

OPEN MEETING



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MEMORANDUM

Arizona Corporation Commission

DOCKETED

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ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

TO: THE COMMISSION

FROM: Utilities Division

DATE: August 25, 2014

DOCKETED BY 

RE: IN THE MATTER OF THE JOINT APPLICATION OF VERIZON LONG DISTANCE LLC AND VERIZON ENTERPRISE SOLUTIONS LLC FOR APPROVAL OF THE TRANSFER OF CUSTOMER BASE. (DOCKET NOS. T-03289A-14-0192 AND T-03198A-14-0192)

On June 18, 2014, Verizon Long Distance LLC ("VLD") and Verizon Enterprise Solutions LLC ("VES") (together, "Applicants"), filed a joint application requesting approval from the Arizona Corporation Commission ("Commission") of the transfer of VES' long distance business in Arizona to VLD. In addition, the Applicants seek approval to discontinue VES' interexchange services in Arizona, a waiver of the Commission's Consumer Protections for Unauthorized Carrier Charges ("Slamming") Rules and any other necessary approvals.

On July 2, 2014, the Applicants filed Attachment A to the Application which had inadvertently not been included with the original Application. Attachment A is a list of interexchange service carriers providing interexchange service in Arizona.

In support of this filing, Applicants provide the following information.

Introduction

This transaction is part of a multi-state initiative to consolidate the provision of telephone services that are currently provided through multiple and duplicative state-specific subsidiaries. The Applicants are coordinating proceedings in multiple states with an expected implementation date of November 15, 2014, and are requesting approval of the Joint Application no later than the Commission's September Open Meeting to allow sufficient time for processing and implementation. The transaction will not result in a change of the affected customer's rates, terms and conditions for their regulated services, except that those customers who were previously served by VES will be served by VLD going forward.

Description of the Applicants

A. Verizon Long Distance, LLC

VLD holds a CC&N to provide competitive interLATA/intraLATA resold telecommunications (except local exchange services) in Arizona pursuant to Decision No. 61845. It

THE COMMISSION

August 25, 2014

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had less than \$1 million in jurisdictional revenues in Arizona during 2013. VLD is a wholly owned subsidiary of Verizon New York Inc.¹

B. Verizon Enterprise Solutions, LLC

VES holds a CC&N to provide competitive interLATA/IntraLATA resold telecommunications (except local exchange services) in Arizona pursuant to Decision No. 61603. It had less than \$1 million in jurisdictional revenues in Arizona during 2013. VES is also a wholly owned subsidiary of Verizon New York Inc. VES operates in all 50 states and the District of Columbia, but currently has no customers in Alaska or Hawaii.

The Proposed Transaction

The Applicants state that VLD is acquiring VES' long distance-related business in Arizona and in other states in which it currently operates. VES will transfer its accounts receivable, liabilities, and customer relationships related to its long distance operations in Arizona (and in other states) to VLD. The transaction will be entirely pro forma in that it will involve only Verizon New York Inc. subsidiaries and no non-affiliated entity. Customers will continue receiving the same services from VLD as they were receiving before the transaction from VES. In addition, VLD will assume all the contracts and customer relationships under which VES provides service in Arizona to its retail customers.

Staff's Analysis

The Affiliated Interests Rules

The Applicants state they are exempt from the Arizona affiliated interest rules, Arizona Administrative Code ("A.A.C.") R14-2-801 to -806, because they each have less than \$1 million in jurisdictional revenues. The Public Utility Holding Companies and Affiliated Interests Rules apply to all Class A – investor-owned utilities, defined as telecommunications carriers that have Arizona jurisdictional annual revenues of more than \$1 million. Based on Staff's review of revenues reported in the 2013 Annual Reports on file with the Commission, the Applicants did not generate more than \$1 million of Arizona jurisdictional revenue. Therefore, this Application is not subject to A.A.C. R14-2-801 through -805 of the Public Utility Holding Companies and Affiliated Interests Rules.

Merger Statute

The Applicants state that VLD and VES are exempt from the statute that applies to mergers by public service corporations, A.R.S § 40-285, because they exclusively provide competitive, interexchange services. A.R.S § 40-285(F) states "This section does not apply to a telecommunications corporation whose retail telecommunications services are all classified as competitive by the commission, except as may otherwise be determined by a commission order after the effective date of this amendment to this section." The services provided by VLD and VES were

¹ Verizon New York Inc. is a wholly owned subsidiary of NYNEX LLC, which in turn is wholly owned by the publicly traded corporation, Verizon Communications Inc.

classified as competitive in Decision Nos. 61845 and 61603, respectively. Therefore, this Application is not subject to A.R.S § 40-285.

