

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a Session of the Public Service
Commission held at its office
in Jefferson City on the 20th
day of December, 1994.

In the matter of the Application of)
CITIZENS COMMUNICATIONS CORPORATION,)
for authority to acquire, take or)
hold more than ten percent of the)
total capital stock of CITIZENS)
TELEPHONE COMPANY OF HIGGINSVILLE,)
MISSOURI, INC.)

Case No. TM-95-130

ORDER APPROVING STOCK TRANSACTION

On October 18, 1994, Citizens Communications Corporation (CCC) filed an application for authority to acquire, take and hold more than ten percent (10%) of the total capital stock of Citizens Telephone Company of Higginsville, Missouri, Inc. (Citizens). CCC requested expedited treatment of this matter so that any order issued herein would be final by December 31, 1994.

CCC is a Missouri corporation which acts as a holding company for the purpose of acquiring telephone operating subsidiaries and providing local exchange service to the public, through its subsidiary, Citizens. Citizens is a Missouri Corporation which operates as a local exchange company which serves approximately three thousand seven hundred (3700) customers and is certificated by the Commission.

CCC has initiated a Plan of Reorganization through which it proposes to acquire a majority of the outstanding common stock of Citizens. Citizens currently has an Employee Stock Ownership Plan (ESOP) which owns 93% of the common stock of Citizens. For CCC to acquire Citizens there would be a stock exchange and the owners of Citizens would become the owners of CCC.

On December 15, 1994, the staff of the Commission (Staff) filed its Memorandum in which it recommended Commission approval of the stock transaction subject to some conditions. An analysis completed by Staff of the Financial Analysis Department has stated that CCC will have an acceptable capital structure on a consolidated basis (62.6% common equity to total capital currently and 58.0% including a loan proposed in Case No. TF-94-143) and, on an individual basis the capital structure would also be acceptable (CCC 100% equity and Citizens 63.54% common equity to total capital). The Financial Analysis Department has stated that the acquisition of Citizens by CCC should not have a negative impact upon Citizens.

The Memorandum filed by staff also included a report from the Commission's Accounting Department. The Accounting Department has stated that the transaction(s) contemplated herein will comply with the standards set in Case No. EM-91-290 subject to six conditions which were set out by both the Financial Analysis and the Accounting staff.

The Commission has reviewed the Application, the staff memoranda and the entirety of the file and makes the following findings of fact. The Commission finds that both CCC and Citizens are Missouri corporations and that Citizens is a certificated telecommunications company which is a regulated utility pursuant to Chapter 386 RSMo. 1986.

The Commission has specifically reviewed the six proposed conditions set out in the staff memoranda and finds that three of these conditions, although reasonable under the appropriate conditions, are difficult to understand within the context of the case now before the Commission. These three conditions (with their original numbering) are:

(3) The Company (Citizens Telephone Company) must present an estimate of the impact of any **future** merger, acquisition or non-CTC related business on its Missouri Jurisdictional operations. (emphasis added.)

(4) The company (Citizens Telephone Company) must provide an assessment of the relative risk regarding items that impact its Missouri operations for any **future** merger, acquisition, or non-CTC related business. (emphasis added.)

(5) The Company (Citizens Telephone Company) must propose assurances or conditions that will address the overall components of **future** CCC activities that pose the risk of being detrimental to the Missouri public interest. (emphasis added.)

The Commission recognizes the validity and the necessity of these types of requests and might well issue these requirements in the event that Citizens were to undertake any action which would call paragraphs 3-5 (supra) into play. However, staff has given no justification for asking the Commission to issue these requirement in this case and at this time. The Commission is hesitant to order conditions for which it finds no present need and for which no justification has been offered. Therefore, the Commission finds no necessity for ordering these particular paragraphs. However, the Commission finds that these are clearly indicative of the types of information, disclosures and assurances it would require if the Citizens were to undertake the actions described in paragraphs 3-5 (supra).

Lastly, the Commission finds that the transaction for which authority is requested herein is not detrimental to the public interest and the Commission will approve the transaction.

IT IS THEREFORE ORDERED:

1. That Citizens Communications Corporation may acquire, take and hold a majority of the issued and outstanding common stock of Citizens Telephone Company in accordance with the terms and conditions of the Plan of Reorganization as filed with the application in this case as Exhibit 2.

2. That all documentation relating to or generated out of this transaction shall be retained by Citizens Telephone Company.

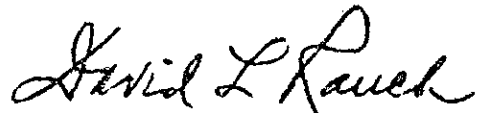
3. That Citizens Communications Corporation and Citizens Telephone Company may do and perform, or cause to be done or performed, such other acts as may reasonably be necessary to carry out this order, and may also make execute and deliver any and all documents as may reasonably be required to fully effectuate the authority granted herein.

4. That Citizens Telephone Company shall provide documentation of proper cost allocations to non-regulated entities in the next rate proceeding.

5. That nothing in this order shall be considered as a finding of the Commission of the reasonableness of the value for ratemaking purposes of the transactions herein involved, or as an acquiescence in the value placed upon said transactions by Citizens Communications Corporation or by Citizens Telephone Company and the Commission reserves the right to consider any ratemaking treatment to be afforded this transaction, and its resulting cost of capital, in any later proceeding.

6. That this order shall become effective on December 31, 1994.

BY THE COMMISSION



David L. Rauch
Executive Secretary

(S E A L)

Perkins, Kincheloe and
Crompton, CC., Concur.
McClure, C., Dissents with
attached Opinion.
Mueller, Chm., Absent.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of)
CITIZENS COMMUNICATION CORPORATION)
for authority to acquire, take, or)
hold more than ten percent of the)
total capital stock of)
CITIZENS TELEPHONE COMPANY OF)
HIGGINSVILLE, MISSOURI, INC.)

Case No. TM-95-130

Dissenting Opinion of Commissioner Kenneth McClure

I must respectfully dissent from the order of the majority approving stock transactions between the Citizens Communications Corporation and Citizens Telephone Company. The Staff recommendation, filed on December 15, 1994, lists six conditions which it requests be adopted by the Commission.

In my opinion, the Staff's six recommended conditions should be adopted. However, my belief is tempered somewhat by the necessity of this order being approved in an expedited fashion and because of that, the limited opportunity for the Company to respond to Staff.

Respectfully Submitted,



Kenneth McClure
Commissioner