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BEFORE THE ARIZONA CORPORATION COMMISSION

1
2 KRISTIN K. MAYES
Chairman
3 GARY PIERCE
Commissioner
4 PAUL NEWMAN
Commissioner
5 SANDRA D. KENNEDY
Commissioner
6 BOB STUMP
Commissioner
7

Arizona Corporation Commission

DOCKETED

AUG 25 2010

DOCKETED BY NR

8 IN THE MATTER OF THE APPLICATION)
OF DIECA COMMUNICATIONS, INC.)
9 DBA COVAD COMMUNICATIONS)
COMPANY AND DSLNET)
10 COMMUNICATIONS, LLC TO)
11 ENCUMBER THEIR ASSETS)
12

DOCKET NOS. T-03632A-10-0230
T-03727A-10-0230

DECISION NO. 71847

ORDER

13 Open Meeting
14 August 12, 2010
Phoenix, Arizona

15 BY THE COMMISSION:

16 FINDINGS OF FACT

17 1. On June 9, 2010, DIECA Communications, Inc. d/b/a Covad Communications
18 Company ("Covad") and DSLnet Communications, LLC ("DSLnet") filed an application with the
19 Arizona Corporation Commission ("Commission") requesting approval pursuant to Arizona
20 Revised Statutes ("A.R.S.") § 40-285(A) and any other regulations deemed applicable to
21 encumber their Arizona assets as security in connection with financing arrangements whereby
22 CCGI Holding Corp.¹ ("CCGI Holding") will incur long-term debt obligations collectively up to
23 \$265,000,000 and revolving credit of up to \$35,000,000.

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27 ¹ CCGI and DSLnet notified the Commission on June 9, 2010 that indirect control of DSLnet would be acquired by
28 CCGI. DSLnet reported less than \$1 million in jurisdictional revenues in 2009. Per the Commission's Affiliated
Interest Rules, R14-2-801 to R14-2-806, requiring utilities with greater than \$1 million in jurisdictional revenues to
obtain prior approval for a transfer of control transaction, DSLnet did not qualified as a Class A company and the
docket (T-03727A-10-0231) was closed by procedural order dated July 6, 2010.

Decision No. _____

1 Background of Applicants

2 2. CCGI Holding Corporation (“CCGI Holding”) is a Delaware corporation with
3 offices located at 360 North Crescent Drive, Beverly Hills, CA 90210. CCGI Holding is the
4 parent company of Covad Communications Group, Inc. (“CCGI”), a Delaware corporation that
5 owns Covad Communications Company, a California corporation and DIECA Communications,
6 Inc., a Virginia corporation.

7 3. Covad offers DSL, Voice over the Internet Protocol (“VoIP”), T1, Ethernet, Web
8 hosting, managed security, Internet Protocol (“IP”) and dial-up, wireless broadband, and bundled
9 voice and data services directly through Covad's network and through Internet Service Providers
10 (“ISPs”), value-added resellers, telecommunications carriers and affinity groups to small and
11 medium-sized businesses and home users. In Arizona, Covad is authorized to provide resold and
12 facilities-based local exchange and interexchange telecommunications services pursuant to
13 Decision No. 61942, dated September 17, 1999.

14 4. CCGI Holding is ultimately controlled by Platinum Equity LLC (“Platinum”).
15 Neither CCGI Holding nor Platinum offer any regulated telecommunications services. Platinum is
16 a privately held Delaware limited liability company with offices located at 360 North Crescent
17 Drive, Beverly Hills, California 90210.

18 5. DSLnet Communications, LLC (“DSLnet”) is a Delaware limited liability company
19 with principal offices located at 50 Barnes Park North, Suite 104, Wallingford, Connecticut 06492.
20 In Arizona, DSLnet is authorized to provide resold and facilities based local exchange,
21 interexchange, and exchange access services pursuant to Decision No. No. 62409, dated April 3,
22 2000.

