Agenda Date: 8/23/17
Agenda Item: IVC

STATE OF NEW JERSEY

Board of Public Utilities
44 South Clinton Avenue, 3rd Floor, Suite 314
Post Office Box 350
Trenton, New Jersey 08625-0350
www.nj.gov/bpu/

TELECOMMUNICATIONS

IN THE MATTER OF THE VERIFIED PETITION OF DSCI, LLC FOR APPROVAL TO PARTICIPATE IN CERTAIN FINANCING ARRANGEMENTS	))))	ORDER DOCKET NO. TF17050556

Parties of Record:

Dennis C. Linken, Esq., Scarinci & Hollenbeck, LLC, on behalf of Petitioner
Stefanie A. Brand, Esq., Director, New Jersey Division of Rate Counsel

BY THE BOARD:

On May 25, 2017, DSCI, LLC ("DSCI" or "Petitioner") submitted a Verified Petition to the New Jersey Board of Public Utilities ("Board") pursuant to N.J.S.A. 48:3-7 and 48:3-9 requesting the Board approve its participation in certain financing arrangements involving the parent company of DSCI and its affiliates.

DSCI is a limited liability company with principal offices at 515 S. Flower Street, 47th Floor, Los Angeles, CA 90071-2201. DSCI is a wholly-owned direct subsidiary of U.S. TelePacific Corporation, doing business as TPx Communications ("TPx"), which, in turn, is wholly-owned by U.S. TelePacific Holdings Corp. ("Holdings").[1]

DSCI provides integrated business communications services, including: facilities-based and resold local and long distance voice and data services; hosted unified communications and collaboration; network connectivity; Internet and Internet Protocol-based services; and network integration, monitoring and server backup services. DSCI is authorized by the Federal Communications Commission to provide international and domestic interstate telecommunications services. DSCI is also authorized to provide interexchange telecommunications services and competitive local exchange services, pursuant to certification, registration or tariff requirements, or on a deregulated basis, in California, District of Columbia,

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[1] The Board previously approved the transfer of control of DSCI to TPx. See, In the Matter of the Verified Joint Petition of DSCI Holdings Corporation, DSCI, LLC and U.S. TelePacific Corp. for Approval for the Transfer of Control of DSCI, LLC to U.S. TelePacific Corp., Docket No. TM16030230 (April 27, 2016).

Florida, Georgia, Maine, Massachusetts, New Hampshire, New York, Pennsylvania, Rhode Island, Vermont and Virginia. In New Jersey, DSCI is authorized to provide resold local exchange and long distance telecommunications services pursuant to authority granted by the Board.[2]

DSCI requests Board approval to participate in financing arrangements by joining the guarantee and security provisions of a credit agreement entered into by TPx and Holdings (each a "Company" and together, the "Companies") in early May 2017 (the "2017 credit agreement"). By the credit agreement, Holdings and its subsidiaries – except DSCI – provide a guarantee and security interest in their assets to secure the underlying corporate obligations. The 2017 credit agreement replaces an amended and restated credit agreement entered into by TPx and Holdings in November 2014 in the aggregate amount of $530 million and an additional debt arrangement of $130 million in the form of senior secured first lien notes as DSCI, LLC provided security for the $130 million credit facility, previously approved by the Board (the "2014 credit agreement").[3]

The 2017 credit agreement provides for a six-year senior secured term loan facility in the amount of $655,000,000 and a five-year revolving credit facility up to $25,000,000, of which up to $10,000,000 was made available through a sub-facility for letters of credit. The interest rate for the senior secured term loan is set at the London Inter-Bank Offered Rate ("LIBOR") at the option of TPx plus a margin up to 5 percent or ABR plus a margin up to 4 percent. The interest on the revolving facility is at the option of TPx, the adjusted LIBOR plus a margin of up to 4 percent or ABR, plus a margin up to 4 percent, in each case, with a step down of 25 basis points based on achieving specified total leverage ratios. Petitioner states that this change in the interest rates will save the Companies up to $3 million annually in interest expenses.

