

ORIGINAL

MEMORANDUM



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TO: Docket Control

FROM: Steven M. Olea
Director
Utilities Division

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AZ CORP. DIVISION
DOCKET CONTROL

2012 NOV 19 PM 1 06

DATE: November 19, 2012

RE: IN THE MATTER OF THE APPLICATION OF 1 800 COLLECT, INC. FOR APPROVAL OF A CERTIFICATE OF CONVENIENCE AND NECESSITY TO PROVIDE COMPETITIVE RESOLD LONG DISTANCE TELECOMMUNICATIONS SERVICES (DOCKET NO. T-20832A-12-0014)

Attached is the Staff Report for the above Application requesting approval for a Certificate of Convenience and Necessity ("CC&N") to provide the following services:

- Alternative Operator Services

Staff is recommending approval of the Application with conditions.

SMO: PJG:red

Originator: Pamela J. Genung

Attachment: Original and Thirteen copies

Arizona Corporation Commission
DOCKETED
NOV 19 2012
DOCKETED BY

SERVICE LIST: 1 800 COLLECT, INC.
DOCKET NO. T-20832A-12-0014

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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

1 800 COLLECT, INC.
DOCKET NO. T-20832A-12-0014

IN THE MATTER OF THE APPLICATION OF 1 800 COLLECT, INC. FOR APPROVAL OF
A CERTIFICATE OF CONVENIENCE AND NECESSITY TO PROVIDE COMPETITIVE
RESOLD LONG DISTANCE TELECOMMUNICATIONS SERVICES

NOVEMBER 19, 2012

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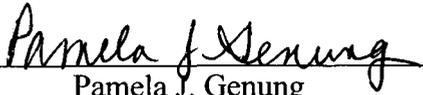
States in Which 1 800 Is Currently Certificated Attachment A

SCHEDULES

AOS Maximum InterLATA Usage Charges..... Schedule 1
AOS Maximum IntraLATA Usage Charges..... Schedule 2

STAFF ACKNOWLEDGMENT

The Staff Report for 1 800 Collect, Inc., Docket No. T-20832A-12-0014, was the responsibility of the Staff member listed below. Pamela J. Genung was responsible for the review and analysis of the Application for a Certificate of Convenience and Necessity to provide Alternative Operator Services telecommunications services.


Pamela J. Genung
Public Utilities Analyst V

1. INTRODUCTION

On January 12, 2012, 1 800 Collect, Inc. (“1 800” or “Applicant” or “Company”) filed an Application for a Certificate of Convenience and Necessity (“CC&N”) to provide Alternative Operator Services (“AOS”) telecommunications services within the State of Arizona. The Applicant petitioned the Arizona Corporation Commission (“Commission”) for a determination that its proposed services should be classified as competitive. On January 12, 2012, the Applicant submitted its proposed Arizona CC Tariff No. 2 for the services it is requesting the authority to provide.

On April 24, 2012, Staff issued its First Set of Data Requests to 1 800. On May 24, 2012, 1 800 provided responses to Staff’s First Set of Data Requests. Several replacement pages to 1 800’s proposed tariff were also included in the Responses provided on May 24, 2012. On May 30, 2012, Staff issued its Second Set of Data Requests to 1 800. On July 5, 2012, 1 800 provided responses to Staff’s Second Set of Data Requests, including one replacement page to 1 800’s proposed tariff. On July 6, 2012, the Applicant filed documents adding a trade name of Simple Billing Solutions that 1 800 intends to do business under in Arizona. On July 12, 2012, the Applicant filed an Affidavit of Publication in the counties where the authority to provide AOS telecommunications services is requested. On July 26, 2012, 1 800 provided additional information in response to Staff Data Request, PJG 2.7.

