

ORIGINAL



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MEMORANDUM

TO: Docket Control  
FROM: Steven M. Olea  
Director  
Utilities Division

EA for SMD

DATE: January 12, 2012

RE: IN THE MATTER OF THE APPLICATION OF TCO NETWORK, INC  
REQUEST OF A CERTIFICATE OF CONVENIENCE AND NECESSITY TO  
PROVIDE RESOLD INTEREXCHANGE AND RESOLD LOCAL  
EXCHANGE INTRASTATE TELECOMMUNICATIONS SERVICES  
(DOCKET NO. T-20552A-07-0537)

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

- Resold Local Exchange Services
- Resold Long Distance Services

Staff is recommending approval of the application with conditions.

SMO:JFB:tdp

Originator: John F. Bostwick

Arizona Corporation Commission

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SERVICE LIST FOR: TCO Network, Inc.  
DOCKET NO.: T-20552A-07-0537

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**STAFF REPORT**  
**UTILITIES DIVISION**  
**ARIZONA CORPORATION COMMISSION**

**TCO NETWORK, INC.**  
**DOCKET NO. T-20552A-07-0537**

**IN THE MATTER OF THE APPLICATION OF TCO NETWORK, INC. REQUEST OF  
A CERTIFICATE OF CONVENIENCE AND NECESSITY TO PROVIDE RESOLD  
INTEREXCHANGE AND RESOLD LOCAL EXCHANGE INTRASTATE  
TELECOMMUNICATIONS SERVICES**

**JANUARY 12, 2012**

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## STAFF ACKNOWLEDGMENT

The Staff Report for TCO Network, Inc., Docket No. T-20552A-07-0537, was the responsibility of the Staff member listed below. John Bostwick was responsible for the review and analysis of the Application for a Certificate of Convenience and Necessity to provide resold local exchange and resold interexchange telecommunications services; and petition for a determination that the proposed services should be classified as competitive.

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John Bostwick  
Administrative Service Officer II

## 1. INTRODUCTION

On September 21, 2007, TCO Network, Inc. ("TCO" or "Applicant") filed an application for a Certificate of Convenience and Necessity ("CC&N") to provide resold interexchange and resold local exchange intrastate telecommunications services in Arizona. The Applicant petitioned the Arizona Corporation Commission ("Commission") for a determination that its proposed services should be classified as competitive. Staff sent its First Set of Data Requests to TCO's Legal Representative, Lance J.M. Steinhart, Attorney, on October 19, 2007.

On May 21, 2008, Staff received responses to its First Set of Data Requests from Mr. Steinhart. A copy of TCO's Certificate of Good Standing and a copy of its affidavit of publication from *The Arizona Republic* newspaper was submitted by TCO. The certificate indicates that TCO is in good standing with the Arizona Corporation Commission and is qualified to do business as a foreign corporation in Arizona. The affidavit of publication indicates that TCO published legal notice of its Application requesting authority to provide statewide service in Arizona. TCO also filed a new tariff for resold local exchange telecommunications services. TCO's proposed Arizona Tariff No. 3 filed on May 21, 2008 replaced its Arizona Tariff No. 2 filed September 21, 2007.

Staff received responses to its Second Set of Data Requests, sent on September 27, 2010, on November 9, 2010 and November 12, 2010. TCO filed its Arizona CC Tariff No. 1 for resold interexchange telecommunications services on November 9, 2010.

On April 5, 2011, TCO filed a 2010 Annual Report to the Utilities Division of the Commission. In the report, TCO acknowledged that it was providing telecommunications services to customers in Arizona. TCO has fewer than five customers in Arizona with total annual intrastate revenues of less than \$15,000.

Responses to Staff's Third Set of Data Requests of December 22, 2010, were received on August 31, 2011. Also, on August 31, 2011, Staff received responses to Staff's Fourth Set of Data Requests of January 12, 2011.

