STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a Session of the Public Service Commission held at its office in Jefferson City on the 11th day of July, 1995.

In the matter of the Joint Application of GTE Midwest Incorporated and Northeast Missouri Rural Telephone Company and Modern Telecommunications Company for authority to sell, purchase, and transfer telephone properties and assets related to the telephone exchanges of Memphis, Unionville and Queen City in the state of Missouri, and for authority to encumber assets necessary to finance the proposed transaction.	)	**Case No. TM-95-142**

ORDER APPROVING SALE AND ORDER GRANTING CERTIFICATE

On October 26, 1994, GTE Midwest Incorporated (GTE), Northeast Missouri Rural Telephone Company (Northeast) and Modern Telecommunications Company (Modern or Purchaser) filed a joint application pursuant to §392.300, RSMo Supp. 1993, seeking authorization of the Commission: (1) approving the transfer of and acquisition by Modern of part of GTE's franchise, facilities, and system, including appropriate certificates of public convenience and necessity; (2) authorizing GTE to discontinue providing telecommunications services in the Memphis, Unionville and Queen City exchanges involved in the acquisition as of the date of transfer; (3) authorizing Modern to commence providing telecommunications services in the transferred exchanges; (4) authorizing GTE and Modern to do and perform such acts and things, and execute and deliver any and all documents as may be necessary to effectuate the proposed transaction; and (5) granting such other relief as is reasonable in the circumstances.

GTE and Modern attached to their joint application a number of attachments including but not limited to certified copies of its articles of incorporation and certificate issued by the Missouri Secretary of State, a proprietary asset purchase agreement and certified copies of resolutions from the boards of directors of both GTE and Modern.

On November 17, 1994, the Commission issued an Order Granting Protective Order. On November 21, 1994, the Commission issued its Order And Notice, giving notice and setting an intervention deadline of December 21, 1994. Applications for intervention were filed by AT&T Communications of the Southwest, Inc. (AT&T) and Communications Workers of America, AFL-CIO, CLC (CWA). The applications were approved on December 28, 1994. On December 27, 1994, Southwestern Bell Telephone Company (SWBT) had filed an Application to Intervene Out of Time and this application was approved on December 30, 1994.

On December 28, 1994, the Commission issued an Order Concerning Application, ordering Modern to either amend its joint application to specifically reflect that it is seeking a Certificate of Service Authority or to file a separate Application for Certificate of Service Authority, to describe the type of service it seeks to offer, and to comply with 4 CSR 240-2.060(2). On January 11, 1995, GTE and Modern filed a Motion For Reconsideration. On January 31, 1995, the Commission granted reconsideration and upon reviewing the Order Concerning Application, the Motion for Reconsideration and the authority cited therein, the original Joint Application, and other applicable authority, the Commission concluded that its original decision had been correct, and reaffirmed its Order Concerning Application and ordered Modern to comply with that order within sixty (60) days from the effective date of the Order Granting Reconsideration.

On March 30, 1995, GTE and Modern filed a First Amended Application, wherein Modern sought a Certificate of Service Authority to provide basic local telecommunications service in the exchanges of Memphis, Unionville and Queen City. The parties attached to the supplemental application as Exhibit H exchange boundary maps. The supplemental application also noted that no metes and bounds description was necessary pursuant to 4 CSR 240-2.060(2)(A)6, and requested a waiver of 4 CSR 240-2.060(2)(A)9, 10 and 11B.

On May 12, 1995, the parties filed a Stipulation And Agreement, which was signed by GTE, Modern, the Staff of the Missouri Public Service Commission (Staff), and the Office of the Public Counsel (OPC). None of the intervenors were signatories to the stipulation. The Stipulation And Agreement is attached hereto as Attachment 1. However, due to the voluminous nature of the specimen tariffs and considering that the stipulation requires Modern and GTE to subsequently file tariffs in conformity with the specimen tariffs, the Commission will not include Attachments A and B, the specimen tariffs, as part of Attachment 1. The major provisions of the stipulation may be summarized as follows:

- Acquisition premium: Modern will separately identify on its books and records all costs of the acquisition of the subject properties which exceed their associated book value and Modern further agrees to forego recovery in future rates for intrastate telecommunications services of any acquisition premium or incremental acquisition costs.
- Modernization: Both exchanges will be modernized pursuant to 4 CSR 240-32.100 by December 31, 1997.
- Income Taxes: Modern will use an additional offset to rate base in any general rate increase case initiated in the next ten years, to compensate for rate base deductions eliminated by this transaction, unless Modern can show that its actual deferred tax reserve is the same as or greater than the reserve would have been, absent the sale of these exchanges.
- Rates Based on Modern's Operations: Modern will not file or implement the general rate increase in its rates for intrastate telecommunications services until Modern has fully complied

Schedule 1-3

with the provisions of its modernization plans. This commitment includes an agreement not to propose increases in basic local exchange or access rates, but neither precludes increasing revenues through tariff filings for the introduction of new services or new features for existing services, nor does it preclude other revenue neutral tariff filings during the period of this moratorium. Similarly, no signatory shall bring a complaint concerning Modern's rates for intrastate telecommunications services, or assist anyone else in the instigation or processing of a complaint regarding Modern's rates prior to January 1, 1998.

