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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

Arizona Corporation Commission

DOCKETED

FEB 20 2007

JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES
GARY PIERCE

DOCKETED BY NR

IN THE MATTER OF THE APPLICATION OF
GLOBAL CROSSING
TELECOMMUNICATIONS, INC.; GLOBAL
CROSSING NORTH AMERICAN
NETWORKS, INC.; GLOBAL CROSSING
LOCAL SERVICES, INC.; GLOBAL
CROSSING TELEMAGEMENT, INC. FOR
APPROVAL TO ENCUMBER ASSETS IN
CONNECTION WITH NEW FINANCING

DOCKET NO. T-02438B-06-0375
T-02761B-06-0375
T-03658A-06-0375
T-03539A-06-0375

DECISION NO. 69345

ORDER

Open Meeting
February 13 and 14, 2007
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Global Crossing Telecommunications, Inc. ("GCTI")¹, Global Crossing North American Networks, Inc. ("GCNAN")², Global Crossing Local Services, Inc. ("GCLSI")³, and Global Crossing Telemagement, Inc. ("GC Telemagement")⁴ collectively ("Applicants") are wholly-owned subsidiaries of Global Crossing North America, Inc. ("Parent") and are non-dominant telecommunications carriers with authority to provide competitive local exchange, intrastate, and private line services within the state of Arizona.

2. The Applicants filed an application with the Arizona Corporation Commission ("Commission") on June 2, 2006, requesting approval pursuant to A.R.S. Section 40-285 and R14-2-804(B)(1) to provide guarantee, serve as borrowers or co-borrowers, or otherwise provide security, as part of financing arrangements being arranged by Parent.

¹ GCTI is a Michigan corporation which was granted a CC&N by the Commission in Decision No. 54505.

² GCNAN is New York corporation which was granted a CC&N by the Commission in Decision No. 60143.

³ GCLSI is a Delaware corporation which was granted a CC&N by the Commission in Decision No. 61622.

⁴ GC Telemagement is a Wisconsin corporation which was granted a CC&N by the Commission in Decision No. 61213.

DECISION NO. _____

1 3. The Applicants request authorization to pledge assets as security and/or serve as
2 borrowers or co-borrowers with Parent in connection with up to \$200 million of new debt financing
3 that includes a \$55 million revolving senior credit facility and \$145 million as letters of credit,
4 secured and unsecured debentures and term loans. The Applicants' contemplate asset pledges that
5 include, but are not limited to, receivables, tangible personal property, equipment, intellectual
6 property, their stock as well as substantially all of their North American assets.

7 4. The Applicants and/or Parent intend to use the proceeds for general corporate
8 purposes, capital expenses, working capital, and acquisition of other telecommunications companies
9 and/or telecommunications equipment. The Applicants assert that the financing arrangement will
10 provide the financial resources needed to further grow and expand their business and to compete in a
11 highly competitive telecommunications market.

12 5. Foreign public service corporations, such as Global Crossing Telecommunications,
13 Inc., that provide communication service whose facilities are also used in interstate commerce are
14 exempt from application of A.R.S. §40-301 that prohibits authorization of debt unless the
15 Commission finds that the debt issuance is compatible with sound financial practices. GCTI is the
16 only entity among the Applicants that is participating directly in the borrowing, and Staff finds that it
17 satisfies the criteria for exemption under A.R.S. §40-301(D). GCTI also provides
18 telecommunications services in competition with other providers and is not an incumbent provider of
19 telecommunications services in Arizona. Its customers have alternate service provider choices to
20 mitigate any inconvenience that may result from an inability by GTCI to provide service. Further,
21 the anticipated lender is a sophisticated investor, and therefore, presumed to have the knowledge and
22 experience in financial and business matters to evaluate the merits and risks of its investment.

23 6. Each of the Applicants requests authorization to pledge assets as security for the debt
24 issuance. A pledge of the Applicants' assets should not impair the availability of service to
25 customers since the Applicants provide competitive services that are available from alternate service
26 providers. Staff also concludes that the pledge of assets by any of the Applicants should not impair
27 their financial status, further impair their ability to attract capital at fair and reasonable terms or
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1 impair their ability to provide safe, reasonable and adequate service (See A.A.C. R14-2(804)(C).
2 However, customers may still have exposure to losses to the extent they have prepaid for service or
3 made deposits. Accordingly, any authorization for encumbrances should provide customer protection
4 for prepayments and deposits.

5 7. Staff recommends approval for each of the Applicants to pledge assets as a guarantee
6 or to provide other forms of security for the up to \$200 million of borrowings applied for, subject to
7 the condition that all Arizona customer deposits and prepayments, if any, be excluded from
8 encumbrance, or in the alternative, be secured by a bond or an irrevocable sight draft letter of credit
9 which is not included in the pledged collateral.

