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OPEN MEETING

MEMORANDUM

Arizona Corporation Commission
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AZ CORP COMMISSION
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TO: THE COMMISSION

FROM: Utilities Division

DATE: December 4, 2002

RE: APPLICATION FOR APPROVAL OF THE TRANSFER OF CONTROL OF XO LONG DISTANCE SERVICES, INC. AND XO ARIZONA, INC. FROM XO COMMUNICATIONS, INC., DEBTOR-IN-POSSESSION, TO A REORGANIZED XO COMMUNICATIONS, INC. CONTROLLED BY HIGH RIVER LIMITED PARTNERSHIP, AND FOR APPROVAL OF NEW AND AMENDED SECURED CREDIT FACILITIES (DOCKET NOS. T-04150A-02-0814, T-03775A-02-0814, T-03601A-02-0814)

On October 28, 2002, XO Communications, Inc. ("XO") filed an application for approval of the transfer of control of XO Long Distance Services, Inc. ("XO Long Distance") and XO Arizona, Inc. ("XO Arizona") from XO Communications, Inc. to a reorganized XO Communications, Inc. controlled by High River Limited Partnership. XO also is requesting approval of new and amended secured credit facilities. On November 15, 2002, the U.S. Bankruptcy Court approved this transaction.

On August 23, 2002, the Commission approved an XO reorganization plan that contained an $800 million investment by a subsidiary of Telefonos de Mexico, S.A. de C.V. ("Telmex") and by funds affiliated with Forstmann Little & Co. in exchange for about 80 percent of the reorganized company's equity and the elimination of most of the unsecured debt and all of its existing equity (Dec. 65127). However, the Forstmann Little/Telmex reorganization plan was terminated and was not implemented.

At the time that XO's Forstmann Little/Telmex plan was filed with the Commission, an alternative restructuring proposal had been filed with the Bankruptcy Court. This alternative plan was known as the "Stand-Alone Plan." This Stand-Alone Plan is the plan outlined in this application.

Currently, XO is owned by three entities. These entities and their percentages of ownership are as follows: Craig O. McCaw (51 percent), Forstmann Little (8 percent), and other existing shareholders (41 percent). If the proposed transfer of ownership and control of XO and its operating subsidiaries is approved by the Commission, the resultant effect of the ownership structure will be as follows: High River Limited Partnership (80 percent), Meadow Walk Limited Partnership (1.4 percent), and other shareholders (18.6 percent). As with the Forstmann Little/Telmex plan, the Stand-Alone Plan would eliminate XO's unsecured debt and existing equity and would result in the issuance of new equity.

The Commission has jurisdiction over the proposed transaction. The two XO subsidiaries, XO Long Distance and XO Arizona are Arizona public service corporations. According to A.A.C. R14-2-802, the Public Utility Holding Companies and Affiliated Interests Rules apply to all Class A investor-owned utilities. A telecommunications carrier that has Arizona jurisdictional revenues of more than $1 million is considered to be a Class A utility. In the annual report of XO Arizona filed with the Commission, XO Arizona generated more than $1.0 million of Arizona jurisdictional revenue. XO Arizona is a Class A investor-owned utility. The parent company, XO, is an Arizona public utility holding company. As a result, XO Arizona and XO Communications, Inc., are subject to A.A.C. R14-2-801 through 805 of the Public Utility Holding Companies and Affiliated Interests Rules.

Staff reviewed this application under the Public Utility Holding Companies and Affiliated Interests rules. Staff directed XO to provide the information required by R14-2-803 to allow it to determine the potential effects of approval of the filing. Staff has received and reviewed the information required under these rules.

Both XO Long Distance and XO Arizona are authorized to provide interexchange services in Arizona. XO Arizona also provides local exchange services in Arizona. XO Arizona has 1,624 local customers in Arizona. XO Long Distance has no customers in Arizona. The proposed reorganization and re-capitalization does not impair the operating subsidiaries from providing their authorized telecommunications services. The reorganization will not result in any changes to the rates, certifications, or management of XO Long Distance or XO Arizona. The reorganization will enable XO to emerge from bankruptcy.

Staff recommends that the Commission approve XO's application for the planned reorganization.

Staff further recommends that the Commission approve XO's plan to recapitalize.