23 The Proposed Transaction

24 6. CCGI Holding intends to enter into the proposed financing arrangements to fund
25 strategic acquisitions and for other permitted purposes, including providing working capital,
26 financing capital expenditures, refinancing existing indebtedness, and other general corporate
27 purposes. The borrower in the financing arrangements will be CCGI Holding. The proposed
28 financing arrangements will consist of the following:

1 (a) A senior and/or subordinated loan facility in an aggregate principal amount
2 expected to be collectively up to \$265,000,000 to be determined based on
3 market conditions. The proceeds will be used by CCGI Holding to refinance
4 the existing debt of the Applicants, to fund strategic acquisitions and for other
permitted purposes, including providing working capital, financing capital
expenditures, and other general corporate purposes.

5 (b) A secured revolving credit facility in an aggregate principal amount to be
6 determined based on market conditions, currently expected to be up to
7 \$35,000,000. The proceeds of loans under the revolving facility will be used
by CCGI Holding from time to time for general corporate purposes.

8 7. The applicant states that all obligations of CCGI Holding and its subsidiaries are
9 expected to be guaranteed by CCGI Holding, CCGI, Megapath, Covad Communications
10 Company, DIECA Communications, Inc., and DSLnet, and any current or future affiliates,
11 subject to certain exceptions to be determined. The Applicant also states that the obligations are
12 expected to be secured by substantially all the assets of CCGI Holding, CCGI, Megapath, Covad
13 Communications Company, DIECA Communications, Inc., and DSLnet, and any current or
14 future affiliates, subject to certain exceptions to be determined.

15 8. Covad's Arizona assets are already fully encumbered as security for the current
16 CCGI debt². Any deposits or performance bonds held by Covad or DSLnet will continue to be
17 excluded from the encumbrance. Covad and DSLnet further emphasize that none of the pledging
18 of jurisdictional assets or guarantee obligations described will apply to Covad or DSLnet until
19 required regulatory approvals are received.

20 9. Covad and DSLnet request approval to grant security interests in their assets, to
21 secure these financing arrangements, and any other authority necessary or required for the above-
22 referenced financing arrangements. According to the Applicants, Covad's and DSLnet's
23 participation in the financing arrangements will not result in a change in their management or
24 day-to-day operations; nor will it adversely affect their current or proposed operations in Arizona.

25 Staff's Analysis and Recommendations

26 10. A.R.S. § 40-285 requires public service corporations to obtain Commission
27 authorization to encumber certain utility assets. The statute serves to protect captive customers

28 ² Decision No. 70445, August 6, 2008

1 from a utility's act to dispose of any of its assets that are necessary for the provision of service;
2 thus, it serves to preempt any service impairment due to disposal of assets essential for providing
3 service.

4 11. A pledge of the Applicants' Arizona assets should not impair the availability of
5 service to customers since the Applicants provide competitive services that are available from
6 alternative service providers. Customers may still have exposure to losses to the extent they have
7 prepaid for service or made deposits, therefore, any authorization for encumbrance should
8 continue to provide the customer protection for prepayments and deposits intended by the
9 conditions in Decision No. 70445.

10 12. The Company published notice of its financing application in The Arizona Business
11 Gazette, on June 17, 2010. The affidavit of publication was filed with the Commission's Docket
12 Control on June 30, 2010.

13 13. The Applicants were found to be in Good Standing and in Compliance by the
14 Consumer Service and Compliance Sections of the Commission.

15 14. Based on its analysis of the proposed transaction, Staff concludes that the
16 transaction would not impair the financial status of the Company, would not impair its ability to
17 attract capital, nor would it impair the ability of the Company to provide safe, reasonable, and
18 adequate service. Staff, therefore, recommends that the Commission authorize the Applicants'
19 request to encumber their Arizona assets as described in their application.

20 15. Staff concludes that a pledge of the Applicants' assets would not impair the
21 availability of service to customers since the Applicant provides competitive services that are
22 available from alternative service providers. Customers may still have exposure to losses to the
23 extent they have prepaid for service or made deposits, therefore, Staff recommends approval of
24 the application subject to the condition that all customer deposits and prepayments be excluded
25 from encumbrance and equivalent amounts be retained by the Applicants.

26 16. Staff further recommends that one copy of executed security documents be filed
27 with Docket Control, as a compliance item in this docket, within 90 days of the decision in this
28 matter.