- Future Proceedings: Parties may propose adjustments in future proceedings relating to alleged detrimental or beneficial aspects of this acquisition, other than those specifically addressed in the stipulation.
- Capital Structure: Modern must achieve a 40% equity to total capital ratio within its first two years of operation.
- Dividends: Dividends will not be given to shareholders if the capital structure falls below the 40% equity to total capital ratio.
- Financing: The Rural Telephone and Finance Cooperative (RTFC) has provided Northeast and its wholly owned subsidiary, Modern, with RTFC's conditional commitment to provide long-term loans in the aggregate of $10,268,362. Loans may be utilized by Modern and Northeast to (i) purchase the assets described in the asset purchase agreement, (ii) fund a portion of the plant improvements anticipated following closing and (iii) purchase of the RTFC subordinated capital certificates (SCC) equal to 5% of the total amount borrowed. The proposed loan will be a fifteen year secured long-term loan to Modern in the amount of $6,689,415. including the 5% SCC. In addition, there will be a proposed five year unsecured loan to Northeast in the amount of $3,578,947. including a 5% SCC based upon the details set forth in proprietary Exhibit F of the Application. As security for the loan to Modern, RTFC will receive a first mortgage lean on the assets and revenues of Modern. Northeast and Modern will file the final loan document with the Commission within thirty days after executing the loan.
- Digital Switching: Modern intends to install digital switches within twelve months of the sale closing, and eliminate multi-party service by December 31, 1997, which is an acceleration of the modernization schedule approved for GTE in Case No. TO-93-309.
- Tax Impact: There should be no tax impact on any political subdivision, as Modern intends to retain these assets and the location of the assets will not change.
- Depreciation: (A) Modern will: use the depreciation rates in Schedule 2, attached to the stipulation; establish accounts per Schedule 2; transfer accumulated reserve for plant acquired from GTE to these accounts and maintain the depreciation

reserve by account per Schedule 2; complete the amortizations for accounts 2116.29 and 2123.29 and close these accounts; maintain continuing property records and establish a property unit catalogue, with copies submitted to the Commission's Depreciation Department Manager within one year; and submit copies of a comprehensive depreciation study to the Depreciation Department Manager within three and one-half years, or at the time of a rate case whichever first occurs.
(B) GTE will: record the fractional interests sold by account; maintain continuing property records to identify retirements of the plant sold from the normal retirement of other plant owned; and compute the accumulated reserves for depreciation up to the time of sale, using the theoretical reserve prospective method, and transfer those amounts by account to Modern.

- Rates: Modern will use the same rates and terms currently charged by GTE, except Modern need not adopt any changes in GTE's tariffs made effective on or after April 1, 1995, including restructured transport rates. Modern and GTE will file tariff sheets substantively identical to the tariff sheets attached to the stipulation as, respectively, Attachment A and Attachment B.
- Tariffs: The sale and Certificate of Service Authority, if approved by the Commission, would become effective upon the effective date of tariffs filed by Modern and GTE in conformity with Attachment A and Attachment B to the stipulation.
- Certificate of Service Authority: The parties agree Modern should receive a Certificate of Service Authority for the exchanges being purchased.
- Telemedicine and Distance Learning: GTE and Modern agree to deploy within six months of a request at tariffed rates, the necessary infrastructure to accommodate telemedicine and distance learning at any hospital, school, or public health clinic in their respective service territories.
- Northeast and Modern Allocations: Northeast and Modern commit to develop specific methods or procedures within six months of the closing date to allocate specific costs between Northeast and Modern. Modern agrees to provide a copy of the allocation procedures to the Staff of the Accounting Department for review.

On May 24, 1995, the Commission issued an Order Regarding Stipulation And Agreement. In its order, the Commission expressed concern about the stipulation, and specifically noted the absence of any reference to the positions of non-signatory intervenors, and the lack of sufficient information upon which the Commission could base a decision with respect to numerous substantive issues.

The Commission listed twelve questions and ordered all parties to file a response by May 31, 1995, or, in the alternative, to state why no answer is available. The questions in essence sought further information on the status of the non-signatory parties; the possession by Modern of municipal franchises; the benefits which might accrue from breaking up a large company into smaller entities; the technical expertise of Modern; and the financial viability of Modern with respect to its ability to achieve the capital structure required by the stipulation, the cost of modernization, the risks related to competition, and the risks related to the possible elimination of the high cost fund and possible reduction of access fees.