Ernest G. Johnson
Director
Utilities Division

EGJ:MGK:rdp/TS

ORIGINATOR: Marta Kalleberg

BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL
Chairman
JIM IRVIN
Commissioner
MARC SPITZER
Commissioner

IN THE MATTER OF THE APPLICATION FOR APPROVAL OF THE TRANSFER OF CONTROL OF XO LONG DISTANCE SERVICES, INC., AND XO ARIZONA, INC. FROM XO COMMUNICATIONS, INC., DEBTOR-IN-POSSESSION, TO A REORGANIZED XO COMMUNICATIONS, INC. CONTROLLED BY HIGH RIVER LIMITED PARTNERSHIP, AND FOR APPROVAL OF NEW AND AMENDED SECURED CREDIT FACILITIES	DOCKET NOS. T-04150A-02-0814 T-03775A-02-0814 T-03601A-02-0814 DECISION NO.__________ ORDER

Open Meeting
December 17 and 18, 2002
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. On October 28, 2002, XO Communications, Inc. ("XO") filed an application for approval of the transfer of control of XO Long Distance Services, Inc. ("XO Long Distance") and XO Arizona, Inc. ("XO Arizona") from XO Communications, Inc. to a reorganized XO Communications, Inc. controlled by High River Limited Partnership. XO also is requesting approval of new and amended secured credit facilities. On November 15, 2002, the U.S. Bankruptcy Court approved this transaction.

2. On August 23, 2002, the Commission approved an XO reorganization plan that contained an $800 million investment by a subsidiary of Telefonos de Mexico, S.A. de C.V. ("Telmex") and by funds affiliated with Forstmann Little & Co. in exchange for about 80 percent of the reorganized company's equity and the elimination of most of the unsecured debt and all of its existing equity (Dec. 65127). However, the Forstmann Little/Telmex reorganization plan was terminated and was not implemented.

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3. At the time that XO's Forstmann Little/Telmex plan was filed with the Commission, an alternative restructuring proposal had been filed with the Bankruptcy Court. This alternative plan was known as the "Stand-Alone Plan." This Stand-Alone Plan is the plan outlined in this application.

4. Currently, XO is owned by three entities. These entities and their percentages of ownership are as follows: Craig O. McCaw (51 percent), Forstmann Little (8 percent), and other existing shareholders (41 percent). If the proposed transfer of ownership and control of XO and its operating subsidiaries is approved by the Commission, the resultant effect of the ownership structure will be as follows: High River Limited Partnership (80 percent), Meadow Walk Limited Partnership (1.4 percent), and other shareholders (18.6 percent). As with the Forstmann Little/Telmex plan, the Stand-Alone Plan would eliminate XO's unsecured debt and existing equity and would result in the issuance of new equity.

5. Staff reviewed this application under the Public Utility Holding Companies and Affiliated Interests rules. Staff directed XO to provide the information required by R14-2-803 to allow it to determine the potential effects of approval of the filing. Staff has received and reviewed the information required under these rules.

6. Both XO Long Distance and XO Arizona are authorized to provide interexchange services in Arizona. XO Arizona also provides local exchange services in Arizona. XO Arizona has 1,624 local customers in Arizona. XO Long Distance has no customers in Arizona. The proposed reorganization and re-capitalization does not impair the operating subsidiaries from providing their authorized telecommunications services. The reorganization will not result in any changes to the rates, certifications, or management of XO Long Distance or XO Arizona. The reorganization will enable XO to emerge from bankruptcy.

7. Staff recommends that the Commission approve XO's application for the planned reorganization.

8. Staff further recommends that the Commission approve XO's plan to recapitalize.

CONCLUSIONS OF LAW

1. XO Long Distance, Inc. and XO Arizona, Inc. are Arizona public service corporations within the meaning of Article XV, Section 2, of the Arizona Constitution.

2. The Commission has jurisdiction over XO Long Distance and XO Arizona and over the subject matter of the Application.

3. The Commission has jurisdiction over the proposed transaction. The two XO subsidiaries, XO Long Distance and XO Arizona are Arizona public service corporations. According to A.A.C. R14-2-802, the Public Utility Holding Companies and Affiliated Interests Rules apply to all Class A investor-owned utilities. A telecommunications carrier that has Arizona jurisdictional revenues of more than $1 million is considered to be a Class A utility. In the annual report of XO Arizona filed with the Commission, XO Arizona generated more than $1.0 million of Arizona jurisdictional revenue. XO Arizona is a Class A investor-owned utility. The parent company, XO, is an Arizona public utility holding company. As a result, XO Arizona and XO Communications, Inc. are subject to A.A.C. R14-2-801 through 805 of the Public Utility Holding Companies and Affiliated Interests Rules.

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ORDER

IT IS THEREFORE ORDERED that XO's reorganization plan and recapitalization plan filed on October 28, 2002 are approved.

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 McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this _________ day of ______________, 2002.

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BRIAN McNEIL
Executive Secretary

DISSENT: ______________________

EGJ:MGK:rdp/TS

SERVICE LIST FOR: XO COMMUNICATIONS, INC., et al.
DOCKET NOS. T-04150A-02-0814, T-03775A-02-0814, T-03601A-02-0814

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