Request for Waiver of Slamming Rules

The Applicants seek a waiver of A.A.C. R14-2-1901 to -1913, the Slamming Rules, and any other applicable anti-slamming regulations that may be inconsistent with the Federal Communications Commission ("FCC")'s rules regarding the transfer of customer bases. In its application, VES indicates that it will begin providing customers a bill message notice of the pending transfer of customers to VLD on or about September 1, 2014. The notice will inform the VES customers of the transfer pursuant to Section 64.1120(e) of the FCC's rules, 47 C.F.R. § 64.1120(e)(3). Staff has reviewed the notice that will be sent to those affected customers. Because the notice informs customers that the rates, terms and conditions of service will not change as a result of the proposed transactions and informs customers that they may subscribe to the telecommunications service provider of their choice, Staff believes the Commission's Slamming Rules should be waived in this matter.

Waiver of A.A.C. R14-2-1107(A)(2) and (B)

The Applicants respectfully request that the Commission waive the customer notice section of A.A.C. R14-2-1107(A)(2) and the publication requirement specified in A.A.C. R14-2-1107(B). As mentioned, customers will receive notice as required by the FCC. VES states that a second notice of discontinuance will be confusing to customers and in this instance should not be required. VES holds that waiving the publication requirement is just, reasonable and in the public interest because: this transaction involves the transfer of customers between affiliated companies where neither of which are local exchange carriers; VES customers will receive at least thirty (30) days' notice of the transaction as required by the FCC's account transfer regulations; VES' customer base will be transferred to VLD before VES will cease providing service so no customers will be adversely affected; and service to the acquired customers is not being discontinued and waiver of the discontinuance rules would be consistent with past Commission actions. VES references Commission Decision No. 70706 issued October 2, 2008 in support of this latter request.

Staff, after reviewing Decision No. 70706, believes that a waiver of A.A.C. R14-2-1107(A)(2) and (B) is also appropriate in this circumstance as service to VES' customers will not be abandoned or discontinued and VES' customers will continue to receive service under the same rates, terms and conditions.

Cancellation of CC&Ns

The Applicants request cancellation of VES' CC&N effective upon consummation of the transaction as VES will cease to exist after the merger. VES has no employees in Arizona and has no facilities or assets in Arizona. VES does not collect advances, deposits and/or prepayments from customers in Arizona and does not have a performance bond on file with the Commission.

Complaints and Compliance

The Consumer Services Section of the Utilities Division reports that from January 1, 2011 to June 23, 2014 there have been no complaints, inquiries, or opinions about VLD and VES. According to the Corporations Division, both VLD and VES are in good standing. Both VLD and VES have filed their respective 2013 Utilities Annual Reports. The Compliance Section of the Utilities Division reports both VLD and VES are in compliance.

Staff Recommendations

Staff recommends approval of the Application of VLD and VES for VLD to acquire the Arizona customers of VES. Staff also recommends, upon notification from the Applicants that the proposed transaction has been completed, the CC&N and tariffs of VES be cancelled. Upon cancellation of its CC&N, VES will no longer be authorized to provide telecommunications services in Arizona. Therefore, VES will no longer be subject to the requirements of Decision No. 61603.

Staff further recommends that approval be conditioned on the following:

- a. The Applicants provide notice to Docket Control within thirty (30) days following completion of the proposed transactions in this Application.
- b. That VES notify their customers of the proposed transfer through a direct mailing allowing those customers to elect, to continue or discontinue service with VES, without prejudice. Verification of the notice should be filed with Docket Control within thirty (30) days of the notice being sent.
- c. That VLD file an updated tariff, within thirty (30) days of the effective date of a Decision in this matter, to incorporate the rates, terms and conditions of service that were included in the VES tariff.

Staff believes the Commission's Slamming and Discontinuance Rules all apply to this transaction. However, based on the above, Staff recommends the following:

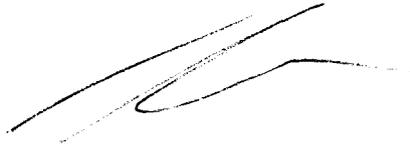
- A waiver of A.A.C. R14-2-1904 et seq. and any other applicable anti-slamming regulations that may be inconsistent with the FCC's rules regarding the transfer of customer bases because the notice informs customers that the rates, terms and conditions of service will not change as a result of this proposed transfer and informs customers that they may subscribe to the telecommunications service provider of their choice;
- A waiver of A.A.C. R14-2-1107(A)(2), which governs a telecommunications company's verification that all affected customers have been notified of the proposed discontinuance of service and that all affected customers will have access to an alternative interexchange service provider.