On September 9, 2011, Staff received an e-mail from Mr. Steinhart that explains the reason TCO is providing telecommunications services in Arizona without Commission approval. The following is an excerpt from Mr. Steinhart's non-docketed e-mail:

*"TCO began provisioning of resold service to 6 business customers (no residential customers) in June of 2010, approximately two years after having responded to Staff's 1<sup>ST</sup> set of data requests. The company was under the assumption, if for no other reason than the passage of time, that they had been issued a CC&N to provide service in the State of AZ. The company believes that the resold interexchange services were and are being provided pursuant to provisional authority granted by ACC policy in effect at the time of filing its application. The company believes that the only service for which it does not*

*have actual authority to provide service in AZ are the resold local services, which are being provided to only 2 customers, and only since June of 2010. Based upon the foregoing, and the company's reasonable beliefs and efforts expended in fulfilling its obligations to the ACC, including without limitation, answering all data requests, and filing a 2010 annual report with the ACC, the company believes that its CC&N should be granted, and that TCO should not be sanctioned or penalized by the ACC for providing resold service without actual authority to do so."*

Staff's review of this Application addresses the overall fitness of the Applicant to obtain a CC&N. Staff's analysis also considers whether the Applicant's services should be classified as competitive and if the Applicant's initial rates are just and reasonable.

#### *1.1 Technical Capability to Provide the Requested Services*

TCO stated in its Application that it has not been denied certification in any state. In its Responses to Staff Data Request JFB4-1, TCO stated that William Linsmeier is the Owner and President of TCO. On September 7, 2011, Staff received an e-mail stating that TCO inadvertently left Laura Linsmeier, Secretary and Director of TCO, out of the updated Application. Mr. and Mrs. Linsmeier have thirty nine (39) years of experience in the telecommunications field. Prior to founding TCO in 1998, Mr. Linsmeier founded AlterNet, Inc., a local wireless services carrier purchased by Winstar Communications, Inc., and Telecom One, Inc., a nationwide long distance carrier purchased by Broadwing Communications, Inc. Based on this information, Staff has determined that the Applicant has sufficient technical capabilities to provide requested telecommunications services in Arizona.

#### *1.2 Financial Capability to Provide the Requested Services*

In its Response to Staff Data Request JFB4-2, TCO submitted a copy of its unaudited financial statements for the twelve months ending December 31, 2010. The financial statements list TCO's assets of \$968,757; equity of \$583,396; and net income of \$399,868. TCO did not provide notes related to these financial statements.

The Applicant stated in its proposed local exchange tariff (reference Arizona Tariff No. 3, in Section 2.5.4 and 2.5.5 on Page 33) that it does not collect advances and/or deposits from its customers. The Applicant also stated in its proposed interexchange tariff (reference Arizona CC Tariff No. 1, in Section 2.8 and 2.9, on Page 18) that it does not collect advances and/or deposits from its customers. Staff reviewed the Applicant's Arizona Tariff CC No. 1 and Arizona Tariff No. 3 and verified that prepayments are not listed in the proposed tariff. The Commission's current performance bond or irrevocable sight draft Letter of Credit ("ISDLC") requirements are \$10,000 for resold interexchange (for those interexchange resellers who collect advances, deposits, or prepayments), \$25,000 for resold local exchange, \$100,000 for facilities-based interexchange, and \$100,000 for facilities-based local exchange. Based on the services the Applicant is requesting authority to provide, the minimum recommended performance bond or

ISDLC should be \$25,000.

Staff recommends that the Applicant procure either a performance bond or an ISDLC equal to \$25,000. If the Applicant desires to discontinue any type of resold telecommunications services, it must file an application with the Commission pursuant to the Arizona Administrative Code ("A.A.C.") R14-2-1107. In addition, the Applicant must notify each of its customers and the Commission 60 days prior to filing an application to discontinue service. Failure to meet this requirement should result in forfeiture of the Applicant's performance bond or ISDLC.

Staff recommends that proof of the above-mentioned performance bond or ISDLC be docketed within 90 days of the effective date of a Decision in this matter. The original performance bond or ISDLC must be filed with the Commission's Business Office and 13 copies of the performance bond or ISDLC must be with Docket Control, as a compliance item in this docket. The Commission may draw on the performance bond or ISDLC, on behalf of, and for the sole benefit of the Applicant's customers, if the Commission finds, in its discretion, that the Applicant is default of its obligations arising from its Certificate. The Commission may use the performance bond or ISDLC funds, as appropriate, to protect the Applicant'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 advances, deposits, and/or prepayments collected from the Applicant's customers.