The parties complied with the order to respond with the exception of CWA. Inasmuch as CWA has failed to comply with this order of the Commission, it would appear to be in violation of § 386.570 of the Statutes. SWBT filed its response late, on June 6, 1995, along with a motion to file its response out-of-time. No party filed a response to SWBT's motion. The Commission has reviewed SWBT's motion, and determines that good cause was stated for the delay, and that no party was prejudiced thereby as a result. The responses of the parties are briefly summarized below.

SWBT observed that the law generally favors the transferability of property. SWBT also stated that it was a non-signatory because of its relative non-involvement in the negotiations, but that it would be willing to waive its rights under paragraph 16 of the stipulation under the same conditions as the signatory parties. In addition, SWBT stressed its belief that most small local exchange companies (LECs) in Missouri could reduce access rates and remain financially viable, and specifically reserved its right to raise this issue in an appropriate docket. Finally, SWBT noted that if the federal high cost fund were eliminated, it might be replaced by another mechanism, but the effect on a LEC might also depend on the LEC's ability to replace those revenues.

AT&T expressed concern about the short and long-term effect on access charges, including interstate access rates and high cost fund draws. AT&T stated that it agreed not to actively oppose or delay the proceedings if the Commission approves the stipulation. AT&T further observed that the Commission's questions were on point regarding the critical issues in this case, but noted that it did not currently have the resources to bring the issues to hearing.

GTE and OPC both adopted the response filed by Modern. OPC added that the answers submitted by Modern provide a fair and adequate statement of the representations made to OPC regarding the settlement.

Staff indicated its belief that there may be a niche market for small companies in rural markets. Staff noted that small companies may have a better knowledge of local needs and that the proximity of the company and its principals could increase company responsiveness and customization of services as well as retain some jobs within the community. In addition, Staff opined that smaller companies have generally been quicker to modernize rural areas, and that the remaining GTE exchanges face a greater threat of competition than the exchanges involved in this case. Staff maintained that the attendant risks could be minimized through the safeguard of adequate capitalization. Further, Staff noted that many of the scenarios which were run showed an increase in access revenues attributable to a growth in usage through both increased numbers of access lines and increased minutes of use, based upon the growth experience in nearby exchanges when those exchanges were modernized. Finally, Staff stated that to the extent non-signatory parties have agreed not to oppose the stipulation, they would waive their right to challenge the actions of the signatories, pursuant to paragraph 16 of the stipulation, if they indicated an agreement to be so bound in some manner, such as a separate written waiver or on the record at a hearing to present the stipulation to the Commission.

Modern maintained that granting a Certificate of Service Authority to it is in the public interest and that Commission approval of the sale or transfer is not detrimental to the public interest. In support of these assertions, Modern has noted that it will accelerate the completion of modernization and will serve the public from its offices which are located locally. Modern also made reference to many of the provisions in the stipulation. Modern opined that non-signatory parties would have the right to challenge the nonunanimous stipulation and would not be bound thereby. In addition, Modern explained that local community rights-of-way and franchises would be assigned to it by GTE pursuant to the contract.

Modern indicated that the exchanges GTE is currently seeking to sell comprise less than 5% of GTE's access lines, and thus this is not a case of a large company being broken up. Modern also claimed that the exchanges at issue are remote from GTE's service area, and are difficult to administer and maintain through a centralized system of operations, therefore the sale is part of a strategic effort on the part of GTE to sell a portion of its property in markets which may be of greater long-term strategic value to other service providers. In contrast, Modern suggested that it could offer better operational and marketing synergy.

In addition, Modern maintained that it would achieve the 40% equity ratio through accumulated retained earnings, but in the event this proves insufficient, this amount will be supplemented by an equity investment loan made by RTFC to Northeast, as detailed in proprietary Exhibit F. Further, Modern indicated that it has considered the threat of competition and has concluded that competition is not likely to occur in its area in the immediate future. Modern added that it intends to establish a strong local presence and generate customer loyalty, as well as attract business customers to its service territory to grow the market, which would reduce its cost of service and make it more competitive.

No party to this proceeding has requested a hearing, therefore pursuant to ***State ex rel. Rex Deffenderfer Enterprises, Inc. v. Public Service Commission***, 776 S.W.2d 494, 496 (Mo. App. 1989), the Commission determines that no hearing is necessary in this case. The Commission will base its decision on the verified Joint Application and Supplemental Joint Application filed by GTE and Modern, the attachments thereto, the Stipulation And Agreement, and the responses to the Commission's questions set out in its Order of May 24, 1995.

