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BEFORE THE ARIZONA CORPORATION COMMISSION

DOCKETED

JUN 09 2000

CARL J. KUNASEK
CHAIRMAN
JIM IRVIN
COMMISSIONER
WILLIAM A. MUNDELL
COMMISSIONER

DOCKETED BY [Signature]

IN THE MATTER OF THE APPLICATION OF
NEXTLINK ARIZONA, INC. AND ITC D/B/A
NEXTLINK AFFINITY, INC. TO ISSUE
EVIDENCES OF INDEBTEDNESS PURSUANT
TO ARIZONA REVISED STATUTE A.R.S. § 40-
285.

DOCKET NO. T-03601A-00-0021

DECISION NO. 62617

ORDER

Open Meeting
June 6 and 7, 2000
Phoenix, Arizona

BY THE COMMISSION:

On January 19, 2000, NEXTLINK Arizona, Inc., ("NEXTLINK AZ") and ITC d/b/a/ NEXTLINK Affinity ("ITC") (collectively "Applicants") filed with Docket Control of the Commission an application for approval for Applicants to guarantee certain loans of their parent company NEXTLINK Communications, Inc. ("NEXTLINK Com"). On May 1, 2000, the Commission's Utilities Division Staff ("Staff") filed a Staff Report, in which it recommended approval of the application without a hearing.

DISCUSSION

Introduction

NEXTLINK AZ is a Washington corporation organized and existing under the laws of Washington. ITC is a Utah corporation organized and existing under the laws of Utah. Both entities are wholly owned subsidiaries of NEXTLINK Com, and both are qualified to transact business in the State of Arizona.

NEXTLINK AZ provides facilities-based switched and dedicated high-speed interstate common carrier and enhanced telecommunications services, as well as intrastate local and long distance services pursuant to its Certificate of Convenience and Necessity (CC&N") issued in Decision No. 61373 (January 12, 1999). ITC's application for a CC&N is currently pending. Staff states that although the application requests approval of ITC's guarantee, the Applicants have

1 informed Staff that ITC will not be guaranteeing the loan.

2 Purpose of Guarantee

3 NEXTLINK AZ has filed this application to obtain the Commission's approval for the
4 issuance of a guarantee and/or grant of a security interest so that its parent company, NEXTLINK
5 Com, may enter into a bank credit agreement ("Credit Agreement") providing funds for capital
6 expenditures, including the development and expansion of Applicants' networks, to develop and
7 upgrade certain management information systems, and to meet other general corporate and working
8 capital needs both in Arizona and other states.

9 The Credit Agreement provides for the extension of up to \$1 billion or more of senior secured
10 loans to NEXTLINK Com by a syndicate of banks on customary commercial terms, including a
11 variable rate of interest based on LIBOR or the prime rate, and a seven year term. The guarantee of
12 these loans by NEXTLINK AZ will be unconditional, although limited in amount to \$125 million. In
13 the event that NEXTLINK AZ is called upon to pay such guarantee, it will have the right to obtain
14 contribution with respect to such payment from other subsidiaries of NEXTLINK Com.
15 Substantially all of NEXTLINK AZ's assets will be pledged to secure these loans as well.

16 The authorization to issue a guarantee will increase NEXTLINK AZ's ability to compete in
17 the market for telecommunications services in Arizona, and more rapidly introduce innovative
18 products and services. NEXTLINK AZ is in the process of building a 45-mile fiber optic backbone
19 network in Phoenix and Tempe. The proposed transactions would not result in any changes to
20 NEXTLINK AZ's rates or service.

21 Financial Impact

22 Staff's Report indicates that NEXTLINK Com's most recent financial statements (nine
23 months ending September 30, 1999) reflect a net loss of \$366.6 million. The same financial
24 statements reflect \$4.0 billion of assets. For the year ending December 31, 1999, NEXTLINK AZ's
25 Arizona operations experienced a loss before interest, taxes, depreciation and amortization of \$3.5
26 million and had assets totaling \$19.3 million.