THE COMMISSION

August 25, 2014

Page 5

- A waiver of A.A.C. R14-2-1107(B), which requires that the Applicant publish legal notice of the application in all counties affected by the application describing with particularity the substance of the application.



Steven M. Olea
Director
Utilities Division

SMO:MAC:sms\RWG

ORIGINATOR: Matt Connolly

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BEFORE THE ARIZONA CORPORATION COMMISSION

- BOB STUMP
Chairman
- GARY PIERCE
Commissioner
- BRENDA BURNS
Commissioner
- BOB BURNS
Commissioner
- SUSAN BITTER SMITH
Commissioner

IN THE MATTER OF THE JOINT APPLICATION OF VERIZON LONG DISTANCE LLC AND VERIZON ENTERPRISE SOLUTIONS LLC FOR TRANSFER OF CUSTOMER BASE

DOCKET NOS. T-03289A-14-0192
T-03198A-14-0192
DECISION NO. _____
ORDER

Open Meeting
September 9 and 10, 2014
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. On June 18, 2014, Verizon Long Distance LLC ("VLD") and Verizon Enterprise Solutions LLC ("VES") (together, "Applicants"), filed a joint application requesting approval from the Arizona Corporation Commission ("Commission") of the transfer of VES' long distance business in Arizona to VLD. In addition, the Applicants seek approval to discontinue VES' interexchange services in Arizona, of a waiver of the Commission's Consumer Protections for Unauthorized Carrier Charges ("Slamming") Rules and any other necessary approvals.

2. Verizon Long Distance LLC ("VLD") and Verizon Enterprise Solutions LLC ("VES") (together, "Applicants"), filed a joint application on June 18, 2014, pursuant to sections R-14-2-1901 to -1913 and R14-2-1107 of the Arizona Administrative Code ("A.A.C."), requesting approval from the Arizona Corporation Commission ("Commission") of the transfer of VES' long distance business in Arizona to VLD. In addition, the Applicants seek approval to discontinue VES' interexchange services in Arizona under A.A.C. R-14-2-1107, a waiver of the Commission's slamming rules A.A.C.

...

1 R-14-2-1901 to -1913 and other approvals that are necessary due to an internal corporate
2 reorganization to complete this transaction.”

3 3. On July 2, 2014, the Applicants filed Attachment A to the Application which had
4 inadvertently not been included with the original Application. Attachment A is a list of interexchange
5 service carriers providing interexchange service in Arizona.

6 4. In support of this filing, Applicants provide the following information.

7 **Introduction**

8 5. This transaction is part of a multi-state initiative to consolidate the provision of
9 telephone services that are currently provided through multiple and duplicative state-specific
10 subsidiaries. The Applicants are coordinating proceedings in multiple states with an expected
11 implementation date of November 15, 2014, and are requesting approval of the Joint Application no
12 later than the Commission’s September Open Meeting to allow sufficient time for processing and
13 implementation. The transaction will not result in a change of the affected customer’s rates, terms and
14 conditions for their regulated services, except that those customers who were previously served by
15 VES will be served by VLD going forward.

16 **Description of the Applicants**

17 Verizon Long Distance, LLC

18 6. VLD holds a CC&N to provide competitive interLATA/intraLATA resold
19 telecommunications (except local exchange services) in Arizona pursuant to Decision No. 61845. It
20 had less than \$1 million in jurisdictional revenues in Arizona during 2013. VLD is a wholly owned
21 subsidiary of Verizon New York Inc.¹

22 Verizon Enterprise Solutions, LLC

23 7. VES holds a CC&N to provide competitive interLATA/IntraLATA resold
24 telecommunications (except local exchange services) in Arizona pursuant to Decision No. 61603. It
25 had less than \$1 million in jurisdictional revenues in Arizona during 2013. VES is also a wholly owned
26

27 _____
28 ¹ Verizon New York Inc. is a wholly owned subsidiary of NYNEX LLC, which in turn is wholly owned by the
publicly traded corporation, Verizon Communications Inc.

1 subsidiary of Verizon New York Inc. VES operates in all 50 states and the District of Columbia, but
2 currently has no customers in Alaska or Hawaii.

