

OPEN MEETING ITEM



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COMMISSIONERS  
GARY PIERCE - Chairman  
BOB STUMP  
SANDRA D. KENNEDY  
PAUL NEWMAN  
BRENDA BURNS

ORIGINAL



ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION  
DOCKET CONTROL

DATE: JUNE 22, 2011

DOCKET NO.: T-20793A-11-0120

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Teena Jibilian. The recommendation has been filed in the form of an Order on:

CONECTADO, INC.  
(CC&N/RESELLER)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

JULY 5, 2011

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

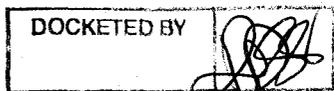
JULY 12, 2011 and JULY 13, 2011

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

Arizona Corporation Commission

DOCKETED

JUN 22 2011



ERNEST G. JOHNSON  
EXECUTIVE DIRECTOR

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This document is available in alternative formats by contacting Shaylin Bernal, ADA Coordinator, voice phone number 602-542-3931, E-mail SABernal@azcc.gov

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 GARY PIERCE – Chairman  
4 BOB STUMP  
5 SANDRA D. KENNEDY  
6 PAUL NEWMAN  
7 BRENDA BURNS

8 IN THE MATTER OF THE APPLICATION OF  
9 CONECTADO, INC. FOR APPROVAL OF A  
10 CERTIFICATE OF CONVENIENCE AND  
11 NECESSITY TO PROVIDE COMPETITIVE  
12 RESOLD LONG DISTANCE  
13 TELECOMMUNICATIONS SERVICES.

DOCKET NO. T-20793A-11-0120

DECISION NO. \_\_\_\_\_

**ORDER**

14 Open Meeting  
15 July 12 and 13, 2011  
16 Phoenix, Arizona

17 **BY THE COMMISSION:**

18 Having considered the entire record herein and being fully advised in the premises, the  
19 Commission finds, concludes, and orders that:

20 **FINDINGS OF FACT**

21 1. On March 17, 2011, Conectado, Inc. (“Conectado” or “Applicant”) submitted to the  
22 Arizona Corporation Commission (“Commission”) an application for a Certificate of Convenience  
23 and Necessity (“CC&N”) to provide competitive resold long distance telecommunications services in  
24 the State of Arizona (“Application”).

25 1. On April 18, 2011, Conectado filed a notarized affidavit attesting that it caused notice  
26 of the Application to be published in the *Daily News Sun* and the *East Valley Tribune* newspapers on  
27 April 7, 2011 through April 9, 2011.

28 2. On May 3, 2011, Conectado filed responses to a request for information by the  
Commission’s Utilities Division (“Staff”). Conectado’s responses included changes to the proposed  
tariff attached to the Application.

3. On May 31, 2011, Conectado filed a notarized affidavit attesting that it caused notice  
of the Application to be published in the *Arizona Republic* on May 19, 2011.

1           4.       On June 6, 2011, Staff filed its Staff Report recommending approval of Conectado's  
2 Application subject to certain conditions.

3 **Fitness and Properness to Obtain a CC&N**

4           5.       Conectado is a Nevada "S" corporation, granted authority on February 8, 2011, to do  
5 business in Arizona as a foreign corporation. Conectado's principal offices are located in St. Clair  
6 Shores, Michigan.

7           6.       Conectado is in good standing with the Commission's Corporations Division.

8           7.       Conectado has not been denied authorization to provide telecommunications services  
9 nor had its certification revoked in any jurisdiction.

10          8.       Conectado stated in the Application that neither Conectado nor any of its officers,  
11 directors, partners, or managers have been or are currently involved in any civil or criminal  
12 investigations, have had judgments entered in any civil or criminal matter or levied by any  
13 administrative or regulatory agency, or have been convicted of any criminal acts within the past 10  
14 years, and Staff's investigation found no instances of such.

15          9.       Staff states that the Consumer Services Section of the Utilities Division reported no  
16 complaints, inquiries, or opinions filed within Arizona against Conectado.

17 **Technical Capabilities**

18          10.       Conectado is a switchless reseller and intends to offer resold long distance  
19 telecommunications services to subscribers in Arizona.

20          11.       Staff notes that Conectado's two executives have over ten years experience in the  
21 telecommunications industry and related fields.

22          12.       According to Conectado, it is currently approved to provide resold intrastate  
23 interexchange service in fourteen states and has applications pending in five other states. Conectado  
24 has not yet begun to provide service. Staff contacted five of the 14 states, and the five states  
25 confirmed that Conectado is authorized to provide resold intrastate interexchange  
26 telecommunications services in those jurisdictions.

27          13.       Staff determined that Conectado has sufficient technical capabilities to provide resold  
28 intrastate interexchange telecommunications services in Arizona.