In the future, should the Applicant want to collect an advance, deposit, and/or prepayment from any of its interexchange customers, Staff recommends that the Applicant be required to file an application with the Commission for approval. Such application must reference the decision in this docket and must explain the Applicant's plan for procuring an additional performance bond or ISDLC.

### *1.3 Establishing Rates and Charges*

The Applicant would initially be providing service in areas where an incumbent local exchange carrier ("ILEC"), along with various competitive local exchange ("CLECs") and interexchange carriers ("IXCs") are providing telephone service. Therefore, the Applicant would have to compete with those providers in order to obtain subscribers to its services. The Applicant would be a new entrant and would face competition from both an incumbent provider and other competitive providers in offering service to its potential customers. Therefore, the Applicant would generally not be able to exert market power. Thus, the competitive process should result in rates that are just and reasonable.

Both an initial rate (actual rate to be charged) and a maximum rate must be listed for each competitive service offered provided that the rate for service is not less than the Applicant's total service long-run incremental cost of providing the service pursuant to A.A.C. R14-2-1109.

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 indicating 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. The Applicant has submitted proposed tariff pages reflecting the rates that the Applicant will be charging for its local exchange and interexchange services. The Applicant has also provided additional rate comparison information of other competitive local exchange and interexchange carriers in Arizona and the rates it charges in other jurisdictions. Staff has reviewed the proposed rates and believes they are comparable to the rates charged by competitive local carriers, local incumbent carriers, and major interexchange carriers operating in Arizona and comparable to the rates the Applicant charges in other jurisdictions. The rate to be ultimately charged by the Applicant will be heavily influenced by the market. 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.

## **2. LOCAL EXCHANGE CARRIER SPECIFIC ISSUES**

Issues related to the provision of local exchange services are discussed below.

### *2.1 Number Portability*

The Commission has adopted rules to address number portability in a competitive telecommunications services market. Local exchange competition may not be vigorous if customers, especially business customers, must change their telephone numbers to take advantage of a competitive local exchange carrier's service offerings. Consistent with federal laws, federal rules and A.A.C. R14-2-1308(A), the Applicant shall make number portability available to facilitate the ability of a customer to switch between authorized local carriers within a given wire center without changing their telephone number and without impairment to quality, functionality, reliability or convenience of use.

### *2.2 Provision of Basic Telephone Service and Universal Service*

The Commission has adopted rules to address universal telephone service in Arizona. A.A.C. R14-2-1204(A) indicates that all telecommunications services providers that interconnect into the public switched network shall provide funding for the Arizona Universal Fund ("AUSF"). The Applicant will make the necessary monthly payments required by A.A.C. R14-2-1204(B).

### *2.3 Quality of Service*

Staff believes that the Applicant should be ordered to abide by the quality of service standards that were approved by the Commission for Qwest dba CenturyLink (f/k/a USWC) in Docket No. T-01051B-93-0183 (Decision No. 59421). Because the penalties developed in that docket were initiated because Qwest's level of service was not satisfactory and the Applicant

does not have a similar history of service quality problems, Staff does not recommend that those penalties apply to the Applicant. In the competitive market that the Applicant wishes to enter, the Applicant generally will have no market power and will be forced to provide a satisfactory level of service or risk losing its customers. Therefore, Staff believes that it is unnecessary to subject the Applicant to those penalties at this time.

#### *2.4 Access to Alternative Local Exchange Service Providers*

Staff expects that there will be new entrant providers of local exchange service who will install the plant necessary to provide telephone service to, for example, a residential subdivision or an industrial park much like existing local exchange companies do today. There may be areas where the Applicant installs the only local exchange service facilities. In the interest of providing competitive alternatives to the Applicant's local exchange service customers, Staff recommends that the Applicant be prohibited from barring access to alternative local exchange service providers who wish to serve such areas. This way, an alternative local exchange service provider may serve a customer if the customer so desires. Access to other providers should be provided pursuant to the provisions of the 1996 Telecommunications Act, the rules promulgated hereunder and Commission rules on interconnection and unbundling.