3 **Description of the Transaction**

4 8. The Applicants state that VLD is acquiring VES' long distance-related business in
5 Arizona and in other states in which it currently operates. VES will transfer its accounts receivable,
6 liabilities, and customer relationships related to its long distance operations in Arizona (and in other
7 states) to VLD. The transaction will be entirely pro forma in that it will involve only Verizon New
8 York Inc. subsidiaries and no non-affiliated entity. Customers will continue receiving the same
9 services from VLD as they were receiving before the transaction from VES. In addition, VLD will
10 assume all the contracts and customer relationships under which VES provides service in Arizona to
11 its retail customers.

12 **Affiliated Interest Rules**

13 9. The Applicants state they are exempt from the Arizona affiliated interest rules, Arizona
14 Administrative Code ("A.A.C.") R14-2-801 to -806, because they each have less than \$1 million in
15 jurisdictional revenues. The Public Utility Holding Companies and Affiliated Interests Rules apply to
16 all Class A – investor-owned utilities, defined as telecommunications carriers that have Arizona
17 jurisdictional annual revenues of more than \$1 million. Based on Staff's review of revenues reported
18 in the 2013 Annual Reports on file with the Commission, the Applicants did not generate more than
19 \$1 million of Arizona jurisdictional revenue. Therefore, this Application is not subject to A.A.C. R14-
20 2-801 through -805 of the Public Utility Holding Companies and Affiliated Interests Rules.

21 **Merger Statute**

22 10. The Applicants state that VLD and VES are exempt from the statute that applies to
23 mergers by public service corporations, A.R.S § 40-285, because they exclusively provide competitive,
24 interexchange services. A.R.S § 40-285(F) states "This section does not apply to a
25 telecommunications corporation whose retail telecommunications services are all classified as
26 competitive by the commission, except as may otherwise be determined by a commission order after
27 the effective date of this amendment to this section." The services provided by VLD and VES were

28 ...

1 classified as competitive in Decision Nos. 61845 and 61603, respectively. Therefore, this Application
2 is not subject to A.R.S § 40-285.

3 **Request for Waiver of Slamming Rules**

4 11. The Applicants seek a waiver of A.A.C. R14-2-1901 to -1913, the Slamming Rules, and
5 any other applicable anti-slamming regulations that may be inconsistent with the Federal
6 Communication Commission ("FCC")'s rules regarding the transfer of customer bases. In its
7 application, VES indicates that it will begin providing customers a bill message notice of the pending
8 transfer of customers to VLD on or about September 1, 2014. The notice will inform the VES
9 customers of the transfer pursuant to Section 64.1120(e) of the FCC's rules, 47 C.F.R. §64.1120(e)(3).

10 12. Staff has reviewed the notice that will be sent to those affected customers. Because the
11 notice informs customers that the rates, terms and conditions of service will not change as a result of
12 the proposed transactions and informs customers that they may subscribe to the telecommunications
13 service provider of their choice, Staff believes the Commission's Slamming Rules should be waived in
14 this matter.

15 **Request for Waivers of A.A.C. R14-2-1107(A)(2) and (B)**

16 13. The Applicants respectfully request that the Commission waive the customer notice
17 section of A.A.C. R14-2-1107(A)(2) and the publication requirement specified in A.A.C. R14-2-110
18 (B). As mentioned, customers will receive notice as required by the FCC. VES states that a second
19 notice of discontinuance will be confusing to customers and in this instance should not be required.
20 VES holds that waiving the publication requirement is just, reasonable and in the public interest
21 because: this transaction involves the transfer of customers between affiliated companies where
22 neither of which are local exchange carriers; VES customers will receive at least thirty (30) days'
23 notice of the transaction as required by the FCC's account transfer regulations; VES' customer base
24 will be transferred to VLD before VES will cease providing service so no customers will be adversely
25 affected, and service to the acquired customers is not being discontinued and waiver of the
26 discontinuance rules would be consistent with past Commission actions. VES references Commission
27 Decision No. 70706 issued October 2, 2008, in support of this latter request.

28 ...

1 14. Staff, after reviewing Decision No. 70706, believes that a waiver of A.A.C. R14-2-1107
2 (A)(2) and (B) is also appropriate in this circumstance as service to VES' customers will not be
3 abandoned or discontinued and VES' customers will continue to receive service under the same rates,
4 terms and conditions.

5 **Cancellation of CC&N**

6 15. The Applicants request cancellation of VES' CC&N effective upon consummation of
7 the transaction as VES will cease to exist after the merger. VES has no employees in Arizona and has
8 no facilities or assets in Arizona. VES does not collect advances, deposits and/or prepayments from
9 customers in Arizona and does not have a performance bond on file with the Commission.

