

WILLIAM A. MUNDELL
CHAIRMAN
JIM IRVIN
COMMISSIONER
MARC SPITZER
COMMISSIONER

32 OPEN MEETING ITEM



ARIZONA CORPORATION COMMISSION

2001 AUG 13 A 10:57

AZ CORP COMMISSION
DOCUMENT CONTROL

DATE: AUGUST 13, 2001

DOCKET NO: T-03406A-01-0270

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Philip Dion. The recommendation has been filed in the form of an Order on:

ESCHELON TELECOM OF ARIZONA, INC.
(FINANCE)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and ten (10) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

AUGUST 22, 2001

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Working Session and Open Meeting to be held on:

AUGUST 28, 2001 AND AUGUST 29, 2001

For more information, you may contact Docket Control at (602)542-3477 or the Hearing Division at (602)542-4250.

Arizona Corporation Commission
DOCKETED

AUG 13 2001

DOCKETED BY *mae*

BRIAN C. McNEIL
EXECUTIVE SECRETARY

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 WILLIAM A. MUNDELL
CHAIRMAN

3 JIM IRVIN
COMMISSIONER

4 MARC SPITZER
COMMISSIONER

5
6 IN THE MATTER OF THE APPLICATION OF
7 ESCHELON TELECOM OF ARIZONA, INC. FOR
8 APPROVAL OF ENCUMBRANCE OF ITS
9 ASSETS

DOCKET NO. T-03406A-01-0270

DECISION NO. _____

ORDER

10 Open Meeting
11 August 28 and 29, 2001
12 Phoenix, Arizona

BY THE COMMISSION:

13 On March 30, 2001, Eschelon Telecom of Arizona, Inc. ("Eschelon" or "Company") filed an
14 application with the Arizona Corporation Commission ("Commission") requesting approval to
15 encumber its Arizona assets as part of a financing arrangement involving its parent company,
16 Eschelon Operating Company.

17 On July 13, 2001, the Commission's Utilities' Division Staff ("Staff") filed a Staff Report
18 recommending approval of the application without a hearing.

19 * * * * *

20 Having considered the entire record herein and being fully advised in the premises, the
21 Commission finds, concludes, and orders that:

FINDINGS OF FACT

22 1. On March 30, 2001, Eschelon filed an application with the Commission requesting
23 approval to encumber its Arizona assets as part of a financing arrangement involving its parent
24 company, Eschelon Operating Company. Specifically, Eschelon is requesting authority to grant a
25 security interest in its assets to General Electric Capital Corporation, Fleet National Bank, Firststar
26 Bank, N.A., Coast Business Credit, J.P. Morgan Chase and Co., Credit Suisse First Boston, and IBM
27 Credit Corporation (collectively "Lenders").

28 2. Eschelon is a wholly owned subsidiary of Eschelon Operating Company, which is a

1 wholly owned subsidiary of Eschelon Telecom, Inc., a privately held company.

2 3. The agreement is part of an effort to secure financing to provide Eschelon Operating
3 Company with the flexibility to budget for capital expenditures and general corporate purposes,
4 including working capital.

5 4. According to the Company, the agreement will facilitate consumer benefits and
6 operational efficiencies, permitting Eschelon to better serve its current and future Arizona customers
7 through its enhanced access to capital.

8 5. The Company states that although Eschelon Operating Company possesses the
9 financial strength to satisfy the obligations undertaken in the financing agreement, the Lenders
10 nevertheless required the participation of Eschelon Telecom, Inc. and its subsidiaries, including
11 Eschelon.

12 6. According to its December 31, 2000, consolidated balance sheet, Eschelon Telecom,
13 Inc. held total assets of approximately \$167.8 million. Revenues for 2000 were approximately \$60.4
14 million, with a net loss of approximately (\$52.6 million).

15 7. Although the net losses experienced by Eschelon Telecom, Inc. indicate financial
16 distress, Staff indicates that similar "start-up" telecommunication companies have also suffered
17 losses in their initial years of operation, usually due to large initial plant investments made prior to
18 customers being acquired.

19 8. Eschelon is a Minnesota corporation authorized to do business in Arizona since May,
20 2000.

21 9. The Company's Arizona assets comprise less than 1.0 percent of Eschelon Telecom,
22 Inc.'s total assets.

23 10. Eschelon was granted a Certificate of Convenience and Necessity ("CC&N") to
24 provide facilities-based and resold interstate telecommunications services in Decision No. 62751
25 (July 25, 2000).

26 11. Decision No. 62751 ordered Eschelon to procure a performance bond equal to a
27 minimum of 120 days intrastate revenue as well as any pre-payments or deposits collected from
28 customers.

ORDER

IT IS THEREFORE ORDERED that, pursuant to A.R.S. § 40-285, Eschelon Telecom of Arizona, Inc.'s application for encumbrance of its assets is granted with the exception that such encumbrance shall not include, nor affect, the assets which comprise the performance bond as ordered by the Commission in Decision No. 62751.

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

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this ____ day of _____, 2001.

BRIAN C. McNEIL
EXECUTIVE SECRETARY

DISSENT _____
PD:mlj

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SERVICE LIST FOR: ESCHELON TELECOM OF ARIZONA, INC.
DOCKET NO. T-03406A-01-0270

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