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

2. TECHNICAL CAPABILITY TO PROVIDE THE REQUESTED SERVICES

The Applicant is authorized to provide AOS telecommunications services in thirteen states/jurisdictions, as listed in Attachment A. Staff contacted the Public Utility Commissions in eleven states/jurisdictions to determine if 1 800 is certificated or registered to provide AOS telecommunications services in the states listed by the Applicant. Staff also inquired whether there were any consumer complaints filed against the Applicant. The information Staff obtained indicates that 1 800 is authorized to provide AOS telecommunications services in at least seven¹ of the eleven states/jurisdictions and there have been no consumer complaints filed against 1 800 in any of those seven states/jurisdictions.

In response to Staff Data Request PJG 1-2, 1 800 indicated that the three members of its senior management team average over fifteen years experience each in the telecommunications industry.

Based on the above information, Staff believes 1 800 possesses the technical capabilities to provide the services it is requesting the authority to provide in Arizona.

¹ Only seven states responded to Staff’s inquiry.

3. FINANCIAL CAPABILITY TO PROVIDE THE REQUESTED SERVICES

The Applicant provided unaudited financial statements of Faircall, Inc. (now known as 1 800 Collect, Inc.)² for the two fiscal years ending January 31, 2010 and January 31, 2011. The financial statements for fiscal year ending 2011 list total assets of \$2,285,403, total equity of \$2,211,665, and a net income of \$685,212. In response to Staff Data Request, PJG 2.7, the Applicant provided unaudited financial statements of 1 800 Collect, Inc. for its most recent fiscal year which ended January 31, 2012. The financial statements for the fiscal year 2012 list total assets of \$525,253 total equity of \$461,775, and net income of \$238,629. The Applicant did not provide notes related to the financial statements.

The Applicant stated in its proposed tariff (reference Section 2.7 on Original Sheet No. 14 of 1 800's proposed Arizona CC Tariff No. 2) that 1 800 does not require advances, deposits and prepayments from its customers.

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

4. ALTERNATIVE OPERATOR SERVICES

AOS is a service industry that provides resold telecommunications and operator services to large distinct customers, such as hotels, motels, health care and correctional facilities. The AOS provider will contract with the hotel or correctional facility to provide services. The hotel or correctional facility is referred to as an "aggregator" as in the ordinary course of its operations it allows for intrastate telephone services to be available to its patrons. The patrons of the "aggregator" are referred to as "end-users." AOS services are provided by routing all calls originating from the aggregator premise to the AOS provider, which then handles the call to meet the needs of the end-user.

"End-users" have no control over the aggregator's subscription for long distance service, and as such are essentially captive customers for telecommunications services. The Commission has previously determined that it is in the public interest to ensure that an end user using the telecommunications services of an AOS provider be charged rates consistent with the corresponding rates and service charges of certified facilities-based toll carriers available to the calling public.

In Decision No. 61274, the Commission adopted the maximum rates for AOS Services contained in the attached Schedules 1 and 2. As the basis of its recommendation to the Commission, Staff reviewed the authorized rates and service charges applicable to AOS

² In response to Staff Data Request PJG 1-3, 1 800 stated and provided documentation filed with the Federal Communications Commission that Faircall, Inc. changed its name to 1 800 Collect, Inc. effective July 20, 2011.

providers AT&T Communications of the Mountain States, Inc. (“AT&T”), MCI Telecommunications Corporation, (“MCI”), Sprint Communications Company, (Sprint), Allnet Communications Services, Inc., (“Allnet”), and QWEST Communications (f/k/a USWC, now d/b/a “CenturyLink”). Staff then developed Schedules 1 and 2.

The Applicant has published legal notice of the Application in all counties where service will be provided. On July 12, 2012, the Applicant filed an Affidavit of Publication from the Arizona Republic that complies with the Commission’s notice requirements.

4.1 Rate Review Process

As stated above, Staff reviewed the rates of five major toll carriers to establish the maximum AOS rates, service charges and operator-dialed surcharges set forth on Schedule 1 and 2. If any of the carriers forming the rate group obtain higher rates, the Applicant should be authorized to allow its rates to float in accordance with the carriers revised higher rates so long as the AOS provider complies with the following tariff filing requirements the Applicant is required to file: 1) an estimate of the value of its plant to serve Arizona customers in order to determine fair value; 2) a tariff setting forth the new maximum rates, which do not exceed the maximum rates of the five major carriers set; and 3) all information required by A.A.C. R14-2-1110.

