

March 25, 2014

**MEMORANDUM**

**TO:** The Chair and Members of the Commission

**FROM:** Vincent O. Ikwuagwu, Public Utilities Analyst

**SUBJECT:** IN THE MATTER OF THE APPLICATION OF XO  
COMMUNICATIONS SERVICES, LLC. FOR APPROVAL TO ENTER  
INTO CERTAIN FINANCING ARRANGEMETS.  
(FILED MARCH 19, 2014) - PSC DOCKET NO. 14-112

**Application**

XO Communications Services, LLC (“XOCS” or “Applicant”) has filed an application seeking Commission approval to provide its guarantee, pledge its equity interest and assets, or otherwise provide security in connection with certain financing arrangements by its parent company, XO Communications, LLC (“XO” and, together with XOCS, the “Companies”).

**Applicants**

**XO and XOCS, LLC.**

XO and XOCS are Delaware limited liability companies with principal offices at 13685 Sunrise Valley Drive, Herndon, Virginia 20171. XO is a leading national provider of local and long distance telecommunications services, interexchange access services, advanced communications, managed network and IT infrastructure services to business, large enterprise and wholesale customers. Through its subsidiaries, primarily XOCS, XO is authorized to provide intrastate interexchange telecommunications services in 49 states and local exchange services in 48 states and the District of Columbia. By Order No. 6470 of September 14, 2004 in PSC Docket No. 04-275, XOCS was granted authority to provide intrastate telecommunications services in the State of Delaware.

### **Transaction**

XO seeks Commission approval to enter into financing arrangements that will consist of an initial \$500 million term loan facility, with the ability to add an incremental facility or facilities in an aggregate amount equal to the sum of \$250 million plus a projected amount of \$600 million based on XO's ratio of first lien indebtedness to EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization). The incremental amounts may be in form of term loan facilities and/or revolving credit facilities. These planned financing will be obtained through a syndicate of lenders. The Company propose that XOCS will provide guarantee, pledge its equity interests and assets, or to otherwise provide security in connection with financing that will be undertaken by its parent XO. The planned financing is expected to mature in 2021 and the interest will be tied to market rates for similar financing.

### **Public Interest**

The Applicant asserts that the public interest will be served. The proposed Transaction will enable XOCS to take advantage of the most favorable financing instruments and terms available as of the date of the closing, which will provide XOCS access to greater financial resources necessary to grow and compete in the provision of telecommunication services in the State of Delaware and nationwide. The increased financing arrangements will primarily be used in enhancing XO network and to fund future acquisitions, to support strategic growth initiatives, to provide ongoing working capital, and for other corporate purposes. The present customers will not be affected and will continue to enjoy continuity of high quality telecommunications service supported by XOCS and XO.

### **Staff Recommendation**

Applications seeking financing arrangements approval by large multi-state resellers of competitive intrastate telecommunications services technically come under the provisions of 26 *Del. C.* §215 because the companies are deemed to be public utilities. The applicants have represented that the financing arrangements are in accordance with law, for a proper purpose, and consistent with the public interest. The Commission has previously allowed such applications to become effective by statutory approval without Commission action. The result seems appropriate under the circumstances. Staff, therefore, recommends that the Commission not act on this application. This will have the effect, under 26 *Del. C.* §215(d), of the application being approved. Staff will also require a notice from the Applicant that the proposed financing arrangements have been completed.