GTE Midwest Incorporated is a telecommunications company and public utility as defined in § 386.020, RSMo 1994, and is subject to the jurisdiction of the Commission pursuant to Chapters 386 and 392 of the Missouri Revised Statutes. Modern is a Missouri corporation in good standing with its principal office and place of business located at 718 South West Street, Green City, Missouri 63545. Modern is a newly formed subsidiary of Northeast. Northeast also is a Missouri corporation in good standing and its principal office and place of business is also located at 718 South West Street, Green City, Missouri 63545. Northeast provides telecommunications services to approximately 3,794 customers located in eleven exchanges within the state of Missouri. Northeast is presently a telecommunications company and public utility as those terms are defined in § 386.020, RSMo 1994. If the Commission authorizes the sale and transfer of assets to Modern and grants to Modern a Certificate of Service Authority, Modern would become a telecommunications company and public utility pursuant to § 386.020, RSMo 1994, and would be subject to the jurisdiction of the Commission pursuant to Chapters 386 and 392 of the Missouri Revised Statutes.

Since none of the non-signatory parties requested a hearing pursuant to 4 CSR 240-2.115(3) within five days of notification of the Stipulation And Agreement, the Commission may treat the stipulation as an unanimous stipulation pursuant to 4 CSR 240-2.115(1). Pursuant to § 536.060, RSMo 1994, the Commission may approve a stipulation concluded among the parties as to any issues in a contested case.

In restating portions of the Stipulation And Agreement, the Commission is not changing the language and terms of the stipulation, but adopts it in full as resolving all issues which were set out therein. The Commission, in adopting this Stipulation And Agreement, is satisfied that the negotiated settlement represents a reasoned and fair resolution of the issues in this case, and that it would be in the best interest of all parties for the Commission to adopt the stipulation.

The Commission may authorize a telecommunications company to sell or transfer all or part of its facilities, pursuant to § 392.300, RSMo. Based upon the record and the provisions in the stipulation, the Commission finds that the sale of the exchanges at issue in this proceeding will not be detrimental to the public interest. The Commission may also grant a Certificate of Service Authority pursuant to §§ 392.410, 392.420, 392.430, 392.440, and 392.450, RSMo 1994. Based upon the record and the provisions in the stipulation, the Commission likewise finds that it is in the public interest to grant Modern Telephone Company a Certificate of

Service Authority to provide basic local telecommunications service in the exchanges of Memphis, Unionville and Queen City. The Commission further finds that Modern possesses sufficient technical, financial, and managerial resources and abilities to be able to provide basic local telecommunications service, and that GTE seeks to abandon the provision of such service in the exchanges at issue. In addition, the Commission finds pursuant to § 392.460, RSMo 1994, that the abandonment of service by GTE in the exchanges in question will not be contrary to the public interest, as the Commission finds that such service will be subsequently provided by Modern.

Based upon the evidence, the Commission finds that Modern intends to accelerate the modernization of the exchanges in question; that it intends to use local offices which may provide service for the community; that it has the financial resources to provide the day-to-day telecommunication services in these exchanges. The Commission is of the opinion based on the above that Modern has adequately considered the various aspects attendant with the running of a local exchange company.

In addition, the Commission finds that the stipulation provides protection to the ratepayers by prohibiting Modern from recovering its acquisition premium through rates, and by mandating the achievement of a 40% equity to total capital ratio within its first two years of operation. Further, the Revenue Requirement Cost of Service Study required under the stipulation may be of assistance to the Commission in the future.

Nevertheless, the Commission must express concern about the level of access charges, and the vulnerability of these charges to forced reductions in the future. The Commission also has some reservations about the assumption that increased usage of access service will be stimulated. To the extent Modern is relying on maintaining the same level of access charges or increasing the usage of access service, the Commission believes that Modern 's projections may be overly optimistic.

Notwithstanding the foregoing, based on all of the evidence before the Commission, the Commission finds that it is appropriate to approve the Stipulation And Agreement. The Commission finds that the sale and transfer of assets from GTE to Modern is not detrimental to the public interest and therefore the Commission will approve this request. The Commission further finds that granting a new Certificate of Service Authority to Modern is in the public interest and the Commission will grant this request as well.

IT IS THEREFORE ORDERED:

1. That Southwestern Bell Telephone Company is hereby granted leave to file its response to the Commission's Order of May 24, 1995, which was submitted on June 6, 1995, out-of-time.

2. That the Missouri Public Service Commission hereby approves and adopts all provisions of the Stipulation And Agreement filed on May 12, 1995, which stipulation was agreed to and signed by GTE Midwest Incorporated, Modern Telephone Company, the Staff of the Missouri Public Service Commission, and the Office of the Public Counsel, and which is incorporated herein by reference as Attachment 1.

