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AZ CORP COMMISSION
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September 19, 2002

Mr. Ernest Johnson, Director
Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007

Arizona Corporation Commission
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Re: Compliance with Decision No. 65127

Dear Mr. Johnson:

This letter responds to the Commission's request for information in Decision No. 65127. In that Decision, which approved the Application for Transaction Approval filed by XO Arizona, Inc. (Docket No. T-03775A-02-0389), the Commission asked XO Communications, Inc. ("XO") to submit to the Commission information required by A.A.C. R14-2-803(A)(1) and (6)-(11). These requests are each addressed below.

R14-2-803(A)(1) The name and business addresses of the proposed officers and directors of the holding company.

The names and business addresses of any new officers and directors of the holding company will not be known until the transaction is consummated. They will be provided to the Commission as soon as that occurs.

R14-2-803(A)(6) The proposed method for allocating federal and state income taxes to the subsidiaries of the holding company.

Allocation of federal and state income taxes will not be affected by this transaction. The only change approved by the Commission was to the ownership of the holding company and the elimination of certain debt. The allocation of taxes paid by XO will not be affected by this transaction.

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R14-2-803(A)(7) The anticipated changes in the utility's cost of service and the cost of capital attributable to the reorganization.

Given the nature of the approved transaction, there should be no impact on XO Arizona's cost of service. The company is receiving an infusion of capital and a corresponding reduction in debt. XO Arizona's cost of capital is not adversely affected by the ownership change. To the extent debt is reduced and additional capital is received by the parent company, XO Arizona will be affected positively.

R14-2-803(A)(8) A description of diversification plan of affiliates of the holding company.

The transaction approved by the Commission in Decision No. 65127 involves new ownership, debt reduction and the infusion of new capital at the holding company level. The transaction does not anticipate any diversification by affiliates of the holding company. Additionally, due to the bankruptcy status of the holding company, no diversification plans are likely at this time.

R14-2-803(A)(9) Copies of all relevant documents and filings with the United States Securities and Exchange Commission and other federal or state agencies.

Copies of documents filed with the United States Securities and Exchange Commission by XO, including those relating to this transaction, may be found at:

<http://www.sec.gov/cgi-bin/browse-edgar?action=getcompany&CIK=0001111634>.

Accessing these documents electronically eliminates problems associated with storing and searching the documents. If Staff would like a print-out of all or part of what is available through that web-site, please let me know. We would be very willing to supply hard-copy printouts.

Applications seeking approval for the change in ownership were also filed with the FCC and many state PUCs. These documents in the aggregate are voluminous and largely duplicitous. The SEC filing is current and thorough. If there is information not available from the SEC file that Staff would like to see, please let me know and we can see if such information exists.

R14-2-803(10) The contemplated annual and cumulative investment in each affiliate for the next 5 years, in dollars and as a percentage of projected net utility plant, and an explanation of the reasons supporting the level of investment and the reasons this level will not increase the risks of investment in the public utility.

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This transaction is quite different from the transactions the Affiliate Interest rules were designed to regulate. XO is not proposing to invest funds in an unregulated business interest such as a real estate holding company, or a venture capital fund. XO is in bankruptcy and needs new capital for operating its telecommunications company. This transaction will result in new ownership at the holding company level, reduce overall debt of the holding company and provide the company with new capital to achieve financial health as a telecommunications company. Because XO is currently in bankruptcy, investment projections for each affiliate are not available at this time.

R14-2-803(11) An explanation of the manner in which the utility can assure that adequate capital will be available for the construction of necessary new utility plant and for improvements in existing utility plant at no greater cost than if the utility or its affiliates did not organize or reorganize a public utility holding company.

Because XO is a competitive carrier, its plant is not essential for the public to receive telecommunications service and accordingly construction of new plant is not "necessary." As the reorganization here involves only a change in share ownership, debt reduction and new capital, the utility entities should be positively affected by the transaction.

Please contact me if you have any additional questions regarding the XO/Forstmann Little/Telmex transaction. We will continue updating the Commission on the status of the transaction as the investment agreement is implemented.

Very truly yours,



Joan S. Burke

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