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BEFORE THE ARIZONA CORPORATION COMMISSION DOCKETED

1
2 WILLIAM A. MUNDELL
CHAIRMAN
3 JIM IRVIN
COMMISSIONER
4 MARC SPITZER
COMMISSIONER
5

SEP 18 2001

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

DOCKET NO. T-³⁴⁰⁶~~03460~~A-01-0270

DECISION NO. 64052

ORDER

8
9 Open Meeting
September 13, 2001
10 Phoenix, Arizona

11 **BY THE COMMISSION:**

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

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

18 * * * * *

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

21 **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.

1 12. In Decision 63559 dated April 19, 2001, the Commission approved the pledge of the
2 Arizona assets of Winstar Wireless, Inc. as part of financing agreements involving its parent
3 company, Winstar Communications, Inc. Eschelon's request is similar to the authority granted by the
4 Commission in Decision No. 63559.

5 13. On July 13, 2001, Staff filed a Staff Report recommending approval of the Company's
6 request to participate in a pledge of its Arizona assets as part of a financing arrangement involving its
7 parent company, Eschelon Operating Company, without a hearing.

8 14. No exceptions to the Staff Report were filed.

9 **CONCLUSIONS OF LAW**

10 1. Eschelon is a public service corporation within the meaning of Article XV of the
11 Arizona Constitution and A.R.S. §§ 40-281 and 40-282.

12 2. The Commission has jurisdiction over Eschelon and the subject matter of the
13 application.

14 3. Approval of Eschelon's application is in the public interest.

15 4. Staff's recommendations in Findings of Fact No. 13 are reasonable and should be
16 adopted.

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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 18th day of September, 2001.


BRIAN C. McNEIL
EXECUTIVE SECRETARY

DISSENT
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SERVICE LIST FOR: ESCHELON TELECOM OF ARIZONA, INC.

DOCKET NO. T-03406A-01-0270

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