

NEW APPLICATION



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BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP
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Commissioner
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Commissioner
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Arizona Corporation Commission
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In the Matter of the Application of
Level 3 Communications, LLC for a Limited
Waiver of the Public Utility Holding Companies
and Affiliated Interest Rules (A.A.C. R14-2-801
et seq.) or, in the alternative, Approval of
Guarantee under A.A.C. R14-2-804
DOCKET NO. T-03654A-14-0001

APPLICATION FOR
LIMITED WAIVER OF THE PUBLIC UTILITY HOLDING
COMPANIES AND AFFILIATES INTEREST RULES (A.A.C. R14-2-801 et seq.)

Pursuant to A.A.C. R14-2-806, Level 3 Communications, LLC ("Level 3 LLC" or
"Applicant") requests a limited waiver of the Arizona Corporation Commission's
("Commission") Public Utility Holding Companies and Affiliated Interests Rules, A.A.C.
R14-2-801 to R14-2-806 (the "Rules"), authorizing Applicant to participate in a financing
arrangement in connection with the issuance of Senior Notes by its immediate parent
company, Level 3 Financing, Inc. ("Financing").

In the alternative, Applicant requests, to the extent necessary, approval under A.A.C.
R14-2-804. Specifically, Applicant seeks approval to act as a guarantor for \$640 million in
6.125% Senior Notes due 2021. As described herein, this financing arrangement allowed
Level 3 Communications, Inc. ("Level 3") and Financing to redeem all \$640 million of
Financing's outstanding 10% Senior Notes due 2018 and thereby extend the maturity date,
lower the interest rate, and significantly reduce Level 3's annual interest expense for this

debt. The total amount of debt for which Level 3 LLC has provided a guarantee will not change as a result of this Application. Level 3 LLC had guaranteed the \$640 million in 10% Senior Notes and will be effectively substituting that guarantee with a guarantee of \$640 million in 6.125% Senior Notes. Applicant therefore requests Commission approval to act as a guarantor in support of the financing arrangement.

In support of this Application, Applicant states:

### **DESCRIPTION OF APPLICANT**

Level 3 is a publicly traded (NYSE: LVL3) Delaware corporation with principal offices located at 1025 Eldorado Boulevard, Broomfield, CO 80021. Level 3 provides high-quality voice and data services to carriers, internet service providers (“ISPs”), and other business customers over its IP-based network through its wholly owned indirect subsidiaries, including Applicant and other regulated subsidiaries.<sup>1</sup>

Level 3 LLC, a Delaware limited liability company, is a non-dominant carrier authorized to provide resold and/or facilities-based telecommunications services nationwide pursuant to certification, registration or tariff requirements, or on a deregulated basis. Level 3 LLC is also authorized by the Federal Communications Commission to provide international and domestic interstate services as a non-dominant carrier. In Arizona, Level 3 LLC is authorized to provide facilities-based and resold local exchange, toll and access services pursuant to a CCN granted in Decision No. 61737 issued by the Commission in Docket No. T-03654A-98-0641 on June 4, 1999.

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<sup>1</sup> The regulated subsidiaries in Arizona are: Broadwing Communications, LLC, WiTel Communications, LLC and Global Crossing Telecommunications, Inc. Other than Level 3 LLC, none of these regulated subsidiaries will participate in the financing arrangement described herein.

## CONTACT INFORMATION

Inquiries or copies of any correspondence, orders, or other materials pertaining to this Application should be directed to:

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## DESCRIPTION OF FINANCING TRANSACTION

Financing has issued \$640 million in 6.125% Senior Notes due 2021 (the "Senior Notes") in a private offering to qualified institutional buyers that is exempt from registration under U.S. Federal securities laws. Financing has lent the net proceeds it received in the offering of the notes plus available cash to its subsidiary, Level 3 LLC, in return for an

intercompany demand note issued by Level 3 LLC to Level 3 Financing. The proceeds along with cash on hand were ultimately used to redeem all of Financing's outstanding 10% Senior Notes due 2018 and to pay the expenses of the offering.<sup>2</sup> Level 3 LLC requests approval from the Commission to act as a guarantor of the \$640 million in 6.25% Senior Notes issued by Financing.

Applicant emphasizes that guaranty obligations in support of the \$640 million Senior Notes will not be effective until all required regulatory approvals are obtained. Applicant's participation in the new financing arrangement will not result in a change in Level 3 LLC's management or in its day-to-day operations in Arizona, nor will it adversely affect Level 3 LLC's current or proposed operations in Arizona. The financing arrangement that is the subject of this request will enable the parent company to take advantage of lower interest rates and more favorable maturity terms thereby significantly reducing interest expenses. The financing arrangement will provide Financing with financial flexibility to maintain and expand Applicant's networks and services. This improved financial arrangement will enable Applicant to continue delivering services to new markets, thus allowing more consumers to benefit from its competitive services. Accordingly, and to the extent required, Applicant requests that the Commission approve the participation of Level 3 LLC in the financing arrangement described herein.

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<sup>2</sup> The Commission previously granted approval on March 2, 2010 for Applicant to guarantee the 10% notes due 2018. *See* Docket No. T-0654A-10-0002.