3. That the sale and transfer of certain assets of GTE Midwest Incorporated to Modern Telephone Company pursuant to the Asset Purchase Agreement between GTE Midwest Incorporated and Modern Telephone Company filed as Exhibit 2 to the original Joint Application, is hereby approved, subject to the Stipulation And Agreement and this Order.

4. That GTE Midwest Incorporated and Modern Telephone Company are hereby authorized to do and perform such acts and things, and to enter

into, execute, deliver, and perform the necessary agreements and documents relative to the sale and transfer of assets authorized herein.

5. That GTE Midwest Incorporated and Modern Telephone Company shall file a pleading notifying the Commission of the closing date of the sale and transfer of assets within five (5) days after the closing has been completed.

6. That Modern Telephone Company is hereby authorized to file tariffs for the approval of the Commission consistent with the specimen tariffs contained in the attachment to the Stipulation And Agreement.

7. That GTE Midwest Incorporated is hereby authorized to file tariffs for the approval of the Commission consistent with the specimen tariffs contained in the attachment to the Stipulation And Agreement.

8. That the tariffs referenced in Ordered Paragraphs 6 and 7 be filed with a thirty (30) day effective date.

9. That the effective date of the tariffs referenced in Ordered Paragraphs 6 and 7 shall be simultaneous with the closing date.

10. That Modern Telephone Company be granted a Certificate of Service Authority to provide basic local telecommunications service in the state of Missouri in the exchanges of Memphis, Unionville and Queen City, subject to the Stipulation And Agreement and this Order. Said certificate shall become effective simultaneously with the completion of closing.

11. That the current Certificate of Service Authority granted to GTE Midwest Incorporated to provide basic local telecommunications service in the state of Missouri be amended to exclude the exchanges of Memphis, Unionville and Queen City, subject to the Stipulation And Agreement and this Order. Said amendment shall become effective simultaneously with the completion of closing.

12. That Modern Telephone Company is hereby authorized to commence telecommunications service in the exchanges of Memphis, Unionville and Queen City, and GTE is hereby authorized to discontinue telecommunications service in those exchanges, simultaneously with the completion of closing.

13. That nothing in this Order shall be considered a finding of the Commission of the value for ratemaking purposes of the properties herein involved, or as an acquiescence in the value placed upon said properties by either GTE Midwest Incorporated or Modern Telephone Company. Furthermore, the Commission reserves the right to consider the ratemaking treatment to be afforded this transaction in any later proceeding.

14. That this Order shall become effective on July 21, 1995.

BY THE COMMISSION

David L. Rauch

David L. Rauch
Executive Secretary

(S E A L)

Mueller, Chm., McClure
and Crumpton, CC., Concur.
Kincheloe, C., Absent.

BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

In the matter of the Joint Application of GTE Midwest Incorporated and Northeast Missouri Rural Telephone Company and Modern Telecommunications Company for Authority to Sell, Purchase, and Transfer Telephone Properties and Assets Related to the Telephone Exchanges of Memphis, Unionville and Queen City in the State of Missouri and for Authority to Encumber Assets Necessary to Finance the Proposed Transaction.	Case No. TM-95-142

FILED
MAY 12 1995
MISSOURI
PUBLIC SERVICE COMMISSION

STIPULATION AND AGREEMENT

On October 26, 1994, GTE Midwest Incorporated ("GTE"), Northeast Missouri Rural Telephone Company ("Northeast") and Modern Telecommunications Company ("Modern") filed an application for authority: (1) for GTE to sell, convey and transfer its properties related to the Memphis, Unionville and Queen City exchanges in the State of Missouri to Modern; (2) for GTE to transfer all certificates of public convenience and necessity and any other franchises, licenses and permits related to the Memphis, Unionville and Queen City exchanges in the State of Missouri to Modern; and (3) for Modern to purchase and to finance the transaction. On March 30, 1995 Modern, Northeast and GTE filed a First Amended Joint Application that sought the granting of a certificate of service authority to Modern and the discontinuance of GTE's service obligations in those exchanges, among other things.

As a result of meetings and negotiations between the parties concerning the details of the above-described transactions, the parties to this Stipulation and Agreement have reached the following agreements and recommendations:

1. Acquisition Premium/Incremental Acquisition Costs.

Modern agrees to separately identify on its books and records all costs of acquisition of the subject properties which exceed their associated book value (*i.e.*, acquisition premium) as well as all incremental acquisition costs (*e.g.*, incorporation expenses, regulatory approvals, due diligence review, associated sales tax, etc.) incurred in acquiring these properties. Modern further agrees to forgo recovery in future rates for intrastate telecommunications services of any acquisition premium or incremental acquisition costs.

