection and the addition of new language and a new rate to reflect matching rounding conventions for both business and residential customers' long distance usage.

An example illustrating the comparison of PAETEC's current and proposed rounding conventions for a business customer's call follows:

Business Rated Call without rounding	Current Rounding Convention	Proposed Rounding Convention
\$1.324	\$1.32	\$1.33
\$1.325	\$1.33	\$1.33

PAETEC indicated in its filing that this revision to the rounding convention will bring the Company in alignment with common industry practice. The Company stated that rounding up fractions of a penny in final call cost for long distance usage is the common industry practice. This revision will remove the dissimilar rounding conventions used by the two customer

classifications. PAETEC also indicated that there is no direct cost-based reason for the price increase. The proposed per-call rate increase for business customers in Arizona is the same charge as those charged by the Company in other states. The proposed increase is a nationwide change for business customers.

Since this filing increases the maximum rate for a component of a service that has been classified as competitive under the Commission's Competitive Telecommunications Services Rules, Arizona Administrative Code R14-2-1110 applies to PAETEC's proposal.

Staff requested additional information from PAETEC in its determination of the potential effects of approval of the filing. The Company indicated that a total of 273 long distance business customers would be impacted by the proposed changes. There will be no residential accounts impacted by the proposed changes. Total annualized Arizona revenue for all customers under this proposed change would be approximately \$198.57. The increased revenue would impact each of the 273 customers by approximately \$0.73 per year or about \$0.06 per month. PAETEC estimates that the effect of the proposed increase on the Company's Arizona revenues to be less than 1 percent.

PAETEC provided the names and tariff pages of three Arizona competitors that currently utilize the rounding up convention to rate and bill customers for long distance usage. If requested, PAETEC indicated that it could provide Staff with additional Arizona competitors that use the same rounding up convention to rate and bill long distance usage.

The rates contained in this filing are for services that have been classified as competitive by the Commission. Under those rules, rates for competitive services are not set according to rate of return regulation standards. Staff has obtained information from the Company regarding its fair value rate base. PAETEC's fair value rate base is estimated at \$9,840. Due to the nature of the competitive market and other factors, a fair value analysis is not necessarily representative of the Company's operations. Therefore, while Staff considered the fair value rate base information of PAETEC, it did not accord that information substantial weight in its analysis of this matter.

Customers have been notified of the increase via a customer notice and through changes that PAETEC incorporated into its standard terms and conditions to reflect the new monetary rounding application. PAETEC provided a copy of the notice and an affidavit, dated February 23, 2007, verifying that an appropriate notice of the proposed rate increase had been provided to the 61 customers of this service on record at that time. Staff has reviewed the customer notification that was provided and agrees that it is consistent with Commission rules. Since February 23, 2007, PAETEC gained an additional 212 customers, for a total of 273 long distance business customers, which have been notified via the updated standard terms and conditions as mentioned above.

Staff learned that PAETEC implemented the proposed changes on August 27, 2007, or 180 days after PAETEC's response filing. Due to a misunderstanding by PAETEC of Commission rules and the fact that the total annualized Arizona revenue change of \$198.57 is

THE COMMISSION

September 29, 2009

Page 3

relatively small, Staff does not believe PAETEC should be required to make adjustments to those accounts that were affected by the premature changes. Staff informed PAETEC that in the future it is not to implement a change until after a Commission decision has been rendered.

Staff recommends approval of this filing.



Steven M. Olea
Director
Utilities Division

SMO:PJG:lhm\KOT

ORIGINATOR: Pamela J. Genung

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BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
Chairman

GARY PIERCE
Commissioner

PAUL NEWMAN
Commissioner

SANDRA D. KENNEDY
Commissioner

BOB STUMP
Commissioner

IN THE MATTER OF THE APPLICATION
OF PAETEC COMMUNICATIONS, INC.
TARIFF FILING TO ADD NEW
LANGUAGE AND A NEW RATE TO
SECTION 3.2.8 AS WELL AS THE
DELETION OF ONE BILLING CATEGORY
SUBSECTION.

} DOCKET NO. T-03663A-07-0061
} DECISION NO. _____
} ORDER

Open Meeting
October 20 and 21, 2009
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. PAETEC Communications, Inc. ("PAETEC" or "Company") is certificated to provide telecommunications service in the State of Arizona.

2. On January 26, 2007, PAETEC filed a tariff revision for the addition of a new rate and new language to Section 3.2.8 in its AZ C.C. Tariff No. 1 as well as the deletion of one billing category subsection. More specifically, PAETEC is seeking to change the rounding convention the Company currently utilizes to rate and bill business customers' long distance calls.