10 8. Global Crossing Telecommunications, Inc. ("GCTI"), Global Crossing North
11 American Networks, Inc. ("GCNAN"), Global Crossing Local Services, Inc. ("GCLSI"), and Global
12 Crossing Telemanagement, Inc. ("GC Telemanagement") collectively ("Applicants") filed an
13 application with the Arizona Corporation Commission ("Commission") on June 2, 2006, requesting
14 approval pursuant to A.R.S. Section 40-285 and R14-2-804(B)(1) to enter and possibly join as
15 principals into a bank credit agreement and other instruments in concert with Global Crossing North
16 America ("Parent") for general corporate purposes, capital expenses, working capital, and acquisition
17 of other telecommunications companies and/or telecommunications equipment. Authority is also
18 requested to pledge assets of the Applicants.

19 9. Notice of the financing application was published in the *Arizona Republic* on
20 August 11, 2006.

21 10. The Applicants are non-dominant telecommunications carriers collectively with
22 authority to provide competitive local exchange, intrastate and private line services within the state of
23 Arizona. GCTI⁵ is a Michigan corporation; GCNAN⁶ is a New York corporation; GCLSI⁷ is a
24 Delaware corporation; and GC Telemanagement⁸ is a Wisconsin corporation. The Applicants are
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⁵ GCTI was granted a CC&N by the Commission in Decision No. 54505.

27 ⁶ GCNAN was granted a CC&N by the Commission in Decision No. 60143.

28 ⁷ GCLSI was granted a CC&N by the Commission in Decision No. 61622.

⁸ GC Telemanagement was granted a CC&N by the Commission in Decision No. 61213.

1 wholly-owned subsidiaries of Parent, a Delaware corporation, which is in turn a wholly-owned
2 subsidiary of Global Crossing Limited, an exempt company with limited liability organized under the
3 laws of Bermuda. Applicants and Parent are headquartered in Pittsford, NY. Global Crossing
4 Limited is headquartered in Hamilton, Bermuda.

5 11. Global Crossing Local Services, Inc. provides facilities based competitive local
6 exchange services to approximately 46 business customers in the Phoenix metro area. Global
7 Crossing Local Services has invested in switch and facilities for intrastate telecommunications and
8 also provides intrastate services through resale arrangements with other carriers. Global Crossing
9 Telecommunications, Inc. is a long distance carrier that provides voice communications service to
10 business customers throughout the United States and in Arizona. Global crossing North American
11 Networks provides data transmission and communications services to business customers throughout
12 the United States and Arizona. Global Crossing Telemanagement is a reseller of long distance
13 telephone services. Overall the Companies provide services in all 50 states and the District of
14 Columbia. Customers of the Applicants have alternate service providers and would not experience
15 significant harm in the event that the Applicants and/or Parent experiences financial difficulties.

16 12. Per the application, as of April 30, 2006, the Applicants hold no deposits or
17 prepayments from Arizona customers.

18 13. The Applicants and Parent propose to use borrowed funds for general corporate
19 purposes, capital expenses and working capital, as well as acquisition of other telecommunication
20 companies and/or telecommunications assets. The Applicants assert that the proposed transaction
21 will provide the financial resources needed to further grow and expand their businesses and to
22 compete in today's highly competitive market.

23 14. The proposed \$200 million new debt financing consists of a \$55 million senior
24 revolving credit line and \$145 million in letters of credit, secured and unsecured notes and term
25 loans. The terms of the financings have yet to be completed.

26 15. The Applicants anticipate that any interest rate will likely be the market rate for
27 similar financing and will not be determined until such time as each financing is finalized. The
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1 interest rate will have two components, a base rate and a margin rate. The base rate would be defined
2 as the base or prime rate charged by a specified major bank for loans of similar size with similar
3 maturities or as an adjusted federal funds rate. The margin rate would be compensation over and
4 above the base rate for the Parent's particular relative risk. It is expected that the revolving senior
5 credit facility to be provided will bear interest at a rate equal to LIBOR plus 300 basis points or the
6 bank's prime rate plus 150 basis points plus a commitment fee of 0.45 percent.

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8 16. The Applicants also contemplate asset pledges that include, but are not limited to a
9 security interest in their receivables, tangible personal property, equipment, intellectual property,
10 their stock as well as substantially all of their North American assets as collateral security for the
11 debt, i.e., credit facility and related loans.