1 **Financial Resources**

2 14. Conectado is a start-up company and does not have financial statements for the two  
3 most recent years. Conectado provided financial projections for the years 2011, 2012, and 2013.  
4 Conectado projects assets of \$5,000, equity of \$2,000, and net income of \$3,000 for 2011; and for  
5 2013, projects assets of \$15,000, equity of \$2,000, and net income of \$9,000.

6 15. The Application states that the net book value of all Arizona jurisdictional assets is  
7 zero. Conectado projects the net book value of all Arizona jurisdictional assets after the first 12  
8 months of operations to be \$100.

9 16. Staff notes that in the event Conectado experiences financial difficulty, it would have  
10 only a minimal impact on its customers because end users can access other intrastate interexchange  
11 service providers. Staff states that there are many companies that provide resold intrastate  
12 interexchange telecommunications service or customers may choose a facilities-based provider. Staff  
13 states that if customers want intrastate interexchange service from a different provider immediately,  
14 customers are able to dial a 101XXXXX (dial around) access code, and that in the longer term,  
15 customers may permanently switch to another company.

16 17. Conectado's proposed tariffs indicate that it will not require deposits or advance  
17 payments from its customers.

18 **Proposed Rates**

19 18. Staff indicates that the rates proposed by Conectado are for competitive services and  
20 that rates for competitive telecommunications services are generally not established according to rate-  
21 of-return regulation.

22 19. Staff determined Conectado's fair value rate base ("FVRB") to be zero. While Staff  
23 considered FVRB information submitted by Conectado, Staff determined that the FVRB information  
24 should not be given substantial weight in its analysis.

25 20. As a reseller of services purchased from other telecommunications companies,  
26 Conectado will have no market power and will have to compete with other providers to obtain  
27 subscribers to its services.

28 21. In light of the competitive market in which Conectado will be providing its services,

1 Staff believes that Conectado's proposed tariffs, as revised in its May 3, 2011 filing, are just and  
2 reasonable.

3 **Competitive Services**

4 22. Staff states that there are alternatives to Conectado's services, and Conectado has no  
5 ability to adversely affect the intrastate interexchange telecommunications service market by  
6 restricting output or raising market prices. Staff further states that the entities from which Conectado  
7 buys bulk services are technically and financially capable of providing alternative services at  
8 comparable rates, terms, and conditions. Staff recommends that Conectado's proposed services be  
9 classified as competitive.

10 **Regulatory Requirements**

11 23. Commission rules require that if Conectado wishes to discontinue service, it must file  
12 an application with the Commission pursuant to Arizona Administrative Code ("A.A.C.") R14-2-  
13 1107. Additionally, the Company must notify each of its customers and the Commission 60 days  
14 prior to filing an application to discontinue service.

15 24. Commission rules require Conectado to file a tariff for each competitive service that  
16 states the maximum rate as well as the effective (actual) price that will be charged for the service.  
17 Under A.A.C. R14-2-1109(A), the minimum rate for a service must not be below the total service  
18 long-run incremental cost of providing the service. Conectado's maximum rates should be the  
19 maximum rates listed in its most recent tariffs on file with the Commission. Any change to  
20 Conectado's effective price for a service must comply with A.A.C. R14-2-1109, and any change to  
21 the maximum rate for a service in Conectado's tariff must comply with A.A.C. R14-2-1110.

22 25. A.A.C. R14-2-1901 et seq. establish requirements to protect Arizona consumers from  
23 unauthorized carrier changes ("slamming") and apply to each public service corporation providing  
24 telecommunications services within the State of Arizona and over which the Commission has  
25 jurisdiction.

26 26. A.A.C. R14-2-2001 et seq. establish requirements to protect Arizona consumers from  
27 unauthorized carrier charges ("cramming") and apply to each public service corporation providing  
28 telecommunications services within the State of Arizona and over which the Commission has

1 jurisdiction.