3. Under the terms of the Applicant's current tariff, the charge for a business customer's call is rounded down to the next whole cent, if the computed cost of the call includes a fraction of a cent amount that is less than half a cent. If the computed cost of the call includes a fraction of a cent amount that is half a cent or greater, the charge for the call is rounded up to the next whole cent. Currently, residential customers' long distance calls are rounded up to the nearest cent at the termination of the call. Under the proposed tariff change, each business customer call

1 will be rounded up to the next whole cent at the termination of the call. Since residential and
 2 business customers currently have different rounding conventions, approval of this filing will rate
 3 and bill both business and residential customer's long distance usage in the same manner.
 4 Therefore, the Company is requesting the deletion of one billing category subsection and the
 5 addition of new language and a new rate to reflect matching rounding conventions for both
 6 business and residential customers' long distance usage.

7 4. An example illustrating the comparison of PAETEC's current and proposed
 8 rounding conventions for a business customer's call follows:

Business Rated Call without rounding	Current Rounding Convention	Proposed Rounding Convention
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 14 5. PAETEC indicated in its filing that this revision to the rounding convention will
 15 bring the Company in alignment with common industry practice. The Company stated that
 16 rounding up fractions of a penny in final call cost for long distance usage is the common industry
 17 practice. This revision will remove the dissimilar rounding conventions used by the two customer
 18 classifications. PAETEC also indicated that there is no direct cost-based reason for the price
 19 increase. The proposed per-call rate increase for business customers in Arizona is the same charge
 20 as those charged by the Company in other states. The proposed increase is a nationwide change
 21 for business customers.

22 6. Since this filing increases the maximum rate for a component of a service that has
 23 been classified as competitive under the Commission's Competitive Telecommunications Services
 24 Rules, Arizona Administrative Code R14-2-1110 applies to PAETEC's proposal.

25 7. Staff requested additional information from PAETEC in its determination of the
 26 potential effects of approval of the filing. The Company indicated that a total of 273 long distance
 27 business customers would be impacted by the proposed changes. There will be no residential
 28 accounts impacted by the proposed changes. Total annualized Arizona revenue for all customers

1 under this proposed change would be approximately \$198.57. The increased revenue would
2 impact each of the 273 customers by approximately \$0.73 per year or about \$0.06 per month.
3 PAETEC estimates that the effect of the proposed increase on the Company's Arizona revenues to
4 be less than 1 percent.

5 8. PAETEC provided the names and tariff pages of three Arizona competitors that
6 currently utilize the rounding up convention to rate and bill customers for long distance usage. If
7 requested, PAETEC indicated that it could provide Staff with additional Arizona competitors that
8 use the same rounding up convention to rate and bill long distance usage.

9 9. The rates contained in this filing are for services that have been classified as
10 competitive by the Commission. Under those rules, rates for competitive services are not set
11 according to rate of return regulation standards. Staff has obtained information from the Company
12 regarding its fair value rate base. PAETEC's fair value rate base is estimated at \$9,840. Due to
13 the nature of the competitive market and other factors, a fair value analysis is not necessarily
14 representative of the Company's operations. Therefore, while Staff considered the fair value rate
15 base information of PAETEC, it did not accord that information substantial weight in its analysis
16 of this matter.

17 10. Customers have been notified of the increase via a customer notice and through
18 changes that PAETEC incorporated into its standard terms and conditions to reflect the new
19 monetary rounding application. PAETEC provided a copy of the notice and an affidavit, dated
20 February 23, 2007, verifying that an appropriate notice of the proposed rate increase had been
21 provided to the 61 customers of this service on record at that time. Staff has reviewed the
22 customer notification that was provided and agrees that it is consistent with Commission rules.
23 Since February 23, 2007, PAETEC gained an additional 212 customers, for a total of 273 long
24 distance business customers, which have been notified via the updated standard terms and
25 conditions as mentioned above.

26 11. Staff learned that PAETEC implemented the proposed changes on August 27, 2007,
27 or 180 days after PAETEC's response filing. Due to a misunderstanding by PAETEC of
28 Commission rules and the fact that the total annualized Arizona revenue change of \$198.57 is
Decision No. _____

1 relatively small, Staff does not believe PAETEC should be required to make adjustments to those
 2 accounts that were affected by the premature changes. Staff informed PAETEC that in the future
 3 it is not to implement a change until after a Commission decision has been rendered.

4 12. Staff recommends approval of this filing.

5 CONCLUSIONS OF LAW

6 1. PAETEC is an Arizona public service corporation within the meaning of Article
 7 XV, Section 2 of the Arizona Constitution.

8 2. The Commission has jurisdiction over PAETEC and over the subject matter of the
 9 Application.

10 3. Approval of the proposed tariff revisions will result in an increase in rates as
 11 contemplated by A.R.S. 40-250.

12 4. The Commission, having reviewed the tariff pages (copies of which are contained
 13 in the Commission's tariff files) and Staff's Memorandum dated September 29, 2009, concludes the
 14 tariff filing is reasonable, fair and equitable, and is therefore in the public interest.

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1 SERVICE LIST FOR: PAETEC Communications, Inc.
2 Docket No. T-03663A-07-0061

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