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May 16, 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 ZAYO GROUP, LLC.
FOR APPROVAL TO ENTER INTO CERTAIN FINANCING
ARRANGEMENTS.
(FILED MAY 7, 2014) - PSC DOCKET NO. 14-166

Application

Zayo Group LLC (“Zayo” or “Applicant”) has filed an application seeking Commission approval to expand its existing authority for financing arrangements by \$550 Million to an aggregate of \$3.82 Billion.

Applicants

Zayo Group LLC.

Zayo is a Delaware limited liability company with principal business offices at 400 Centennial Parkway, Suite 200, Louisville, Colorado 80027. Zayo is a wholly-owned subsidiary of Zayo Group Holdings, Inc. a Delaware corporation. Zayo is a provider of bandwidth infrastructure and network neutral colocation and interconnection services over regional and metropolitan fiber networks. These services enable customers to manage, operate, and scale their telecommunications and data networks. Their customers consist primarily of wireless service providers, national and regional telecommunications carriers and other communication service providers, media and content companies, schools, hospitals, governments, banks, and other bandwidth intensive enterprises. Zayo received approval to provide local and competitive intrastate telecommunications services in Delaware pursuant to Commission Order No. 7956 granted in PSC Docket No. 11-55 on May 10, 2011.

Transaction

Zayo seeks Commission approval to expand its existing authority for financing arrangements by an additional \$550 Million. The Commission has previously authorized Zayo to enter into financing arrangements in an aggregate amount of \$3.12 Billion. In PSC Docket No. 12-164, Zayo sought authorization to borrow and pledge its assets as security for up to \$3 Billion in financing arrangements, and for certain of its subsidiaries to guarantee the arrangements and pledge certain assets to secure the guarantee. This application was deemed approved by the Commission on April 17, 2012. On August 7, 2012, Zayo sought and the Commission granted an approval in PSC Docket No. 12-351 to increase the aggregate amount of the financing by \$120 Million to an aggregate amount of \$3.12 Billion. On January 7, 2014, in PSC Docket No. 13-485, the Commission authorized Zayo to borrow and pledge its assets as security for financing arrangements of \$150 Million to an aggregate amount of \$3.27 Billion.

In this filing, Zayo seeks authorization of \$550 Million to an aggregate of \$3.83 Billion in additional financing arrangements in the form of notes or debentures and other conventional credit facilities such as revolving credit, term loans, letters of credit, bridge loans or a combination. The financing arrangements will help the Company to maintain adequate flexibility to respond market conditions and requirements. The arrangements will be used for acquisitions, working capital requirements and general permissible corporate purposes of the company. The interest for the term loan will be established at the close of the loan. Zayo seeks authorization for financing arrangements at an interest rate(s) at the then current market conditions, either fixed, floating or a combination of fixed and floating rates.

Some or all of these financing are expected to be secured by facilities which will include a grant of a security interest in the assets of Zayo and its current and future subsidiaries. The participation in these financing arrangements will not result in any change in Zayo's management or its day-to-day operations. The financing arrangements are designed to enable Zayo to bring services to new markets and allow consumers to benefit from advanced and competitive services.

Public Interest

The Applicant asserts that the public interest will be served. The proposed Transaction will enable Zayo to take advantage of the most favorable financing instruments and terms available as of the date of the closing, which will provide Zayo to have access to greater financial resources necessary to compete in the provision of telecommunication services in the State of Delaware. The increased financing arrangements will be used 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 Zayo.

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.