10 **Complaints and Compliance**

11 16. The Consumer Services Section of the Utilities Division reports that from January 1, 2011
12 to June 23, 2014, there have been no complaints, inquiries, or opinions about VLD and VES.
13 According to the Corporations Division, both VLD and VES are in good standing. Both VLD and
14 VES have filed their respective 2013 Utilities Annual Reports. The Compliance Section of the
15 Utilities Division reports both VLD and VES are in compliance.

16 **Staff Recommendations**

17 17. Staff recommends approval of the Application of VLD and VES for VLD to acquire the
18 Arizona customers of VES. Staff also recommends, upon notification from the Applicants that the
19 proposed transaction has been completed, the CC&N and tariffs of VES be cancelled. Upon
20 cancellation of its CC&N, VES will no longer be authorized to provide telecommunications services
21 in Arizona. Therefore, VES will no longer be subject to the requirements of Decision No. 61603.

22 18. Staff further recommends that approval be conditioned on the following:

- 23 • The Applicants provide notice to Docket Control within thirty (30) days
24 following completion of the proposed transactions in this Application;
- 25 • That VES notify their customers of the proposed transfer through a direct
26 mailing allowing those customers to elect, to continue or discontinue service
27 with VES, without prejudice. Verification of the notice should be filed with
28 Docket Control within thirty (30) days of the notice being sent.

- That VLD file an updated tariff, within thirty (30) days of the effective date of a Decision in this matter, to incorporate the rates, terms and conditions of service that were included in the VES tariff.

19. Staff believes the Commission's Slamming and Discontinuance Rules all apply to this transaction. However, based on the above, Staff recommends the following:

- A waiver of A.A.C. R14-2-1904, et seq. and any other applicable anti-slamming regulations that may be inconsistent with the FCC's rules regarding the transfer of customer bases because the notice informs customers that the rates, terms and conditions of service will not change as a result of this proposed transfer and informs customers that they may subscribe to the telecommunications service provider of their choice;
- A waiver of A.A.C. R14-2-1107(A)(2), which governs a telecommunications company's verification that all affected customers have been notified of the proposed discontinuance of service and that all affected customers will have access to an alternative interexchange service provider.
- A waiver of A.A.C. R14-2-1107(B), which requires that the Applicant publish legal notice of the application in all counties affected by the application.

CONCLUSIONS OF LAW

1. Verizon Long Distance, LLC and Verizon Enterprise Solutions, LLC are public service corporations within the meaning of Article XV of the Arizona Constitution.

2. The Commission has jurisdiction over Verizon Long Distance, LLC and Verizon Enterprise Solutions, LLC and the subject matter in this filing.

3. The Commission, having reviewed the filing and Staff's Memorandum dated August 25, 2014, concludes that it is in the public interest to grant approval as proposed and discussed herein.

ORDER

IT IS THEREFORE ORDERED that the Application of Verizon Long Distance LLC to acquire the customers (including the customers' contracts) of Verizon Enterprise Solutions LLC be and hereby is approved as discussed herein.

IT IS FURTHER ORDERED that the request for a waiver of A.A.C. R14-2-1904 et seq. and any other applicable anti-slamming regulations that may be inconsistent with the FCC's rules regarding the transfer of customer bases be and hereby is approved.

...

1 IT IS FURTHER ORDERED that the request for a waiver of A.A.C. R14-2-1107(A)(2),
2 governing a telecommunications company's verification that all affected customers have been notified
3 of the proposed transfer and A.A.C. R14-2-1107(B), which requires that the Applicant publish legal
4 notice of the application in all counties affected by the application be and hereby is approved.

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IT IS FURTHER ORDERED that within thirty (30) days following the closing of the proposed transaction, Verizon Long Distance LLC and Verizon Enterprise Solutions LLC inform the Commission by filing an affidavit with Docket Control that transaction-related activities are completed.

IT IS FURTHER ORDERED that Verizon Long Distance LLC file an updated tariff, within thirty (30) days of the effective date of a Decision in this matter, to incorporate the rates, terms and conditions of service that were included in the Verizon Enterprise Solutions LLC tariff.

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

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2014.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

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1 SERVICE LIST FOR: VERIZON LONG DISTANCE, LLC AND VERIZON ENTERPRISE
SOLUTIONS, LLC

2 DOCKET NOS. T-03289A-14-0192 and T-03198A-14-0192

3
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