12 17. Staff performed a financial analysis based on financial statements for the twelve-
13 month fiscal year ended December 31, 2005.⁹ Staff's analysis revealed that the Applicants' financial
14 circumstances are consistent with those commonly found in the telecommunications industry at
15 present. Staff's analysis indicates that the financial metrics for issuance of the proposed debt for each
16 of the Applicants fall short of standards typically considered consistent with sound financial
17 practices. In the instance of utilities providing service to captive customers in a non-competitive
18 circumstance, A.R.S. §40-301 prohibits authorization of debt unless the Commission finds that the
19 debt issuance is compatible with sound financial practices. However, pursuant to A.R.S. §40-301(D),
20 foreign public service corporations providing communication service whose facilities are also used in
21 interstate commerce are exempt from application of the statute.

22 18. Global Crossing Telecommunications, Inc. ("GCTI") is the only entity among the
23 Applicants that is participating directly in the borrowing, and Staff finds that it satisfies the criteria
24 for exemption. GCTI also provides telecommunications services in competition with other providers
25 and is not an incumbent provider of telecommunications services in Arizona. GCTI's customers have
26 alternate service provider choices to mitigate any inconvenience that may result from its inability to
27 provide service. Further, the anticipated lender is a sophisticated investor, and therefore, presumed to

28 ⁹ The Applicants assert that the detailed information in Staff's financial analysis is confidential.

1 have the knowledge and experience in financial and business matters to evaluate the merits and risks
2 of its investment.

3 19. Each of the Applicants requests authorization to pledge assets as security for the debt
4 issuance. A.R.S. Section 40-285 requires public service corporations to obtain Commission
5 authorization to encumber certain utility assets. The statute serves to protect captive customers from
6 a utility's act to dispose of any of its assets that are necessary for the provision of service, thus, it
7 serves to preempt any service impairment due to disposal of assets essential for providing service. In
8 this instance, a pledge of the Applicants' assets should not impair the availability of service to
9 customers since the Applicants provide competitive services that are available from alternate service
10 providers. However, customers may still have exposure to losses to the extent they have prepaid for
11 service or made deposits. Accordingly, Staff finds that any authorization for encumbrances should
12 provide customer protection for prepayments and deposits.

13 20. Staff has concluded that issuance of the proposed debt would serve to assist the
14 Applicants to operate effectively.

15 21. Staff has concluded that the Applicants' financial metrics for issuance of the proposed
16 debt are not consistent with sound financial practices.

17 22. Staff has concluded that the pledge of assets by any of the Applicants should not
18 further impair their financial status, further impair their ability to attract capital at fair and reasonable
19 terms or impair their ability to provide safe, reasonable and adequate service [See A.A.C. R14-
20 2(804)(C)]. However, customers may still have exposure to losses to the extent they have prepaid for
21 service or made deposits. Accordingly, any authorization for encumbrances should provide customer
22 protection for prepayments and deposits.

23 23. Staff recommends approval for each of the Applicants to pledge assets as a guarantee
24 or to provide other forms of security for the applied for borrowings up to \$200 million subject to the
25 condition that all Arizona customer deposits and prepayments, if any, be excluded from
26 encumbrance, or in the alternative, be secured by a bond or an irrevocable sight draft letter of credit
27 which is not included in the pledged collateral.

1 IT IS FURTHER ORDERED that the Applicants are hereby authorized to engage in any
2 transactions and to execute or cause to be executed any documents so as to effectuate the
3 authorizations requested with the application.

4 IT IS FURTHER ORDERED that the Applicants shall provide to the Commission within 60
5 days of the loan package closing, a copy of all notes and other documents memorializing the
6 authorized transaction(s).

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

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9 **BY ORDER OF THE ARIZONA CORPORATION COMMISSION**

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11 CHAIRMAN


12 COMMISSIONER

13 
14 COMMISSIONER


15 COMMISSIONER


16 COMMISSIONER

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19 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
20 Director of the Arizona Corporation Commission, have
21 hereunto, set my hand and caused the official seal of this
22 Commission to be affixed at the Capitol, in the City of Phoenix,
23 this 20th day of February, 2007.


24 BRIAN C. McNEIL
Executive Director

25 DISSENT: _____

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27 DISSENT: _____

1 SERVICE LIST FOR: GLOBAL CROSSING TELECOMMUNICATIONS, INC.; GLOBAL
2 CROSSING NORTH AMERICAN NETWORKS, INC.; GLOBAL
3 CROSSING LOCAL SERVICES, INC.; GLOBAL CROSSING
TELEMANAGEMENT, INC.

4 DOCKET NOS. T-02438B-06-0375, T-02761B-06-0375, T-03658A-06-0375, T-03530A-06-0375

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