## BASIS FOR LIMITED WAIVER

**A. The Proposed Financing Arrangement Will Not Directly or Indirectly Result in or Cause an Increase in Applicants' Maximum Rates on File with the Commission for Any Competitive Service.**

The Commission has granted partial waivers of the Rules. *See, e.g.*, Decision Nos. 64737, 68346 and 69212. In granting such waivers, the Commission determined that only when a transaction “could directly or indirectly result in or cause an increase in its maximum rate on file with the Commission for any competitive service” would a company have to make the necessary filings under A.A.C. R14-2-803, R14-2-804(A), (B), and (C), and R14-2-805. *See* Decision No. 64737. Indeed, the Commission has granted Level 3 LLC and its affiliates similar waivers in the past in comparable situations, namely the acquisitions of other telecommunications entities by Level 3 LLC’s ultimate parent company. *See* Decision No. 72300 (Level 3 financing waiver approval). There is no reason to treat this transaction differently. Moreover, the Commission recently allowed a requested waiver of the Rules to become effective by operation of A.A.C. R14-2-806(C), including with respect to a recent Level 3 LLC financing application. *See* T-03554A-13-0366 et al. (Level 3 LLC); *see also* Docket Nos. T-20872A-13-0282 et al.

In Arizona, Applicant primarily provides competitive wholesale services to other carriers, VoIP providers, and Internet Service Providers. The market for such services is highly competitive and prices are set by competition. With every product pricing change initiated by Applicant, competitors inevitably introduce new services or reprice their service in a manner believed to be even more attractive to the consumer. Accordingly, Applicant has no incentive or ability to charge unduly high or above-market prices that could be used to fund or subsidize unregulated affiliates or to commingle utility and non-utility funds in a manner that is harmful to Arizona consumers.

Finally, following the consummation of the financing arrangements, Applicant will continue to offer its services with no change in the rates or terms and conditions. Applicant does not anticipate that financing arrangements will cause them to increase their maximum rates on file with the Commission for their competitive services.

**B. The Proposed Financing Arrangement Is Otherwise in the Public Interest.**

Approval of the financing arrangement described herein will serve the public interest. The financing arrangement enables Applicant and its parent to refinance their obligations to extend the maturity dates of certain obligations at better interest rates, thus reducing the future refinancing risks associated with the scheduled maturities described herein. This step is a part of the companies' ongoing efforts to manage their maturity profile and continue to strengthen their overall credit profile. By eliminating risk associated with the uncertainties of future credit markets, it is expected that the capital markets will view this step on the part of the companies favorably. As such, Applicant expects the financing arrangement will provide greater access to capital, which will yield both financial benefits and operational flexibility that will ultimately inure to the benefit of Level 3 LLC's Arizona customers and that existing and future customers will have a more favorable view of Level 3 LLC's financial health. Furthermore, the financing arrangement will be conducted in a manner that will be transparent to customers, and will not result in a change of carrier for customers or any assignment of authorizations, and in no event will it result in the discontinuance, reduction, loss, or impairment of service to customers. Following consummation of the financing arrangement, Applicant will continue to provide high-quality communications services to its customers without interruption and without immediate change in rates, terms or conditions.

**C. Verification.**

Under A.A.C. R14-2-806(B), any request for a waiver of the Rules must be made by verified application. Accordingly, attached hereto as Exhibit A is the verification of Michael Shortley of Level 3 Communications, LLC, attesting to the accuracy of the factual statements in this Application.

**ALTERNATIVE REQUEST FOR APPROVAL UNDER RULE 804.**

**A. Introduction.**

If the Commission does not grant the limited waivers requested above, Applicant requests that the Commission authorize Applicant to provide the guarantees under A.A.C. R14-2-804(B)(1), which contemplates there will be situations where a certificated public service provider will need to issue guarantees for a holding company. As set forth in more detail above, approval of this application will enable Applicant to complete a transaction and enter into a financing arrangement that will benefit the combined entity. This will strengthen Applicant, and it will also serve to promote competition in Arizona's telecommunications markets.

**B. Rule 804 information.**

Applicant's alternative request for approval under A.A.C. R14-2-804(B)(1) is in the public interest for the reasons already set forth above. Under A.A.C. R14-2-804(C), the Commission will review the proposed guarantee to "to determine if the transaction would impair the financial status of the public utility, otherwise prevent it from attracting capital at fair and reasonable terms, or impair the ability of the public utility to provide safe, reasonable and adequate service." This is often known as the "no impairment" standard. The proposed

guarantee does not violate the no impairment standard because the financing arrangements will strengthen the financial status of the public utility, as described herein.

### **RELIEF REQUESTED**

WHEREFORE, Applicant respectfully requests that the Commission:

1. Waive the requirement of A.A.C. R14-2-804(B) that Applicant obtain Commission approval, to the extent necessary, prior to Applicant providing a guarantee in connection with the financing arrangement described herein, or in the alternative, authorize Applicant to provide a guarantee in support of such financing arrangement. *Applicant specifically requests that the Commission allow the waiver to become effective by operation of law under A.A.C. R14-2-806(C).*

2. Waive any other applicable requirements of the Rules as they may apply to the financing transaction described herein.

### **CONCLUSION**

For the reasons stated above, Applicant respectfully submits that the public interest, convenience, and necessity would be furthered by limited waivers of Commission Rules and/or authorization for the participation of Applicant in a certain financing arrangement of Level 3 Financing.

RESPECTFULLY SUBMITTED this 2<sup>d</sup> day of January, 2014.

ROSHK DEWULF & PATTEN



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Attorneys for Applicant

ORIGINAL and thirteen (13) copies  
of the foregoing filed  
this 2<sup>nd</sup> day of January, 2014, with:

Arizona Corporation Commission  
Docket Control  
1200 W. Washington Street  
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Copy of the foregoing hand-delivered  
this 2<sup>nd</sup> day of January, 2014, to:

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**EXHIBIT A**

Verification of Application