2. Modernization/Quality of Service.

Modern agrees to modernize all three exchanges to meet the necessary elements for basic local and interexchange telecommunications service as identified in 4 CSR 240-32.100, by December 31, 1997. By December 31, 1995, Modern will file a modernization plan for the years 1996 and 1997 detailing the work to be done. Modern shall file quarterly reports providing the information identified in Schedule 1 beginning with the first quarter of 1996.

3. Income Taxes.

Modern agrees to use an additional offset to rate base in any Modern filing for a general increase in telecommunications rates in Missouri initiated in the next ten years to compensate for rate base deductions eliminated by this transaction, unless Modern can show that its actual deferred tax reserve is the same as or greater than that reserve would have been, absent the sale of these exchanges. The amount of the offset for the first year shall be $50,239. The amount shall reduce by $5,024 per year on each anniversary date of the closing of the subject transaction.

4. Rates Based on Modern's Operations.

Modern will not file or implement a general increase in its rates for intrastate telecommunications services until Modern has fully complied with the provisions of its Modernization Plans in accordance with 4 CSR 240-32.100. Said modernization is scheduled to be complete by the end of 1997. This commitment to not file a general rate increase includes an agreement not to propose increases in basic local exchange or access rates, but neither precludes increasing revenues through tariff filings for the introduction of new services or new features for existing services, nor does it preclude other revenue neutral tariff filings, during the period of this moratorium. No signatory shall bring a complaint concerning Modern's rates for intrastate telecommunications services, or assist anyone else in the instigation or processing of a complaint regarding Modern's rates prior to January 1, 1998. This agreement shall not be interpreted to preclude any proper party from bringing a complaint about the terms and conditions upon which service is provided or fully participating in any other complaint not related to rates for intrastate telecommunications services.

Furthermore, the signatories agree that this moratorium on rate increases or rate complaints shall not apply if an unusual event or events occur which would have a significant impact on the intrastate telecommunications operations of Modern, such as: (a) natural disaster, (b) a significant change in federal or state laws, or (c) a significant change in Missouri or federal regulatory law or policies.

Within six months after completion of its Modernization Plans and no later than July 1, 1998, Modern will provide to Staff (Accounting Department) and AT&T a Revenue Requirement Cost of Service Study, together with a copy of Modern's latest annual report, and cooperate with Staff in determining Modern's cost of service to provide intrastate telecommunications services. Notwithstanding this review and determination, neither Modern or Staff is prohibited from pursuing a rate increase or earnings complaint subsequent to January 1, 1998.

5. <u>Future Proceedings</u>.

The parties reserve the right to propose adjustments in any future proceedings for any alleged detrimental aspects later identified relating to the acquisition other than those specifically addressed in this agreement.

6. <u>Capital Structure</u>.

Modern will maintain a capital structure of at least 40% equity to total capital unless otherwise approved by the Commission. The total capital structure consists of short and long term debt, preferred stock and common stock equity.

7. Dividends.

Dividends will not be paid or accrued to the shareholder if the capital structure falls below 40% equity to total capital unless otherwise approved by the Commission.

8. Financing.

Rural Telephone and Finance Cooperative ("RTFC") has provided Northeast Missouri Rural Telephone Company and its wholly-owned subsidiary, Modern Telecommunications Company, with RTFC's conditional commitment to provide long-term loans in the aggregate of $10,268,362. The loans may be utilized by Modern and Northeast to: (i) purchase the assets described in the Asset Purchase Agreement, (ii) fund a portion of the plant improvements anticipated following closing, and (iii) purchase of the RTFC subordinated capital certificate ("SCC") equal to 5% of the total amount borrowed. The proposed loan will be a 15-year secured long-term loan to Modern in the amount of $6,689,415, including the 5% SCC, based on the details set forth in Proprietary Exhibit E of the Application. The proposed loan to Northeast will be a 5-year unsecured loan in the amount of $3,578,947, including a 5% SCC based on the details set forth in Proprietary Exhibit F of the Application. As security for the loan to Modern, RTFC will receive a first mortgage lien on the assets and revenues of Modern. Northeast and Modern will file the final loan document with the Commission within thirty (30) days after executing the loan. Staff believes the financing terms set forth in the Joint Application are reasonable and should be approved by the Commission. Approval of this Stipulation and Agreement will constitute the regulatory approval required by Chapter 392 for the financing proposals contained in the Joint Application in this proceeding.

