



STATE OF DELAWARE

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MEMORANDUM

TO: The Chairman and Members of the Commission

FROM: Joshua Bowman, Public Utility Analyst *JAB*

DATE: April 11, 2016

SUBJECT: IN THE MATTER OF THE APPLICATION OF LEVEL 3 COMMUNICATIONS, LLC FOR APPROVAL TO PARTICIPATE IN A FINANCING ARRANGEMENT
(FILED APRIL 5, 2016) - PSC DOCKET NO. 16-0309

Application

Level 3 Communications, LLC ("Level 3 LLC" or the "Applicant") has filed an application with the Public Service Commission ("PSC" or the "Commission") seeking approval to participate in a financing arrangement with its immediate parent company, Level 3 Financing, Inc. ("Financing").

Applicant

Level 3 Communications, LLC

Level 3 LLC, a Delaware limited liability company, is a wholly-owned subsidiary of Level 3 Financing, which, in turn, is a wholly-owned subsidiary of Level 3 Communications, Inc. ("Level 3 Inc."). Level 3 LLC was granted a Certificate of Public Convenience and Necessity to provide interexchange telecommunications services and competitive local exchange telecommunications services in Delaware by Order No. 4969 issued in PSC Docket No. 98-114.

Level 3 Financing, Inc.

Financing, a Delaware corporation, is wholly-owned by Level 3 Inc., and a direct parent of Level 3 LLC.

Level 3 Communications, Inc.

Level 3 Inc., a publicly traded (NYSE: LVLT) Delaware corporation, is the parent to Financing and the indirect parent of Level 3 LLC.

Financing Arrangement

Financing has issued \$775 million aggregate principal amount of its 5.25% Senior Notes due in 2026 (the "Senior Notes") in a private offering to qualified institutional buyers that is exempt from registration under U.S. Federal securities laws. Financing then lent the net proceeds it received in the offering of the Senior Notes plus available cash to its subsidiary, Level 3 LLC, in return for an intercompany demand note issued by Level 3 LLC to Financing in the aggregate amount of \$775 million. The net effect of the generation of these proceeds, along with cash on hand, will be the redemption of all of Financing's outstanding \$775 million aggregate principal amount of its 7% Senior Notes due 2020 and the payment of expenses of the offering. The redemption of the 7% Senior Notes due 2020 is scheduled to occur on April 21, 2016, with the redemption payment to be made on that date. Level 3 LLC requests approval from the Commission to act as a guarantor of the Senior Notes issued by Financing. Applicant emphasizes that guaranty obligations in support of the Senior Notes will not be effective until all required regulatory approvals are obtained.

Public Interest

The Applicant asserts that the public interest will be served and that the transaction is in accordance with the law and is for a proper purpose. Applicant's participation in the new financing arrangement will not result in a change in Level 3 LLC's management or in its day-to-day operations in Delaware, nor will it adversely affect Level 3 LLC's current or proposed operations in Delaware. The financing arrangement that is the subject of this request will enable the parent company to take advantage of lower interest rates and more favorable maturity terms, thereby significantly reducing interest expenses. The financing arrangement will provide Financing with financial flexibility to maintain and expand Applicant's networks and services. This improved financial arrangement will enable Applicant to continue delivering services to new markets, thus allowing more consumers to benefit from its competitive services. In addition, existing and future customers will have a more favorable view of Level 3 LLC's

financial health. Furthermore, this financing arrangement will be conducted in a manner that will be transparent to customers and will not result in the discontinuance, reduction, loss, or impairment of service to customers.

Staff Recommendation

Applications seeking financing approval by large multi-state competitive intrastate telecommunications providers technically come under the provisions of 26 *Del. C.* §215 because the companies are deemed to be public utilities. The Applicant has represented that the financing proposal is 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. Therefore, Staff recommends that the Commission not act on this application. Under 26 *Del. C.* §215(d), the effect will be that the application is deemed to be approved by the Commission. Staff will also acquire verification from the Applicant that the proposed financing arrangements have been completed.