#### *2.5 911 Service*

The Commission has adopted rules to address 911 and E911 services in a competitive telecommunications services market. The Applicant has certified that in accordance with A.A.C. R14-2-1201(6)(d) and the Federal Communications Commission 47 CFR Sections 64.3001 and 64.3002, it will provide all customers with 911 and E911 service, where available, or will coordinate with the ILECs and emergency service providers to provide 911 and E911 service.

#### *2.6 Custom Local Area Signaling Services*

Consistent with past Commission decisions, the Applicant may offer Caller ID provided that per call and line blocking, with the capability to toggle between blocking and unblocking the transmission of the telephone number, are provided as options to which customers could subscribe with no charge. Also, Last Call Return service that will not return calls to telephone numbers that have the privacy indicator activated, indicating that the number has been blocked, must be offered.

### **3. REVIEW OF COMPLAINT INFORMATION**

In its Application, TCO stated that it has not had an application for service denied nor its authority to provide service revoked in any state. Staff has found no evidence of denied applications nor revoked authority to provide service in any jurisdiction involving TCO. TCO also stated in its Application that neither it nor any of its officers, directors, partners, or managers has been involved in any formal or informal complaint proceedings pending before any state or federal regulatory commission or law enforcement agency. Staff's research did not reveal any

issues related to TCO's officers, directors, partners, or managers.

The Applicant certified that neither it nor any of its officers, directors, partners, or managers has been involved in any civil or criminal investigations, formal or informal complaints. The Applicant also indicated that none of its officers, directors, partners, or managers has been convicted of any criminal acts in the past ten (10) years. Staff has found no evidence of any civil or criminal investigations, civil or administrative judgments, or criminal convictions in the last ten years involving TCO or any of its officers, directors, partners, or managers.

On February 24, 2009, the Federal Communications Commission's ("FCC's") Enforcement Bureau issued TCO Network a Notice of Liability for Forfeiture ("Omnibus NAL") proposing a forfeiture in the amount of twenty thousand dollars (\$20,000) based on TCO's apparent violation of section 222 of the Act, section 64.2009(e) of the FCC's rules, and the FCC's EPIC Customer Proprietary Network Information ("CPNI") Order, by failing to timely file an annual CPNI compliance certification with the FCC on or before March 1, 2008. Upon review of the record and based on additional information provided by TCO, the FCC, in its Order released July 30, 2009, agreed with TCO that it had timely filed its CPNI certification for calendar year 2007, found that TCO did not willfully and repeatedly violate section 222 of the Act, section 64.2009(e) of the FCC's rules, and the FCC's *EPIC CPNI Order*, and concluded that no forfeiture should be imposed.

TCO stated in its Application that it currently provides telecommunications services in fifteen (15) states. Staff contacted fourteen (14) state Public Utilities Commissions ("PUCs") and confirmed that TCO is certificated, registered, or listed to provide telecommunications services in the states listed in its Application. Each of the fourteen state PUCs reported that there were no consumer complaints filed against TCO.

The Consumer Services Section of the Utilities Division reports that there have been no complaints, inquiries, or opinions filed against TCO from January 1, 2008 through September 8, 2011. In addition, Consumer Services Section states that TCO is in good standing with the Corporations Division of the Commission. However, TCO should be put on notice that if it provides a service in the future, without first obtaining any and all required Commission approvals, the Commission may impose sanctions against TCO.

As mentioned in the Introduction Section of this Staff Report, TCO is currently providing resold local exchange and interexchange telecommunications services in Arizona without a CC&N. Because there are no consumer complaints filed against TCO and TCO is in good standing with the Corporations Division, Staff believes that TCO's Application for authority to provide resold telecommunications services should be approved by the Commission. However, TCO should be put on notice that if it provides a service in the future, without first obtaining any and all required Commission approvals, the Commission may impose sanctions against TCO.

#### **4. COMPETITIVE SERVICES ANALYSIS**

The Applicant has petitioned the Commission for a determination that the services it is seeking to provide should be classified as competitive.

##### *4.1 Competitive Services Analysis for Local Exchange Services*

#### **4.1.1 A description of the general economic conditions that exist, which makes the relevant market for the service, one that is competitive.**

The local exchange market that the Applicant seeks to enter is one in which a number of new CLECs have been authorized to provide local exchange service. Nevertheless, ILECs hold a virtual monopoly in the local exchange service market. At locations where ILECs provide local exchange service, the Applicant will be entering the market as an alternative provider of local exchange service and, as such, the Applicant will have to compete with those companies in order to obtain customers. In areas where ILECs do not serve customers, the Applicant may have to convince developers to allow it to provide service to their developments.