9. Digital Switching and Single Party Service.

Modern intends to install digital switching equipment in the three exchanges within 12 months of the closing of the sale. In addition, Modern plans to eliminate multi-party service no later than December 31, 1997. The proposed modernization schedule of Modern is more accelerated than the schedule approved for the upgrade of these exchanges by the Commission in Re: GTE Midwest, Case No. TO-93-309. Since the rates for the provision of telecommunications services within these exchanges will not change as a result of this transaction, the proposed transaction will not be detrimental to the customers, and those customers should experience little, if any, change in the day-to-day operations of the telephone exchanges, except for the technological advances that will result from the modernization of the telephone exchanges.

10. Tax Impact.

As a result of the transaction contemplated herein, there should be no impact on tax revenues of the various political subdivisions in which the structures, facilities, or equipment is located, inasmuch as Modern will, for the foreseeable future, retain its physical assets and the location of said assets will not change.

11. Northeast/Modern Allocations.

Northeast and Modern commit to develop specific methods or procedures within six months of the closing date to allocate specific costs between Northeast and Modern. Modern agrees to provide a copy of the allocations procedures to the Staff of the Accounting Department for review.

12. Depreciation.

Modern agrees to:

a. the depreciation rates by plant account as shown in Schedule 2;

b. establish accounts as detailed in Schedule 2;

c. transfer the accumulated reserve for plant acquired from GTE to these accounts and to maintain the depreciation reserve by account as detailed in Schedule 2;

d. immediately following the sale and upon the establishment of the plant accounts as described in (c) above, complete the amortizations for accounts 2116.29 and 2123.29 and close those accounts;

e. maintain continuing property records and to establish a property unit catalog and to submit copies of the records and catalog to the Depreciation Department Manager within one year of the effective date of the Commission's order; and

f. submit copies of a comprehensive depreciation study to the Depreciation Department Manager within three years of the effective date of the Commission's order approving this Stipulation and Agreement or together with any filing of a rate case as described in Paragraph 3 above, whichever occurs first.

GTE agrees to:

a. record the fractional interest sold by account;

b. maintain the continuing property records to identify retirements of the plant sold from the normal retirement of the other owned plant; and

c. compute the accumulated reserves for depreciation up to the time of sale and transfer records identifying those amounts by account to Modern. These amounts have previously been computed using the theoretical reserve prospective method, by GTE, through December 31, 1993. This same method shall be used to compute the transferred accumulated reserve for depreciation by account.

13. Rates.

Modern agrees to use the same rates, terms and provisions that GTE currently charges customers for telecommunications services in these three exchanges, provided that nothing contained herein shall be construed to require adoption of or adherence to any changes in GTE's tariffs made effective on or after April 1, 1995, including restructured transport rates. The signatories will ask the Commission to approve tariff rate sheets that are substantively identical to those attached as Attachment A, so that Modern can implement the terms of this paragraph. The signatories will ask the Commission to approve tariff rate sheets that are substantively identical to those attached as Attachment B, so that GTE can implement the terms of this paragraph.

14. Tariffs.

Modern's tariff approval is conditional upon the approval of the purchase of the GTE telephone exchanges of Memphis, Unionville and Queen City and the granting of a Certificate of Service Authority. The sale and certificate shall become effective upon the effective date of Modern's and GTE's tariffs, as referred to in Attachments A and B, respectively.

15. Certificate of Service Authority.

The parties to this Stipulation and Agreement agree that Modern should be issued a Certificate of Service Authority to provide basic local exchange service in the exchanges of Memphis, Unionville and Queen City, Missouri.

16. Telemedicine and Distance Learning.

Northeast and/or Modern agree to make the investment necessary (budgeted at roughly $120,000 each, in addition to necessary infrastructure upgrades) for the Putnam and Sullivan County Hospitals in Unionville and Memphis, respectively, to participate in the telemedicine trial. In addition, Northeast and/or Modern agrees to bear the maintenance and operating costs (budgeted at roughly $14,000 annually for each site) of that investment for the remainder of the three-year trial. In addition, GTE, Northeast and

Modern agree to deploy, at tariffed rates, within six months of a request, necessary infrastructure to accommodate telemedicine and distance learning at any hospital, school or public health clinic in their respective service territories that requests such service, unless the Commission waives this requirement in a specific instance.

17. General Terms and Provisions.

a. If the Public Service Commission accepts the specific terms of this Stipulation and Agreement, the signatories waive their respective rights:

i. to call, examine or cross-examine witnesses pursuant to Section 536.070(2), RSMo 1994;

ii. to present oral argument and written briefs pursuant to Section 536.080.1, RSMo 1994;

iii. to have the Commission read any transcript resulting from this proceeding pursuant to Section 536.080.2, RSMo 1994; and

iv. to judicial review pursuant to Section 386.510, RSMo 1994.

b. Nothing in this Stipulation shall constitute an agreement by the parties as to the reasonableness of the amount or value for ratemaking purposes of any specific planned or completed expenditure made by the Company.

