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BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER
CHAIRMAN

WILLIAM A. MUNDELL
COMMISSIONER

MARC SPITZER
COMMISSIONER

MIKE GLEASON
COMMISSIONER

KRISTIN K. MAYES
COMMISSIONER

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AZ CORP COMMISSION
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In the Matter of the Application of Eschelon
Telecom of Arizona, Inc. for Approval of
Encumbrance of Assets Pursuant to A.R.S.
§ 40-285

Docket No. T-03406A-06-0260

**APPLICATION AND REQUEST
FOR APPROVAL**

I. INTRODUCTION

Eschelon Telecom of Arizona, Inc. (“Eschelon” and “Applicant”), through this Application, seeks approval pursuant A.R.S. § 40-285 of the encumbrance of certain of Eschelon’s assets in relation to the issuance of \$48 million of Senior Second Secured Notes due 2010 (the “Notes”) by its affiliated entity, Eschelon Operating Company (“Eschelon Operating”). For the reasons set forth in this Application, Eschelon submits that approval of this Application is in the public interest.

II. APPLICATION

The following information is submitted in support of this Application:

1 **A. Applicant**

2 Eschelon is a corporation duly organized and existing under the laws of the
3 state of Minnesota. Eschelon Operating is a corporation duly organized and existing under
4 the laws of Minnesota. Eschelon Operating is a direct, wholly-owned subsidiary of
5 Eschelon Telecom, Inc. ("Eschelon Telecom"), and Eschelon is a subsidiary of Eschelon
6 Operating. Eschelon is certificated by the Arizona Corporation Commission to provide
7 competitive intrastate telecommunications services pursuant to Decision No. 62751.

8 **B. Designated Contacts**

9 Communications regarding this matter should be addressed to the
10 following:

11 Thomas H. Campbell
12 Michael T. Hallam
13 LEWIS AND ROCA, LLP
14 40 North Central Avenue
15 Phoenix, AZ 85004
16 (602) 262-5723

17 **C. The Proposed Transaction**

18 This transaction involves the issuance by Eschelon Operating of \$48 million
19 of 83/8% Senior Second Secured Notes that will mature on March 15, 2010. The Notes
20 were issued under the Indenture, as amended and supplemented, under which Eschelon
21 Operating previously issued \$165 million aggregate principal amount at maturity of 83/8%
22 Senior Second Secured Notes due 2010 ("Outstanding Notes), which were the subject of
23 this Commission's orders in Decision Nos. 67977 and 67885. The obligations under the
24 Notes will be guaranteed¹ by each state level operating subsidiary, including Eschelon, and

25 ¹ In Decision No. 64737, the Commission granted Eschelon a limited waiver of the
26 Affiliated Interest Rules. Because this transaction will not result in an increase in its
maximum rates on file with the Commission, Eschelon submits that approval pursuant to
AAC R14-2-804 is not required.

1 each operating subsidiary, including Eschelon, will grant a security interest in its plant and
2 equipment.²

3 **D. Approval of the Encumbrance of the Assets Is In the Public**
4 **Interest**

5 Eschelon seeks approval of the encumbrance of assets detailed above
6 pursuant to A.R.S. § 40-285. Approval of this Application and these transactions is in the
7 public interest as it will enable Eschelon Operating to obtain additional capital that will
8 help Eschelon to continue to offer competitive services in Arizona and may allow
9 Eschelon to expand its service offerings and facilities in Arizona. The financing is part of
10 an on-going effort to provide Eschelon Operating and its affiliates with flexibility to
11 budget for capital expenditures and general corporate purposes.³ As a result, Commission
12 approval of this Application will bolster the Commission's long-standing goal of fostering
13 full facilities-based competition in the telecommunications market in Arizona and is in the
14 public interest.

15 **III. CONCLUSION**

16 For the foregoing reasons, Eschelon respectfully submits that Commission
17 approval of this Application is in the public interest and should be granted. Furthermore,
18 Eschelon respectfully requests that the Commission grant this approval on an expedited
19 basis.

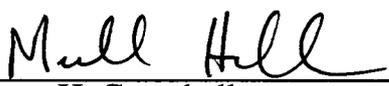
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25 ² The security interest will not become effective with regard to Eschelon until after
Commission approval of this Application.

26 ³ Certain of the funds were used to fund Eschelon Telecom's acquisition of Oregon
Telecom, Inc.

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RESPECTFULLY SUBMITTED this 19th day of April, 2006.

LEWIS AND ROCA



Thomas H. Campbell
Michael T. Hallam
40 N. Central Avenue
Phoenix, Arizona 85004

Attorneys for Eschelon Telecom of Arizona, Inc.

ORIGINAL AND thirteen (13) copies
of the foregoing hand-delivered
this 19th day of April, 2006, to:

Arizona Corporation Commission
Utilities Division – Docket Control
1200 W. Washington Street
Phoenix, Arizona 85007

COPY of the foregoing hand-delivered
this 19th day of April, 2006,
to:

Lyn Farmer, Chief Administrative Law Judge
Hearing Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Christopher Kempley, Esq.
Chief Counsel, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ernest Johnson
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
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