#### **4.1.2 The number of alternative providers of the service.**

Qwest dba CenturyLink and various independent LECs are the primary providers of local exchange service in the State. Several CLECs and local exchange resellers are also providing local exchange service.

#### **4.1.3 The estimated market share held by each alternative provider of the service.**

Since Qwest dba CenturyLink and the independent LECs are the primary providers of local exchange service in the State, they have a large share of the market. Since the CLECs and local exchange resellers have only recently been authorized to offer service, they have limited market share.

#### **4.1.4 The names and addresses of any alternative providers of the service that are also affiliates of the telecommunications Applicant, as defined in A.A.C. R14-2-801.**

None.

#### **4.1.5 The ability of alternative providers to make functionally equivalent or substitute services readily available at competitive rates, terms and conditions.**

ILECs have the ability to offer the same services that the Applicant has requested in their respective service territories. Similarly many of the CLECs and local exchange resellers also offer substantially similar services.

**4.1.6 Other indicators of market power, which may include growth and shifts in market share, ease of entry and exit, and any affiliation between and among alternative providers of the service(s).**

The local exchange service market is:

- a. One in which ILECs own networks that reach nearly every residence and business in their service territories and which provide them with a virtual monopoly over local exchange service. New entrants are also beginning to enter this market.
- b. One in which new entrants will be dependent upon ILECs:
  1. To terminate traffic to customers.
  2. To provide essential local exchange service elements until the entrant's own network has been built.
  3. For interconnection.
- c. One in which ILECs have had an existing relationship with their customers that the new entrants will have to overcome if they want to compete in the market and one in which new entrants do not have a long history with any customers.
- d. One in which most customers have a few, if any, choices since there is generally only one provider of local exchange service in each service territory.
- e. One in which the Applicant will not have the capability to adversely affect prices or restrict output to the detriment of telephone service subscribers.

*4.2 Competitive Services Analysis for Interexchange Services*

**4.2.1 A description of the general economic conditions that exist, which makes the relevant market for the service, one that is competitive.**

The interexchange market that the Applicant seeks to enter is one in which numerous facilities-based and resold interexchange carriers have been authorized to provide service throughout the State. The Applicant will be a new entrant in this market and, as such, will have to compete with those companies in order to obtain customers.

**4.2.2 The number of alternative providers of the service.**

There are a large number of facilities-based and resold interexchange carriers providing both interLATA and intraLATA interexchange service throughout the State. In addition, various ILECs provide intraLATA interexchange service in many areas of the State.

**4.2.3 The estimated market share held by each alternative provider of the service.**

The large facilities-based interexchange carriers (AT&T, MCI, etc.) hold a majority of the interLATA interexchange market, and the ILECs provide a large portion of the intraLATA interexchange market. Numerous other interexchange carriers have a smaller part of the market and one in which new entrants do not have a long history with any customers.

**4.2.4 The names and addresses of any alternative providers of the service that are also affiliates of the telecommunications Applicant, as defined in A.A.C. R14-2-801.**

None.

**4.2.5 The ability of alternative providers to make functionally equivalent or substitute services readily available at competitive rates, terms and conditions.**

Both facilities-based and resold interexchange carriers have the ability to offer the same services that the Applicant has requested in their respective service territories. Similarly many of the ILECs offer similar intraLATA toll services.

**4.2.6 Other indicators of market power, which may include growth and shifts in market share, ease of entry and exit, and any affiliation between and among alternative providers of the service(s).**

The interexchange service market is:

- a. One with numerous competitors and limited barriers to entry.
- b. One in which established interexchange carriers have had an existing relationship with their customers that the new entrants will have to overcome if they want to compete in the market.
- c. One in which the Applicant will not have the capability to adversely affect prices or restrict output to the detriment of telephone service subscribers.

## 5. RECOMMENDATIONS

The following sections contain the Staff recommendations on the Application for a CC&N and the Applicant's petition for a Commission determination that its proposed services should be classified as competitive.

