



0000077625

ORIGINAL

MEMORANDUM
RECEIVED

TO: Docket Control

2007 OCT 11 A 9:25

Arizona Corporation Commission

DOCKETED

FROM: Ernest G. Johnson
Director
Utilities Division

bor
DS

AZ CORP COMMISSION
DOCKET CONTROL

OCT 11 2007

DATE: October 11, 2007

DOCKETED BY *mn*

RE: STAFF REPORT FOR THE APPLICATION OF VANCO DIRECT USA, LLC FOR APPROVAL TO INFORM THE COMMISSION OF A FINANCING TRANSACTION FILED ON APRIL 27, 2007. (DOCKET NOS. T-20404A-07-0261 and T-20404A-05-0599)

Attached is the Staff Report for the application of Vanco Direct USA, LLC for approval to inform the Commission of a financing transaction. Staff recommends conditional approval of the requested authorization.

Any party to this procedure who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before October 22, 2007.

EGJ:PMC:tdp

Originator: Pedro M. Chaves

Service List for: Vanco Direct USA, LLC.
Docket Nos. T-20404A-07-0261 et al

Mr. Benjamin Bronston
3500 North Causeway Boulevard
Suite 1442
Metairie, Louisiana 70002

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

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

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

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

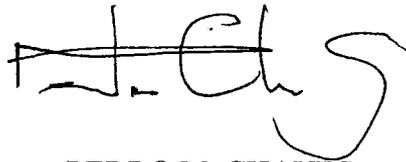
**VANCO DIRECT USA, LLC.
DOCKET NOS. T-20404A-07-0261 and T-20404A-05-0599**

**APPLICATION FOR APPROVAL
OF A FINANCING TRANSACTION**

OCTOBER 11, 2007

STAFF ACKNOWLEDGMENT

The Staff Report for Vanco Direct USA, LLC Docket Nos. T-20404A-07-0261 and T-20404A-05-0599 is the responsibility of the Staff member listed below: Pedro M. Chaves is responsible for the review and financial analysis of the Company's financing application.

A handwritten signature in black ink, appearing to read 'P. Chaves', with a stylized flourish at the end.

PEDRO M. CHAVES
PUBLIC UTILITIES ANALYST II

EXECUTIVE SUMMARY
VANCO DIRECT USA, LLC
DOCKET NOS. T-20404A-07-0261 AND T-20404A-05-0599

Vanco Direct USA, LLC ("Vanco" or "Company") filed a notice of indebtedness with the Arizona Corporation Commission ("Commission") on April 27, 2007, informing the Commission of a financing transaction between Lloyds TSB Bank plc ("Lloyds Bank") and Vanco.

Vanco is a Delaware limited liability Company with principal offices located in Chicago, Illinois. Vanco currently has an application pending for approval of a Certificate of Convenience and Necessity ("CC&N") to provide resold long distance telecommunications services and resold local exchange telecommunications services under Docket No. T-20404A-05-0599.

On June 5, 2007, a procedural order consolidated the CC&N Application and the notice of indebtedness.

The purpose of the Company's financing transaction is to enable Vanco to achieve better liquidity and capitalization. In the financing transaction, Lloyds Bank will provide Vanco the sum of 100 million pound sterling (approximately \$200 million) which will be secured by the guarantee of Vanco, a security interest in the Company's assets and a pledge of Vanco's membership interests.

Staff concludes that a pledge of the Company's assets would not impair the availability of service to customers since the Company provides competitive services that are available from alternate service providers. However, customers may still have exposure to losses to the extent they have prepaid for service or made deposits. Accordingly, any authorization for encumbrances should provide customer protection for prepayments and deposits.

Staff recommends that the Commission authorize the Company's request to encumber its assets in the State of Arizona pursuant to the Credit Agreement subject to the condition that all Arizona customer deposits and prepayments, if any, be excluded from encumbrance, or in the alternative, be secured by a bond or an irrevocable sight draft letter of credit which is not included in the pledged collateral.

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTION	1
BACKGROUND.....	1
PURPOSE AND DESCRIPTION OF THE FINANCING TRANSACTION	1
FINANCIAL ANALYSIS.....	1
CONCLUSION AND RECOMMENDATIONS.....	2

Introduction

On April 27, 2007, Vanco Direct USA, LLC ("Vanco" or "Company") filed a notice of indebtedness with the Arizona Corporation Commission ("Commission"), informing the Commission of a financing transaction between Lloyds TSB Bank plc ("Lloyds Bank") and Vanco.

Background

Vanco is a Delaware limited liability Company with principal offices located at 200 S. Wacker Drive, Suite 1600, Chicago, Illinois.

The Company currently has an application pending for approval of a Certificate of Convenience and Necessity ("CC&N") to provide resold long distance telecommunications services and resold local exchange telecommunications services under Docket No. T-20404A-05-0599 ("CC&N Application").

On June 5, 2007, a procedural order consolidated the CC&N Application and the notice of indebtedness.

Purpose and Description of the Financing Transaction

The purpose of the Company's transaction is to enable Vanco to achieve better liquidity and capitalization.

In the financing transaction, Lloyds Bank will provide Vanco the sum of 100 million pound sterling (approximately \$200 million) which will be secured by the guarantee of Vanco, a security interest in the Company's assets and a pledge of Vanco's membership interests.

Financial Analysis

In the instance of utilities providing service to captive customers in a non-competitive circumstance, A.R.S. §40-301 prohibits authorization of debt unless the Commission finds that the debt issuance is within the corporate powers of the Company, is compatible with the public interest, with sound financial practices and with the proper performance by the Company of service as a public service corporation and will not impair its ability to perform that service. However, pursuant to A.R.S. §40-301(D), foreign public service corporations providing communication service whose facilities are also used in interstate commerce are exempt from application of the statute. Staff finds that the Company satisfies the criteria for exemption of A.R.S. §40-301.

The Company requests authorization to pledge assets as security for the debt issuance. An Arizona statute requires public service corporations to obtain Commission authorization to

encumber certain utility assets.¹ The statute serves to protect captive customers from a utility's act to dispose of any of its assets that are necessary for the provision of service; thus, it serves to preempt any service impairment due to disposal of assets essential for providing service. In this instance, a pledge of the Company's assets should not impair the availability of service to customers since the Company provides competitive services that are available from alternate service providers. However, customers may still have exposure to losses to the extent they have prepaid for service or made deposits. Therefore, any authorization for encumbrances should provide customer protection for prepayments and deposits.

Conclusion and Recommendations

Staff concludes that a pledge of the Company's assets would not impair the availability of service to customers since the Company provides competitive services that are available from alternate service providers. However, customers may still have exposure to losses to the extent they have prepaid for service or made deposits. Accordingly, any authorization for encumbrance should provide customer protection for prepayments and deposits.

Staff recommends that the Commission authorize the Company's request to encumber their assets in the State of Arizona subject to the condition that all Arizona customer deposits and prepayments, if any, be excluded from encumbrance, or in the alternative, be secured by a bond or an irrevocable sight draft letter of credit which is not included in the pledged collateral.

Staff further recommends authorizing the Company to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.

Staff further recommends that the Company file with Docket Control within 60 days of the execution of any financing transaction authorized herein.

¹ See further, A.R.S. §40-285(A)