

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

In the Matter of the Application for the )  
Approval of the Transfer of Control of )  
Alltel Missouri, Inc. and the Transfer of )  
Alltel Communications, Inc., )  
Interexchange Service Customer Base. )

Case No. TM-2006-0272

**STAFF'S SUGGESTIONS IN SUPPORT OF STIPULATION AND AGREEMENT**

COMES NOW the Staff of the Missouri Public Service Commission, and in support of the Stipulation and Agreement filed by the parties in this matter, states:

1. On April 13, 2006, the parties to this case filed a unanimous Stipulation and Agreement in this matter. As called for by Section 7 of that agreement, Staff submits its suggestions in support of the Stipulation and Agreement.

2. Staff's witnesses have previously set forth their positions in the testimony filed in this case on March 8, 2006. The Stipulation and Agreement filed by the parties closely parallels the points raised by Staff witnesses in rebuttal testimony, with the exception of a portion of Matthew J. Barnes' testimony. Accordingly, the testimony filed by William L. Voight (addressing telecommunications issues in general) and Mick S. Johnson (addressing quality of service) fully supports the Stipulation and Agreement, as does the majority of that of Matthew J. Barnes (addressing the structure of the transaction), and Staff adopts those items of testimony as its suggestions in support of the issues addressed therein.

3. At the time testimony was filed, Staff, the Company, and the Office of Public Counsel were negotiating the appropriate financial conditions to place upon the company to ensure that Missouri customers continue to receive safe and adequate service at just and reasonable rates after the proposed transaction closes. Staff has had ongoing concerns regarding

the probable lower credit quality of the new Merged Wireline Company, which will own the systems that are used in Alltel's Missouri operations. Accordingly, Staff initially proposed a series of conditions that were parallel to those proposed in the Sprint-Nextel transaction (Case No. IO-2006-0086). Staff suggested these conditions would be appropriate to recommend that the Commission approve the transaction, but noted in Barnes' testimony at the time that discussions would continue so that the parties may arrive at an acceptable, customized solution for this transaction with the knowledge that the Merged Wireline Company did not strive to pursue an investment grade credit rating.

4. As a result of the aforementioned discussions, Staff has modified the conditions initially proposed by Staff witness Barnes in his testimony. Mr. Barnes initially proposed the following condition for Commission approval at page 11 of his Rebuttal Testimony filed on March 8, 2006:

- 2) Demonstrate that its primary financial metrics (such as those described above) fall within investment grade ranges of at least BBB, and that the non-investment grade credit ratings reflect factors other than the financial metrics of the Company.

5. Mr. Barnes indicated in his Rebuttal Testimony filed in this case on March 8, 2006 that Staff was doubtful that the Merged Wireline Business would be investment grade after spin-off, and that Staff would continue discussions with Alltel to put safeguards in place to ensure customers receive safe and adequate service. These safeguards were necessary because, as compared to the Sprint/Nextel case, in which the company made efforts to pursue an investment grade credit rating for the spun-off company, Staff understood that Alltel did not intend to try to achieve an investment grade credit rating. In light of these circumstances, Staff and Alltel agreed to the following condition that puts safeguards in place to ensure customers receive safe and adequate service at just and reasonable rates:

4.D.d.6) The New Holding Company currently anticipates that its corporate credit rating will at least be consistent with the average corporate credit rating of the rural local exchange industry, which as of July 5, 2005, had an average Standard and Poor's corporate credit rating of BB .<sup>1</sup> If the average corporate credit rating of the rural local exchange industry changes, then such new average corporate credit rating shall become the benchmark that triggers the following conditions in this paragraph. Until such time as the New Holding Company has two investment grade corporate credit ratings, if the New Holding Company's corporate credit rating should fall below the average corporate credit rating for the rural local exchange industry, then Alltel Missouri, Inc. shall be required to demonstrate to the Commission that this event was not caused by the financial risk of the New Holding Company. If the Alltel Missouri, Inc. cannot demonstrate that this downgrade was due to factors other than the financial risk of the New Holding Company, then it must demonstrate to the Commission that the downgrade will not affect Alltel Missouri, Inc.'s continued quality of service to its Missouri customers and that the downgrade will not cause an increase in the rates charged to its Missouri customers or cause a reduction in the investment in basic and advanced telecommunications services. In the event that Alltel Missouri, Inc. is unable to demonstrate the aforementioned items, then the New Holding Company shall take the necessary financial action to restore its credit rating within three months or such other reasonable time if Alltel Missouri, Inc. can demonstrate that three months is unreasonable.

Staff believes that the preceding condition will protect Missouri customers from any negative effects that could result from a lower credit rating.

6. The company also proposed the following condition to ensure that Alltel Missouri, Inc. invests capital expenditures in Missouri even if the Merged Wireline Business does not ultimately receive an investment grade credit rating:

4.D.d.4.3) Alltel Missouri, Inc. will generate sufficient cash flows to fund technology investments through capital expenditures, and the Alltel Missouri, Inc. commits to continue to invest in new technologies designed to bring the benefits of broadband capabilities to its customers in its service areas. Alltel Missouri, Inc. will expend the appropriate amount of capital expenditures to extend the availability of broadband to at least 50% of it's Missouri customer base by December 31, 2006; at least 65% of it's Missouri customer base by December 31, 2007 and at least 80% of it's Missouri customer base by December 31, 2008.

---

<sup>1</sup> As reflected in the Standard & Poor's "CreditStats: Local Exchange Carriers" publication dated August 11, 2005. The Signatory Parties agree that such publication, as updated, shall constitute the source document for purposes of this paragraph.

7. All other conditions that Barnes initially proposed in his direct testimony were agreed to by Alltel and are reflected in the Unanimous Stipulation and Agreement.

8. Staff believes that the Stipulation and Agreement fully implements all of Staff's recommendations in the testimony of William L. Voight, Matthew J. Barnes and Mick S. Johnson and aside from the points noted above, and Staff has not altered, nor has Staff had to alter, its position in this case.

9. Overall and taken as a whole, Staff believes that the terms of the Stipulation and Agreement fulfill the standard that the transactions described in the Application of December 22, 2005 are not detrimental to the public interest.

WHEREFORE, Staff recommends the Commission approve the Stipulation and Agreement.

Respectfully submitted,

/s/ David A. Meyer

David A. Meyer  
Senior Counsel  
Missouri Bar No. 46620  
Missouri Public Service Commission  
P. O. Box 360  
Jefferson City, MO 65102  
(573) 751-8706 (Telephone)  
(573) 751-9285 (Fax)  
david.meyer@psc.mo.gov

**ATTORNEY FOR THE STAFF OF THE  
MISSOURI PUBLIC SERVICE COMM'N**

### **Certificate of Service**

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 18th day of April 2006.

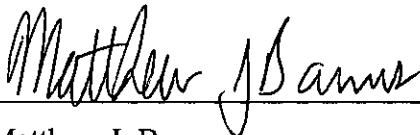
**/s/ David A. Meyer**

---

VERIFICATION

STATE OF MISSOURI     )  
                                      )  
COUNTY OF COLE        )

Comes now Matthew J. Barnes, employee of the Staff of the Missouri Public Service Commission, being of lawful age and after being duly sworn, states that the affiant has read the accompanying pleading, and that the facts therein are true and correct to the best of his knowledge.



Matthew J. Barnes  
Affiant



Subscribed and affirmed before me this 18<sup>th</sup> day of April 2006. I am  
commissioned as a notary public within the County of Cole, State of Missouri,  
and my commission expires on September 11, 2006.



NOTARY PUBLIC