For example, AT&T currently has maximum rates in the night/weekend rate period in mileage bands 0 through 292 for the first minute and additional minutes in Schedule 1. In the event AT&T was to increase its rates in these mileage bands, the rates changed would establish new maximum rates in Schedule 1. Pursuant to Staff’s recommendation, the Applicant would be allowed to seek authorization to increase its maximum rates and/or service charges accordingly by complying with the filing requirements described above.

Staff obtained information from 1 800 and has determined that its fair value rate base is zero. Accordingly, the Company’s fair value rate base is too small to be useful in a fair value analysis. In addition, the rate to be ultimately charged by the Company will be heavily influenced by the market. Therefore, while Staff considered the fair value rate base information submitted by the Company, it did not accord that information substantial weight in its analysis.

4.2 Discounting Authority

Staff recommends that the Applicant should be allowed to discount its rates and service charges to the marginal cost of providing the services. Discount authority will provide the Company with pricing flexibility to compete with other providers, as well as allow the potential benefits of price competition to accrue to end-users.

4.3 InterLATA Toll Charges

Staff recommends interLATA rates and service charges to be based on the maximum rates and service charges authorized for certain interexchange carriers (“IXCs”) certificated in Arizona as described above.

Staff recommends that the Commission authorize the Applicant to charge the maximum rate in each mileage band, respective of the day of the week and time of the day, currently authorized for any of the facilities-based IXC’s as set forth in Schedule 1. In addition, Staff recommends that the Commission limit the Company’s service charges to the highest authorized maximum service charge of any of the facilities-based IXC’s as set forth in Schedule 1.

4.4 IntraLATA Toll Charges

Staff recommends IntraLATA rates and service charges to be based on the maximum rates and service charges of the various facilities-based carriers certified to carry intraLATA toll calls in Arizona as described above.

Staff recommends that the Commission authorize the Applicant to charge the maximum rate in each mileage band, respective of the day of the week and time of the day, currently authorized for any of the various facilities-based intraLATA carriers set forth in Schedule 2. Furthermore, Staff recommends that the Commission limit the Company’s service charges to the highest authorized maximum service charge of any of the facilities-based intraLATA carriers set forth in Schedule 2.

The attached Schedule 1 and 2 set forth Staff’s recommended surcharges for interLATA and intraLATA toll calls respectively.

4.5 Operator-Dialed Surcharge And Property Surcharge

An operator-dialed surcharge is imposed when an end user has the capability to dial the call, but requests the operator to dial and make the call. A property surcharge is a per call bonus paid to the aggregator by the AOS Company. In prior decisions, the Commission has approved both an operator-dialed surcharge and a property (location-specific or subscriber) surcharge.

Staff recommends that the property surcharge be limited to \$1.00 per call. The Commission has approved a property surcharge of \$1.00 for the majority of AOS carriers certified in Arizona. Limiting the property surcharge provides a level playing field for the competitors. Staff recommends consistency in the property surcharge to stress the importance of providing service to the end-users, rather than higher payments to aggregators for the opportunity to serve end-users.

Staff recommends approval of the operator-dialed surcharge and the property surcharge as described in Schedule 1 and 2.

4.6 *Zero Minus Calls*

The term “zero-minus” refers to calls by individuals who dial “0” for the operator. The Commission adopted A.A.C. R14-2-1006(A), which requires the AOS provider to route all zero-minus calls to the originating LEC. The Commission also provided a waiver from the requirement upon a showing that the AOS provider could provide the caller with equally quick and reliable service. 1 800 has not requested such a waiver.

4.7 *Proposed Tariff*

1 800’s proposed tariff filed on January 12, 2012, along with replacement pages filed on May 24, 2012 and July 5, 2012, are consistent with the recommendations in the above sections. The Applicant’s proposed rates and service charges for either InterLATA or IntraLATA telephone services are identical to or less than the rates and service charges contained in Staff’s attached rate Schedules 1 and 2. 1 800 also offers a Vanity IntraLATA option which requires the customer to accept the service after being informed of the applicable rates. Therefore, Staff believes that the Applicant’s proposed tariff is reasonable and should be approved at this time.

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 AOS telecommunications services, 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 maintains its accounts and records as required by the Commission;
3. That the Applicant 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. That the Applicant maintain on file with the Commission all current tariffs and rates and any service standards that the Commission may require;

5. That the Applicant 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. 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 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 AAC R14-2-1109;
9. 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 Company and has determined that its fair value rate base is zero. Accordingly, the Company's fair value rate base is too small to be useful in a fair value analysis. In addition, the rate to be ultimately charged by the Company will be heavily influenced by the market. Therefore, while Staff considered the fair value rate base information submitted by the Company, the fair value information provided was not given substantial weight in this analysis;
10. Staff further recommends that the Commission authorize the Applicant to discount its rates and service charges to the marginal cost of providing the services;
11. That the Applicant submit its tariff indicating that it does not collect advances, deposits and or prepayments;
12. The Applicant's interLATA rates and service charges for AOS services should be based on the maximum rates and service charges as set forth in Schedule 1;
13. The Applicant's intraLATA rates and service charges for AOS services should be based on the maximum rates and service charges as set forth in Schedule 2;
14. The Applicant's property surcharge for AOS services be limited to \$1.00 per call.

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 within 365 days from the date of an Order in this matter or 30 days prior to providing service, whichever comes first.

The tariffs submitted shall coincide with the Application and state that the Applicant does not collect advances, deposits and/or prepayments from its customers.

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

Attachment A

The following are the states/jurisdictions in which 1 800 is currently certificated to provide AOS telecommunications services:

1. Florida
2. District of Columbia
3. Idaho
4. Iowa
5. Kentucky
6. Michigan
7. New Jersey
8. North Carolina
9. North Dakota
10. Rhode Island
11. Virginia
12. Washington
13. Wisconsin

Schedule 1

Alternative Operator Services Maximum InterLata Usage Charges

Mileage Band	Day Time (a)		Evening/Holiday (b)		Night/Weekend (c)	
	First Minute	Addtl. Minute	First Minute	Addtl. Minute	First Minute	Addtl. Minute
0-10	0.3000	0.3000	0.3000	0.3000	0.3000	0.3000
11-16	0.4000	0.3000	0.3000	0.3000	0.3000	0.3000
17-22	0.4000	0.3000	0.3000	0.3000	0.3000	0.3000
23-30	0.4500	0.3000	0.3135	0.3000	0.3000	0.3000
31-40	0.5065	0.3000	0.3135	0.3000	0.3000	0.3000
41-55	0.5307	0.3332	0.3135	0.3000	0.3000	0.3000
56-70	0.5560	0.3732	0.3590	0.3000	0.3000	0.3000
71-124	0.5560	0.3865	0.3590	0.3000	0.3000	0.3000
125-196	0.5560	0.4265	0.3590	0.3000	0.3000	0.3000
197-292	0.5560	0.4799	0.3590	0.3000	0.3000	0.3000
293 & Over	0.5800	0.4820	0.3908	0.3000	0.3000	0.3000

Rate Periods

- (a) Day time is Monday through Friday 8:00 a.m. to 5 p.m.
- (b) Evening/Holiday is Sunday through Friday 5:00 p.m. to 11:00 p.m.
Officially recognized holidays are: New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving and Christmas Day. Evening rates are applicable during all holiday hours, except for hours when a lower rate (i.e. Night/Weekend) is applicable.
- (c) Night/Weekend is Sunday through Thursday 11:00 p.m. to 8:00 a.m., 11:00 p.m. Friday through 5:00 p.m. Sunday.

