



ORIGINAL BEFORE THE ARIZONA CORPORATION COMMISSION RECEIVED

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AZ CORP COMMISSION DOCKET CONTROL

Arizona Corporation Commission

DOCKETED

MAR 26 2008

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IN THE MATTER OF THE APPLICATION OF)
 XO COMMUNICATIONS SERVICES, INC.)
 FOR AUTHORITY TO PROVIDE ITS)
 SECURITY IN CONNECTION WITH)
 FINANCING)

DOCKET NO. T-04302A-08-

T-04302A-08-0176

PETITION

XO Communications Services, Inc. (“XOCS” or “Petitioner”), by its counsel, hereby respectfully requests approval from the Arizona Corporation Commission (“Commission”) to provide its guarantee and otherwise provide security in connection with a refinancing involving its parent company, XO Communications, LLC (“XO” or “Borrower”). The refinancing involves XO’s issuance and sale of up to \$145 million of its Senior Notes (the “Notes”). The obligations of XO under the Notes will be guaranteed by XOCS following receipt of the required regulatory approvals. XOCS requests this authority pursuant to A.R.S. §40-285 and R14-2-804, to the extent it may be necessary.¹

In support of this Petition, XOCS provides the following information:

¹ Although the Petitioner is seeking any necessary approval for its participation in this financing transaction, the Petitioner is doing so without prejudice to its right to assert that this transaction is beyond the jurisdiction of the state commissions. See, e.g., *State ex rel. Utils. Comm’n v. S. Bell Tel. & Tel.*, 207 S.E.2d 772, *aff’d* 217 S.E.2d 543 (N.C. 1975).

I. THE PETITIONER

XO is a Delaware limited liability company located at 13865 Sunrise Valley Drive, Herndon, Virginia 20171, (703) 547-2000. XO is a leading national provider of local and long distance telecommunications services to businesses, large enterprises and telecommunications carriers. XO delivers its services over its own network of metropolitan fiber rings and long haul fiber optic facilities and through the use of facilities and services leased or purchased from third party carriers, including incumbent local exchange carriers. XO is wholly owned by XO Holdings, Inc. ("XO Holdings"), a publicly traded holding company. Through its subsidiaries, primarily XOCS, XO is authorized to provide intrastate interexchange services in 49 states and to provide competitive local exchange services in 48 states as well as the District of Columbia. In Arizona, XOCS is authorized to provide intrastate telecommunications services.² XOCS is also authorized to provide interstate and international telecommunications services.

II. DESIGNATED CONTACTS

The designated contact for questions concerning this Petition is:

Joan S. Burke
2929 North Central Avenue, Suite 2100
Phoenix, Arizona 85012-2793
602-640-9356 (voice)
602-640-6074 (fax)
jburke@omlaw.com

Melissa S. Conway
KELLEY DRYE & WARREN LLP
3050 K Street, N.W., Suite 400
Washington, D.C. 20007
Telephone: (202) 342-8552
Facsimile: (202) 342-8452
mconway@kelleydrye.com

² See Docket Nos. T-03601A-04-0583/T; 0789A-04-0583/T; 014150A-04-0583, Decision No. 67460, January 4, 2005.

Copies of any correspondence should also be sent to the following designated representative of

XO:

Alaine Y. Miller
Vice President, Regulatory and Public Policy
XO Communications, LLC
1000 Denny Way, Suite 200
Seattle, Washington 98109
Telephone: (206) 315-6358
Facsimile: (206) 315-6400
alaine.miller@xo.com

III. DESCRIPTION OF THE TRANSACTION

Pursuant to the Note Purchase Agreement dated as of March 13, 2008 (the "Agreement"), XO intends to issue and sell up to \$145 million of its Notes due April 15, 2009. The obligations under the Notes will be guaranteed by XO Holdings, various subsidiaries of XO and, upon receipt of the required regulatory approvals, XOCS. The terms of the refinancing are the following:

Purchaser: Arnos Corp.

Amount: Up to \$145 million.

Maturity: The maturity date is April 15, 2009.

Interest: The unpaid principal amount of the Notes will bear interest at the rate of 11.5% per annum, which amounts will be capitalized and added to the principal amount of the Notes quarterly on July 15, 2008, October 15, 2008, January 15, 2009 and April 15, 2009. At the election of XO and following approval by a majority of XO Holdings' disinterested independent directors, interest on the unpaid principal amount of the Notes may be paid on a cash basis, in which case such interest will accrue from the preceding interest payment date, at the rate of 9.5% per annum, and will be payable quarterly in arrears on July 15, 2008, October 15, 2008, January 15, 2009 and April 15, 2009. All computations of interest will be made on the basis of a 360-day year consisting of twelve 30-day months.

Security: Relevant to this Petition, the obligations of XO under the Notes will be guaranteed by XOCS. The Agreement contains appropriate provisions ensuring that XOCS will become a Guarantor only following receipt of all required state regulatory approvals.

Use of Proceeds: The proceeds will be used to finance the refinancing, to pay fees and expenses incurred in connection with the refinancing and for general corporate purposes of XO Holdings and subsidiaries.

To the extent specific approval would be required for provision of such commitments by XOCS, such authority is hereby requested.

The proposed financing arrangement – and related encumbrance of assets as security – is purely financial in nature, and will not alter the terms, conditions or services offered by XOCS in Arizona. The financing arrangement will not required XOCS to increase its maximum rates for telecommunications services in Arizona. The Petitioner will remain wholly owned by XO Holdings, will continue to operate and provide telecommunications services in Arizona and will retain the assets used in the provision of those services.

IV. PUBLIC INTEREST ANALYSIS

Approving this Petition will serve the public interest by enhancing the ability of XOCS to grow and compete in the highly competitive markets for telecommunications services in Arizona and nationwide. Approval of the financing transaction described herein is not expected directly to affect in any way the rates or services of XOCS or its operating affiliates, or result in any change in control of XOCS or its operating affiliates. The financing arrangement will provide the XO companies with the financial resources needed to further grow and expand its business and to compete in today's highly competitive telecommunications environment.

The Petitioner competes in Arizona and other markets with numerous other interexchange carriers and enhanced service providers as well as the incumbent local exchange carrier and other competitive local exchange carriers. Because XOCS is a non-dominant carrier, it is not subject to rate of return regulation and its capital structure should not be a matter of concern to the Commission. In addition, because of the highly competitive environment in which it operates, the rates charged customers are subject to market discipline and the services

offered generally are available from numerous other carriers. As a result, the source of funds and capital structure of the company would have little effect on customers in Arizona or elsewhere. In the unlikely event that XOCS' capital structure becomes too costly and rates rise, customers may simply migrate to other carriers with preferred rates. Thus, any adverse consequences from the financing decisions impact the shareholders, not the customers, and any favorable consequences benefit both shareholders and consumers through stronger company financials, lower rates, and better services.

Moreover, because the public interest is best served by assuring the presence of numerous telecommunications competitors in Arizona, it is important to provide such competitors with the flexibility to arrange financing in the manner they deem most appropriate to carry on business so long as there is no adverse impact on the public. To deny such flexibility would discourage new competitors from entering the state and would encourage existing competitors in the state to seek a more favorable regulatory environment elsewhere, neither of which would enhance the public interest. Given the challenges facing competitive telecommunications carriers, allowing carriers flexibility in choosing how to finance growth will ultimately benefit Arizona consumers.

WHEREFORE, XOCS respectfully requests that the Commission approve, to the extent necessary, its participation in the financing transaction described herein and further relief as the Commission may deem appropriate.

RESPECTFULLY SUBMITTED this 26th day of March 2008.

OSBORN MALEDON, P.A.

By 
Joan S. Burke
Osborn Maledon, P.A.
2929 North Central Avenue, Suite 2100
Phoenix, Arizona 85012-2793
602-640-9356 (voice)
602-640-6074 (fax)
jburke@omlaw.com

Brad E. Mutschelknaus
Melissa S. Conway
KELLEY DRYE & WARREN LLP
3050 K Street, N.W., Suite 400
Washington, D.C. 20007
Telephone: (202) 342-8552
Facsimile: (202) 342-8452

Counsel for XO Communications Services, Inc.

Original and 13 copies of the foregoing filed
this 26th day of March, 2008, with:

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

Copies of the foregoing hand-delivered
this 26th day of March, 2008, to:

Christopher Kempley, Chief Counsel
Legal Department
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, Arizona 85007

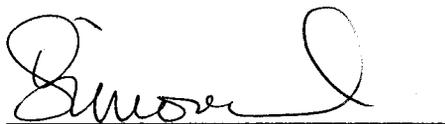
Ernest Johnson, Director
Utilities Division
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, Arizona 85007

Naomi Ewing
2032574v2

VERIFICATION

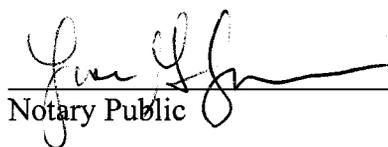
I, Simone Wu, am General Counsel of XO Communications, LLC and am authorized to represent it and its subsidiaries and operating affiliates, and to make this verification on their behalf. The statements in the foregoing document relating to XO Communications, LLC and its subsidiaries and operating affiliates, except as otherwise specifically attributed, are true and correct to the best of my knowledge and belief.

I declare under penalty of perjury that the foregoing is true and correct.



XO Communications, LLC

Subscribed and sworn to before me this 19th day of March 2008.

 4067424
Notary Public

My Commission expires: My Commission Expires
July 31, 2011