### 5.1 RECOMMENDATIONS ON THE APPLICATION FOR A CC&N

Staff recommends that the Applicant's Application for a CC&N to provide resold interexchange and resold local exchange intrastate telecommunications services in Arizona, as listed in this Report, be granted. In addition, Staff further recommends:

1. That the Applicant complies with all Commission Rules, Orders, and other requirements relevant to the provision of intrastate telecommunications services;
2. That the Applicant complies with Federal Laws, Federal Rules, and A.A.C. R14-2-1308(A), to make number portability available;
3. That the Applicant abides by the quality of service standards that were approved by the Commission for Qwest dba CenturyLink in Docket No. T-01051B-93-0183;
4. That the Applicant be prohibited from barring access to alternative local exchange service providers who wish to serve areas where the Applicant is the only provider of local exchange service facilities;
5. That the Applicant provide all customers with 911 and E911 service, where available, or will coordinate with ILECs and emergency service providers to provide 911 and E911 service in accordance with A.A.C. R14-2-1201(6)(d) and Federal Communications Commission 47 CFR Sections 64.3001 and 64.3002;
6. That the Applicant be required to notify the Commission immediately upon changes to the Applicant's name, address or telephone number;
7. That the Applicant cooperate with Commission investigations including, but not limited to, customer complaints;
8. 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 indicating that its fair value rate base is zero. Staff has reviewed the rates to be charged by the Applicant and believes they are just and reasonable as they are comparable to other competitive local carriers, local incumbent carriers and major long distance companies offering service in Arizona and comparable to the rates the Applicant charges in other jurisdictions. The rate to be ultimately charged by the Applicant will be heavily influenced by the market.

Therefore, while Staff considered the fair value rate base information submitted by the Applicant, the fair value information provided was not given substantial weight in this analysis;

9. If at some time 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 Commission for approval. Such application must reference the decision in this docket;
10. 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;
11. That the Applicant offer Caller ID with the capability to toggle between blocking and unblocking the transmission of the telephone number at no charge;
12. That the Applicant offer Last Call Return services that will not return calls to the telephone numbers that have the privacy indicator activated;
13. That the Commission authorize the Applicant to discount its rates and service charges to the marginal cost of providing the services. The pricing of competitive telecommunications services shall be in accordance with A.A.C. R14-2-1109; and
14. That TCO be put on notice that if it provides a service in the future, without first obtaining any and all required Commission approvals, the Commission may impose sanctions against TCO.

Staff further recommends that the Applicant be ordered to comply with the following. If it does not do so, the Applicant's CC&N shall be null and void, after due process.

1. The Applicant shall docket conforming tariffs pages for each service within its CC&N within 60 days from the effective date of a Decision in this matter. The tariffs submitted shall coincide with the Application and state that the Applicant does not collect advances, deposits, and/or prepayments from its customers.
2. The Applicant shall:
  - a. Procure a performance bond or an ISDLC in the amount of \$25,000.
  - b. Docket proof of the original performance bond or ISDLC with the Commission's Business Office and 13 copies of the performance bond or ISDLC with Docket Control, as a compliance item in this docket, within 90 days of the effective date of a Decision in this matter. The performance bond or ISDLC must remain in effect until further order of the Commission. The

Commission may draw on the performance bond or ISDLC, 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 ISDLC 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 advances, deposits, and/or prepayments collected from the Company's customers.

3. Abide by the Commission adopted rules that address Universal Service in Arizona. A.A.C. R14-2-1204(A) indicates that all telecommunications service providers that interconnect into the public switched network shall provide funding for the Arizona Universal Service Fund ("AUSF"). The Applicant will make the necessary monthly payments required by A.A.C. R14-2-1204(B).

5.2 *RECOMMENDATIONS ON THE APPLICANT'S PETITION TO HAVE PROPOSED SERVICES CLASSIFIED AS COMPETITIVE*

Staff believes that the Applicant's proposed services should be classified as competitive. There are alternatives to the Applicant's services. The Applicant will have to convince customers to purchase its services, and the Applicant has no ability to adversely affect the local exchange or interexchange service markets. Therefore, the Applicant currently has no market power in the local exchange or interexchange service markets where alternative providers of telecommunications services exist. Staff therefore recommends that the Applicant's proposed services be classified as competitive.