Alternative Operator Services Maximum InterLata Services Charges

Service (1) (2)	Maximum Charge
Customer Dialed Calling or Credit Card	\$1.50
Operator Dialed Calling or Credit Card	\$2.50
Station - to - Station Collect	\$2.33
Person - to - Person Collect	\$4.66
Third Party Person - to - Person	\$4.66
Third Party Station - to Station	\$2.33
Person - to - Person	\$4.50
Station - to - Station	\$3.50
Directory Assistance	\$2.00

- (1) An Operator Dialed Surcharge of \$2.00 will be applied to an end user who has the capability to call, but requests the operator to do so instead. In accordance with A.A.C. R14-2-1005, end users shall be informed of this charge before call completion. This surcharge will not be imposed in cases of equipment failure or where the end user is experiencing a disability.
- (2) A Property Surcharge, Subscriber Surcharge or Location Specific Charge may be added to all operator assisted calls completed from Company subscriber locations. This surcharge will appear on the customer's bill and will be capped at \$1.00 per call; all of this surcharge will be remitted to the aggregator; however, this surcharge will not be collected by the Company if the aggregator is also collecting a surcharge.

Company _____
 Docket No. _____
 Decision No. _____

Schedule 2

**Alternative Operator Services
Maximum IntraLata Usage Charges**

Mileage Band	Day Time (a)		Evening/Holiday (b)		Night/Weekend (c)	
	First Minute	Addtl. Minute	First Minute	Addtl. Minute	First Minute	Addtl. Minute
0-10	0.3000	0.3000	0.3000	0.3000	0.3000	0.3000
11-16	0.4000	0.3000	0.3000	0.3000	0.3000	0.3000
17-22	0.4000	0.3000	0.3000	0.3000	0.3000	0.3000
23-30	0.4500	0.3000	0.3135	0.3000	0.3000	0.3000
31-40	0.4500	0.3000	0.3135	0.3000	0.3000	0.3000
41-55	0.4500	0.3000	0.3135	0.3000	0.3000	0.3000
56-70	0.5200	0.3300	0.3590	0.3000	0.3000	0.3000
71-124	0.5200	0.3300	0.3590	0.3000	0.3000	0.3000
125-196	0.5300	0.3600	0.3590	0.3000	0.3000	0.3000
197-292	0.5800	0.3600	0.3590	0.3000	0.3000	0.3000
293 & Over	0.5800	0.3800	0.3980	0.3000	0.3300	0.3000

Rate Periods

- (a) Day time is Monday through Friday 8:00 a.m. to 5 p.m.
- (b) Evening/Holiday is Sunday through Friday 5:00 p.m. to 11:00 p.m.
Officially recognized holidays are: New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving and Christmas Day. Evening rates are applicable during all holiday hours, except for hours when a lower rate (i.e. Night/Weekend) is applicable.
- (c) Night/Weekend is Sunday through Thursday 11:00 p.m. to 8:00 a.m., 11:00 p.m. Friday through 5:00 p.m. Sunday.

**Alternative Operator Services
Maximum IntraLata Services Charges**

Service (1) (2)	Maximum Charge
Customer Dialed Calling or Credit Card	\$1.50
Operator Dialed Calling or Credit Card	\$2.50
Station - to - Station Collect	\$2.30
Person - to - Person Collect	\$4.50
Third Party Person - to - Person	\$4.50
Third Party Station - to Station	\$2.30
Person - to - Person	\$4.50
Station - to - Station	\$3.50
Directory Assistance	\$2.00

- (1) An Operator Dialed Surcharge of \$2.00 will be applied to the capability to call, but requests the operator to do so instead. In accordance with A.A.C. R14-2-1005, end users shall be informed of this charge before call completion. This surcharge will not be imposed in cases of equipment failure or where the end user is experiencing a disability.
- (2) A Property Surcharge, Subscriber Surcharge or Location Specific Charge may be added to all operator assisted calls completed from Company subscriber locations. This surcharge will appear on the customer's bill and will be capped at \$1.00 per call; all of this surcharge will be remitted to the aggregator; however, this surcharge will not be collected by the Company if the aggregator is also collecting a surcharge.

Company _____
Docket No. _____
Decision No. _____