27 Staff's Report states that although the net losses experienced by both NEXTLINK Com and
28 NEXTLINK AZ indicate financial distress, similar start-up telecommunications companies have al.

1 suffered losses in their initial years of operations. Large initial plant investments made before
2 customers are acquired are generally the cause of those losses. NEXTLINK AZ's customer growth is
3 expected to generate sufficient revenue to make timely debt payments.

4 Staff believes that approval of the guarantee will support the construction of a
5 telecommunications plant in Arizona and may enhance competition in the local exchange service
6 market. In the event NEXTLINK Com would default on the loan and the assets of NEXTLINK AZ
7 were seized, NEXTLINK AZ's plant would likely be useful to other telecommunications companies.

8 Based on the above, Staff recommended approval of the application. We concur.

9 * * * * *

10 Having considered the entire record herein and being fully advised in the premises, the
11 Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

12 **FINDINGS OF FACT**

13 **Background**

14 1. On January 10, 2000, NEXTLINK AZ and ITC filed with the Commission an
15 application to issue evidence of indebtedness.

16 2. On May 1, 2000, Staff filed its Report on NEXTLINK AZ and ITC's application.

17 3. NEXTLINK AZ received a Certificate of Convenience and Necessity (CC&N) to
18 provide facilities based and retail local exchange, toll and access services throughout the State of
19 Arizona in Decision No. 61373. ITC currently has a pending application in the State of Arizona to
20 resell telecommunications services.

21 4. NEXTLINK AZ owns the facilities that ITC uses to provide local exchange services,
22 including enhanced business and high speed data services, to its customers.

23 5. The purpose of the guarantee is to enable NEXTLINK Com to obtain debt financing
24 of approximately \$1 billion. NEXTLINK Com will then advance money to NEXTLINK AZ and/or
25 ITC for the improvements needed for expansion.

26 6. Staff states that although the application requests approval of ITC's guarantee,
27 Applicant has informed Staff that ITC will not be guaranteeing the loan. However, NEXTLINK AZ
28 and 59 other NEXTLINK Com subsidiaries and affiliates will be the entities guaranteeing the loan.

1 finance the planned system expansion of the Company.

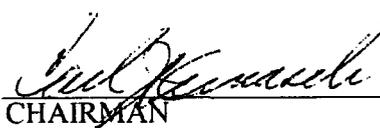
2 IT IS FURTHER ORDERED that NEXTLINK Arizona, Inc. is hereby authorized to engage
3 in any transactions and to execute any documents necessary to effectuate the authorization granted
4 hereinabove.

5 IT IS FURTHER ORDERED that such authority is expressly contingent upon NEXTLINK
6 Arizona, Inc. and NEXTLINK Communications, Inc.'s use of the proceeds for the purposes set forth
7 in its application.

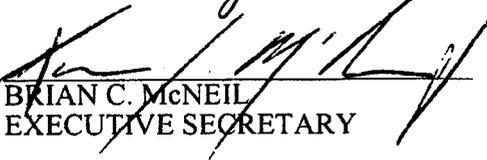
8 IT IS FURTHER ORDERED that NEXTLINK Arizona, Inc. shall file copies of all executed
9 financing documents setting forth the terms of the financing, within 30 days of execution of said
10 documents.

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

12 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

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15 CHAIRMAN COMMISSIONER COMMISSIONER
16

17 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
18 Secretary of the Arizona Corporation Commission, have
19 hereunto set my hand and caused the official seal of the
20 Commission to be affixed at the Capitol, in the City of Phoenix,
21 this 9TH day of June, 2000.

22 
23 BRIAN C. McNEIL
24 EXECUTIVE SECRETARY

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23 DISSENT _____
24 AG:bbs

1 SERVICE LIST FOR:

NEXTLINK ARIZONA, INC. AND ITC D/B/A
NEXTLINK AFFINITY

2

3 DOCKET NO.

T-03601A-00-0021

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