c. The provisions of this Stipulation and Agreement have resulted from extensive negotiations among the signatories and are interdependent. If the Commission does not approve this

Stipulation and Agreement in total, it shall be void and no party shall be bound, prejudiced or in any way affected by any of the agreements or provisions hereof.

d. Except as specified herein, no party shall be bound, prejudiced or in any way affected by any of the agreements or provisions hereof in any future proceeding, or in any proceeding currently pending under a separate docket.

e. At the Commission's request, the Staff may give the Commission a written explanation of its rationale for entering into this Stipulation and Agreement, if the Staff also gives a copy of its explanation to each signatory to this Stipulation and Agreement. In that event, each signatory may give the Commission a responsive written explanation within five (5) business days of receipt of the Staff's explanation, if the responding signatory contemporaneously gives a copy of such responsive written explanation to all other signatories. Each signatory agrees to keep the Staff's and other signatories' explanations confidential, and to treat them as privileged to the same extent as settlement negotiations under the Commission's rules. No signatory acquiesces in or adopts the explanations of another signatory. Such explanations shall not become a part of this proceeding's record, nor bind or prejudice any signatory in any proceeding.

f. The Staff may provide whatever oral explanation the Commission requests at any agenda meeting, if the Commission has given notice that it may consider this Stipulation and Agreement at the meeting. The Staff shall inform the other signatories as soon as practicable when the Staff learns that the Commission will request such explanation. The Staff's explanation in agenda shall be subject to public disclosure, except to the extent it pertains to matters protected from disclosure.

WHEREFORE, the parties respectfully request from the Commission that it approve this Stipulation and Agreement in its entirety.

Respectfully submitted,

James M. Fischer
101 West McCarty, Suite 215
Jefferson City, MO 65101
(314) 636-6758

Attorney for Northeast Missouri Rural Telephone Company and Modern Telecommunications Company

Martha Hogerty
P.O. Box 7800
Jefferson City, MO 65102
(314) 751-1304

Attorney for the Office of the Public Counsel

Colleen M. Dale
P.O. Box 360
Jefferson City, MO 65102
(314) 751-7431

Attorney for the Staff of the Missouri Public Service Commission

James C. Stroo
GTE Telephone Operations
1000 GTE Drive
P.O. Box 307
Wentzville, MO 63385
(314) 639-4702

Attorney for GTE Midwest, Inc.

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing document has been hand-delivered or mailed, postage prepaid, this 17th day of May, 1995, to:

Martha Hogerty
Office of the Public Counsel
P.O. Box 7800
Jefferson City, MO 65102

Colleen M. Dale
Missouri Public Service Commission
P.O. Box 360
Jefferson City, MO 65102

James C. Stroo
GTE Telephone Operations
1000 GTE Drive
P.O. Box 307
Wentzville, MO 63385

Gloria Salinas
AT&T Communications of the Southwest, Inc.
8911 Capital of Texas Highway
Suite 1300
Austin, TX 78759

Paul S. DeFord
Lathrop & Norquist
2345 Grand Avenue
Suite 2600
Kansas City, MO 64108

William M. Franz
Franz & Franz
720 Olive Street, Suite 2100
St. Louis, MO 63101

Alfred G. Richter
Kathy Swaller
Southwestern Bell Telephone
100 North Tucker
St. Louis, MO 63101

Colleen M. Dale

Switch Conversions

- Date Completed
- Exchange Name
- DTMF Availability date
- 911 Availability date
- Custom Calling Features
  - Features Available
  - Availability date
- Total Access Lines
  - Single Party
  - Multi Party
- Type of switch
- Budgeted
  - Total Dollars
    - Capital Dollars
    - Expense Dollars
- Actual
  - Total Dollars
    - Capital Dollars
    - Expense Dollars
- Explain differences over 10%

Equal Access Conversions

- Date Implemented
- Exchange Name
- Total Access Lines
- Budgeted
  - Total Dollars
    - Capital Dollars
    - Expense Dollars
- Actual
  - Total Dollars
    - Capital Dollars
    - Expense Dollars
- Explain differences over 10%

Interexchange Conversions

- Date Completed
- Route
- Miles Converted
- Previous Facility Type
- Previous Facility Capacity
- New Facility Type
- New Facility Capacity
- Budgeted
  - Total Dollars
    - Capital Dollars
    - Expense Dollars
- Actual
  - Total Dollars
    - Capital Dollars
    - Expense Dollars
- Explain differences over 10%

R4 Upgrades

- Date Construction completed
- Date Tariff effective
- Exchange Name
- Total Access Lines
- Number of upgrades
- Budgeted
  - Total Dollars
    - Capital Dollars
    - Expense Dollars
- Actual
  - Total Dollars
    - Capital Dollars
    - