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MEMORANDUM

TO: Docket Control
FROM: Steven M. Olea
Director
Utilities Division

DATE: March 26, 2010

RE: SUPPLEMENTAL STAFF REPORT IN THE MATTER OF THE APPLICATION OF MCLEODUSA TELECOMMUNICATIONS SERVICES, INC. D/B/A PAETEC BUSINESS SERVICES FOR A FINANCING ORDER AUTHORIZING VARIOUS FINANCING TRANSACTIONS (DOCKET NO. T-03267A-09-0475)

Attached is the Supplemental Staff Report for the application of McLeodUSA Telecommunications Services, Inc. d/b/a PAETEC Business Services for approval of a financing order authorizing various financing transactions and encumbrance of its assets. Staff continues to recommend conditional approval of the requested authorization.

Any party to this proceeding who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before April 06, 2010.

SMO:JCM:tdp

Originator: Juan C. Manrique

Arizona Corporation Commission
DOCKETED

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AZ CORP COMMISSION
DOCKET CONTROL

Service list for: Mcleodusa Telecommunications Services, Inc. d/b/a PAETEC Business Services
Docket No. T-03267A-09-0475

Mr. Michael Patten
Mr. Timothy J. Sabo
Roshka Heyman & DeWulf, PLC
One Arizona Center
400 East Van Buren Street
Suite 800
Phoenix, Arizona 85004

Mr. Tony S. Lee
Ms. Grace R. Chiu
575 7th Street, N.W.
Washington, D.C. 20036

Mr. William A. Haas
Vice President of Public Policy & Regulation
PAETEC Holding Corp.
One Martha's Way,
Hiawatha, Iowa 52233

**SUPPLEMENTAL STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

**MCLEODUSA TELECOMMUNICATIONS SERVICES, INC.
D/B/A PAETEC BUSINESS SERVICES
DOCKET NO. T-03267-09-0475**

**APPLICATION FOR APPROVAL
OF A FINANCING ORDER AUTHORIZING
VARIOUS FINANCING TRANSACTIONS AND
ENCUMBRANCE OF ASSETS**

MARCH 26, 2010

STAFF ACKNOWLEDGMENT

The Supplemental Staff Report for McLeodUSA Telecommunications Services, Inc. D/B/A PAETEC Business Services Docket No. T-03267A-09-0475 is the responsibility of the Staff member listed below. Juan C. Manrique is responsible for the review and financial analysis of the Company's application.

A handwritten signature in cursive script that reads "Juan Manrique".

JUAN C. MANRIQUE
PUBLIC UTILITIES ANALYST I

**MCLEODUSA TELECOMMUNICATIONS SERVICES, INC.
D/B/A PAETEC BUSINESS SERVICES
DOCKET NO. T-03267-09-0475**

On October 2, 2009, McLeodUSA Telecommunications Services, Inc., d/b/a PAETEC Business Services ("PAETEC" or "Applicant"), filed with the Commission an application for approval to pledge its Arizona assets as security for certain debt financing arrangements up to \$700,000,000 pursuant to A.R.S. § 40-285 and Arizona Administrative Code ("A.A.C.") R14-2-804 ("Application").

On January 25, 2010, the Commission's Utilities Division Staff ("Staff") filed a Staff Report recommending conditional approval of the request for the pledge of the Applicant's Arizona assets.

On February 18, 2010, the Applicant filed a Notice of Transaction and Request for Retroactive Authority ("Notice"). In its Notice, PAETEC stated that, in order to take advantage of favorable market conditions, it had closed the transaction on January 7, 2010. As such, PAETEC requested that the order granting the Application be retroactive to January 1, 2010.

Staff concludes that the request for Retroactive Authority is reasonable. Staff also finds that no further discovery is necessary in regard to this request.

Staff recommends granting the Applicant's Request for Retroactive Authority and continues to recommend all of the conclusions and recommendations in its original Staff Report.