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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: Conectado, Inc.
Docket No. T-20793A-11-0120

On March 17, 2011 Conectado, Inc. ("Conectado" or "Applicant") filed an application for a Certificate of Convenience and Necessity ("CC&N") to provide resold long distance services in 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 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 April 18, 2011 and May 31, 2011, Applicant filed its Proof of Publication of Notice for statewide notice.

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.**

[X] **The Applicant is currently providing service in other states.**

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

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

In its response to Staff Data Request ("SDR") STF 1.3(c), the Applicant stated that it is currently approved to provide resold interexchange service in fourteen (14) states[1] and has applications pending in five (5) other states.[2] However, the Applicant has not yet begun to provide service. The Applicant also states in response to SDR STF 1.2(c) that it has not been denied authorization to provide telecommunications services nor had its certification revoked in any jurisdiction. Staff contacted five (5)[3] of the fourteen (14) states and verified that the Applicant has obtained authority to provide resold interexchange telecommunications services in the respective state. According to the Applicant's response to SDRs STF 1.3 and STF 2.1, the Applicant's two executives have over 10 years experience in the telecommunications industry and related fields. In Arizona, Conectado, Inc. intends to resell the telecommunications services of PNG Telecommunications, Inc.

The Consumer Services Section of the Utilities Division reports zero complaints, inquires, or opinions against Conectado, Inc. in Arizona from January 1, 2008 to March 31, 2011. Consumer Services also has reported that Conectado, Inc. is in good standing with the Corporations Division of the Commission. Based on the above information, Staff has determined that the Applicant has sufficient technical capabilities to provide resold interexchange telecommunications services in Arizona.

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

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 stated in its application that it is a start-up company and does not have any financial statements for the two most recent years. In response to SDR STF 1.12, the Applicant

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[1] Colorado, Florida, Georgia, Massachusetts, Michigan, New Jersey, New Mexico, New York, North Carolina, Oregon, Pennsylvania, Texas, Virginia and Washington.

[2] Illinois, Louisiana, Maryland, Nevada and Ohio.

[3] Colorado, Florida, New York, Texas and Washington.

provided financial projections for the next three years. These projected financial statements are listed in the table below:

	2011	2012	2013
Projected Assets	$ 5,000	$ 10,000	$ 15,000
Projected Equity	$ 2,000	$ 4,000	$ 6,000
Projected Net Income/(Loss)	$ 3,000	$ 6,000	$ 9,000

The Applicant stated in its proposed tariff, Sections 2.8-2.9 on page 18 and in its application that it will not require deposits or advanced payments from its customers. If, in the future, 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 Arizona Corporation Commission ("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 or irrevocable sight draft Letter of Credit.

The Applicant indicated in Section (A-11) that none of its officers, directors, partners or managers have been or are currently involved in any formal or informal complaint proceedings pending before any State or Federal Regulatory Commission, administrative agency, or law enforcement agency. Staff found no instances of any civil or criminal investigations, judgments levied by any administrative or regulatory agency, or criminal convictions within the last ten (10) years involving the Applicant or any of its officers, directors or managers.

The Applicant indicated that none of its officers, directors, partners or managers have been or are currently involved in any civil or criminal investigations, nor have judgments been entered in any civil matter, judgments levied by any administrative or regulatory agency, nor been convicted of any criminal acts in the past ten (10) years. Staff found no instances of any civil or criminal investigations, judgments levied by any administrative or regulatory agency, or criminal convictions within the last ten (10) years involving the Applicant or any of its officers, directors or managers.

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.**

A proposed tariff was included in the application filed March 17, 2011. The Applicant also provided to Staff revised tariff pages containing revisions and corrections made at the request of Staff.

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.

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 file with the Commission tariffs which state that it does not require deposits from its customers;

6. 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;

7. The Applicant should be ordered to cooperate with Commission investigations including, but not limited to customer complaints;

8. The Applicant should be ordered to participate in and contribute to the Arizona Universal Service Fund, as required by the Commission;

9. The Applicant should be ordered to notify the Commission immediately upon changes to the Applicant's name address or telephone number;

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

11. The maximum rates for these services should be the maximum rates proposed by the Applicant in its proposed tariff. 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;

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;

13. 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;

14. If the Applicant desires to provide telecommunications services other than resold interexchange services, Staff recommends that the Applicant be required to file an application with the Commission; and

15. 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 docket conforming tariffs in accordance with the Decision within 365 days from the date of an Order in this matter or 90 days prior to providing service, which ever comes first.

2. The Applicant shall notify the Commission as a compliance filing within 30 days of the first customer being served.

Additionally, Staff recommends approval of this application without a hearing pursuant to A.R.S. § 40-282.

Date: 6/6/11

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Director
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Originator: Lori Morrison

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