2 **Staff's Recommendations**

- 3 27. Staff recommends approval of Conectado's Application and further recommends:
- 4 a. That Conectado be ordered to comply with all Commission rules, orders, and  
5 other requirements relevant to the provision of intrastate telecommunications  
6 service;
- 7 b. That Conectado be ordered to maintain its accounts and records as required by  
8 the Commission;
- 9 c. That Conectado be ordered to file with the Commission all financial and other  
10 reports that the Commission may require, and in a form and at such times as  
11 the Commission may designate;
- 12 d. That Conectado be ordered to maintain on file with the Commission all current  
13 tariffs and rates and any service standards that the Commission may require;
- 14 e. That Conectado be ordered to file with the Commission tariffs that state  
15 Conectado does not require deposits from its customers;
- 16 f. That Conectado be ordered to comply with the Commission's rules and to  
17 modify its tariffs to conform to those rules if it is determined that there is a  
18 conflict between Conectado's tariffs and Commission rules;
- 19 g. That Conectado be ordered to cooperate with Commission investigations  
20 including, but not limited to, customer complaints;
- 21 h. That Conectado be ordered to participate in and contribute to the Arizona  
22 Universal Service Fund as required by the Commission;
- 23 i. That Conectado be required to notify the Commission immediately upon  
24 changes to its name, address or telephone number;
- 25 j. That Conectado's services be classified as competitive pursuant to A.A.C.  
26 R14-2-1108;
- 27 k. That the maximum rates for Conectado's services be the maximum rates  
28 proposed by Conectado in its proposed tariffs;
- l. That the minimum rates for Conectado's services be the total service long-run  
incremental costs of providing those services, as set forth in A.A.C. R14-2-  
1109;
- m. That if Conectado states only one rate for a service in its proposed tariff, that  
the rate stated be the effective (actual) price to be charged for the service as  
well as the service's maximum rate;
- n. That Conectado's fair value base rate is zero;
- o. That if Conectado desires to provide telecommunications services other than  
resold interexchange services, Conectado must file an application with the

Commission;

- p. That should Conectado request to discontinue and/or abandon its service area, Conectado must provide notice to both the Commission and its customers, in accordance with A.A.C. R-14-2-1107;
- q. That Conectado be ordered to do the following and that its CC&N be rendered null and void, after due process, if it fails to do the following:
  - i. Conectado shall docket conforming tariffs in accordance with this Decision within 365 days from the date of this Decision, or 30 days before providing service, whichever comes first. The tariffs submitted shall conform to the proposed tariffs in the Application, as modified by Conectado's May 3, 2011 filing.
  - ii. As a compliance filing, Conectado shall notify the Commission that it has started providing service in Arizona within 30 days of the first customer being served.

28. Staff's recommendations as stated in Finding of Fact No. 27 are reasonable and should be adopted.

**CONCLUSIONS OF LAW**

1. Conectado will be a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-281 and 40-282.

2. The Commission has jurisdiction over Conectado and the subject matter of the Application.

3. A.R.S. § 40-282 allows a telecommunications company to file an application for a CC&N to provide competitive telecommunications services.

4. A.R.S. § 40-282 allows the Commission to grant a CC&N without first conducting a hearing if the CC&N is for resold telecommunications services.

5. Notice of Conectado's Application was given in accordance with the law.

6. Pursuant to Article XV of the Arizona Constitution and the Arizona Revised Statutes, it is in the public interest for Conectado to provide resold local exchange telecommunications services in the State of Arizona.

7. Conectado is a fit and proper entity to receive a CC&N authorizing it to provide resold intrastate interexchange telecommunications services in the State of Arizona.

8. The telecommunications services that Conectado desires to provide are competitive in

1 Arizona.

2 9. Pursuant to Article XV of the Arizona Constitution and 14 A.A.C. 2, Article 11, it is  
3 just and reasonable and in the public interest for Conectado to establish rates and charges for  
4 competitive services that are not less than Conectado's total service long-run incremental costs of  
5 providing the competitive services approved herein.

6 10. The recommendations set forth in Findings of Fact No. 27 are reasonable and should  
7 be adopted.

8 11. Conectado's fair value rate base is not useful in determining just and reasonable rates  
9 for the competitive services it proposes to provide Arizona customers.

10 12. Conectado's rates, as they appear in its proposed tariffs as modified by its May 3,  
11 2011 filing, are just and reasonable and should be approved.

12 **ORDER**

13 IT IS THEREFORE ORDERED that the Application of Conectado, Inc. for a Certificate of  
14 Convenience and Necessity to provide resold long distance telecommunications services in Arizona  
15 is hereby granted conditioned upon compliance with the conditions and recommendations set forth in  
16 Findings of Fact No. 27.

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1 IT IS FURTHER ORDERED that if Conectado Networks, Inc., fails to meet the conditions  
2 outlined in Findings of Fact No. 27(q) within the timeframes therein, the Certificate of Convenience  
3 and Necessity conditionally granted herein shall become null and void after due process.

4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

6  
7  
8 CHAIRMAN

COMMISSIONER

9  
10 COMMISSIONER

COMMISSIONER

COMMISSIONER

11 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,  
12 Executive Director of the Arizona Corporation Commission,  
13 have hereunto set my hand and caused the official seal of the  
14 Commission to be affixed at the Capitol, in the City of Phoenix,  
15 this \_\_\_\_\_ day of \_\_\_\_\_, 2011.

16 \_\_\_\_\_  
17 ERNEST G. JOHNSON  
18 EXECUTIVE DIRECTOR

19 DISSENT \_\_\_\_\_

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21 DISSENT \_\_\_\_\_

22 TJ:db  
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1 SERVICE LIST FOR: CONECTADO, INC.

2  
3 DOCKET NO.: T-20793A-11-0120

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