CONCLUSIONS OF LAW

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2 1. DIECA Communications, Inc. d/b/a Covad Communications Company and DSLnet
3 Communications, LLC are public service corporations within the meaning of Article XV of the
4 Arizona Constitution and A.R.S. § 40-285.

5 2. The Commission has jurisdiction over DIECA Communications, Inc. d/b/a Covad
6 Communications Company and DSLnet Communications, LLC and the subject matter in this
7 filing.

8 3. The Commission, having reviewed the filing and Staff's Memorandum dated
9 July 27, 2010, concludes that it is in the public interest to approve the DIECA Communications,
10 Inc. d/b/a Covad Communications Company and DSLnet Communications, LLC application to
11 encumber assets as proposed in financing arrangement discussed herein.

ORDER

12
13 IT IS THEREFORE ORDERED that the application of DIECA Communications, Inc.
14 d/b/a Covad Communications Company and DSLnet Communications, LLC requesting approval
15 to encumber assets as described and discussed herein, be and hereby is approved.

16 IT IS FURTHER ORDERED that DIECA Communications, Inc. d/b/a Covad
17 Communications Company and DSLnet Communications, LLC be authorized to engage in any
18 transactions and to execute any documents necessary to effectuate the authorizations granted.

19 IT IS FURTHER ORDERED that approval is subject to the condition that all customer
20 deposits and prepayments be excluded from encumbrance and that equivalent amounts be retained
21 by DIECA Communications, Inc. d/b/a Covad Communications Company and DSLnet
22 Communications, LLC.

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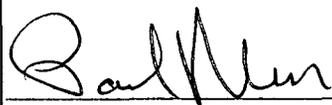
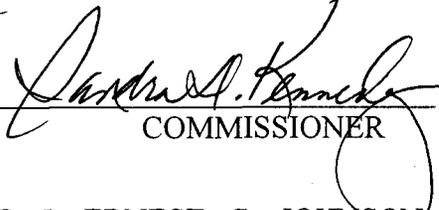
1 IT IS FURTHER ORDERED that one copy of executed security documents be filed with
2 Docket Control, as a compliance item in this docket, within 90 days of the decision in this matter.

3 IT IS FURTHER ORDERED that this Decision become effective immediately.

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

6  CHAIRMAN  COMMISSIONER

7

8  COMMISSIONER  COMMISSIONER  COMMISSIONER

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12 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
13 Executive Director of the Arizona Corporation Commission,
14 have hereunto, set my hand and caused the official seal of
15 this Commission to be affixed at the Capitol, in the City of
16 Phoenix, this 24th day of August, 2010.

17 
18 ERNEST G. JOHNSON
19 EXECUTIVE DIRECTOR

20 DISSENT: _____

21 DISSENT: _____

22 SMO:AFF:lhmm\MAS

1 SERVICE LIST FOR: DIECA Communications, Inc. d/b/a Covad Communications Company
and DSLnet Communications, LLC

2 DOCKET NOS. T-03632A-10-0230 and T-03727A-10-0230

3
4 Mr. Thomas H. Campbell
Mr. Michael T. Hallam
5 Lewis & Roca LLP
40 North Central Avenue
6 Phoenix, Arizona 85004

7 Mr. Martin L. Stern
8 Mr. Peter W. Denton
K&L Gates LLP
9 1601 K Street, N.W.
Washington, DC 20006

10
11 Mr. Christopher E. Dalton
General Counsel
12 Verosity Holdings, Inc.
6 Technology Park Drive
13 Westford, Massachusetts 01886

14 Ms. Catherine Wang
15 Mr. Brett P. Ferenchak
Bingham McCutchen LLP
16 2020 K Street, N.W.
Washington, DC 20006

17
18 Ms. Leslie Brown
General Counsel
19 Lighttower Fiber Networks
80 Central Street
20 Boxborough, Massachusetts 01719

21 Mr. Steven M. Olea
Director, Utilities Division
22 Arizona Corporation Commission
1200 West Washington Street
23 Phoenix, Arizona 85007

24
25 Ms. Janice M. Alward
Chief Counsel, Legal Division
Arizona Corporation Commission
26 1200 West Washington Street
27 Phoenix, Arizona 85007

28