The Company asserts that, in addition to extending debt maturity profile, lowering interest expenses, and adding cash to the balance sheet for working capital, the proceeds allowed TPx to: (a) refinance in full all amounts under the previous 2014 credit agreement; (b) redeem or otherwise retire in full TPx's senior secured notes due 2021 in the aggregate amount of $130 million; (c) pay related fees and expenses in connection with the 2017 credit agreement; and (d) make funds available for other general corporate purposes.

The Petitioner emphasizes that approval of DSCI's financing participation in the 2017 credit agreement will serve the public interest in promoting competition among telecommunications carriers. DSCI further states it will enhance the ability of TPx and DSCI to expand operations in terms of service area coverage and through an expanded line of products and services. The Petitioner asserts with a stronger balance sheet and financial profile, TPx and DSCI will compete more effectively against incumbent carriers and large competitive local exchange carriers, therefore, approval of the 2017 credit agreement will not result in any changes in the Companies' highly experienced, well-qualified management, operating and technical personnel. The Petitioner argues that approval of this request will benefit consumers in the marketplace for telecommunications and managed services in New Jersey, will be transparent to customers,

[2] See In the Matter of the Petition of DSCI, LLC for Authority Approval to Provide Resold and Facilities-Based Competitive Intrastate Local Exchange and Interexchange Telecommunications Services Throughout the State of New Jersey, Docket No. TE14091038 (December 17, 2014).
[3] See In the Matter of the Verified Joint Petition of DSCI, LLC and U.S. TelePacific Corp. for Approval for DSCI, LLC to Participate in Certain Financing Arrangements of U.S. TelePacific Corp., Docket No. TF16030231 (April 27, 2016).

and will not result in the discontinuance, reduction, loss or impairment of service to customers as DSCI will continue to provide high-quality communications services to its customers following its participation.

The Division of Rate Counsel has reviewed this matter and, by letter dated July 27, 2017, stated that it does not oppose approval of the request. Specifically, Rate Counsel notes Petitioner has provided all the information required under the applicable statutes and the Board's regulations, and Petitioner has asserted the financing arrangements contemplated are not contrary to the public interest and will serve a beneficial purpose for New Jersey customers.

After review of this matter, the Board **FINDS** that the proposed restructuring of existing credit facilities and long-term debt financing arrangements are in accordance with law and in the public interest, and **HEREBY AUTHORIZES** Petitioner to participate in the 2017 credit agreement in an aggregate amount of up to $680 million, and to take those actions necessary to effectuate such financing arrangements.

This Order is issued subject to the following provisions:

1. This Order shall not affect or in any way limit the exercise of the authority of the Board or the State of New Jersey in any future petition or in any proceeding regarding rates, costs of service, franchises, service, financing, accounting, capitalization, depreciation or any other matters affecting Petitioner.

2. Petitioner shall notify the Board, within five business days, of any material changes in the proposed financing and shall provide complete details of such transactions, including any anticipated effects upon service in New Jersey.

3. Petitioner shall notify the Board of any material default in the terms of the proposed financing within five business days of such occurrence.

4. Notwithstanding anything to the contrary in the documents executed pursuant to the financing transaction or other supporting documents, a default or assignment under such agreement does not constitute an automatic transfer of Petitioner's assets. Board approval must be sought pursuant to N.J.S.A. 48:1-1 et seq. where applicable.

5. This order shall not be construed as directly or indirectly fixing for any purpose whatsoever any value of tangible or intangible assets now owned or hereafter to be owned by the Petitioner.

This Order shall become effective on September 2, 2017

DATED: 8/23/17

BOARD OF PUBLIC UTILITIES
BY:

RICHARD S. MROZ
PRESIDENT

JOSEPH L. FIORDALISO
COMMISSIONER

MARY-ANNA HOLDEN
COMMISSIONER

DIANNE SOLOMON
COMMISSIONER

UPENDRA J. CHIVUKULA
COMMISSIONER

ATTEST:

IRENE KIM ASBURY
SECRETARY

I HEREBY CERTIFY that the within document is a true copy of the original in the files of the Board of Public Utilities

Irene Kim Asbury

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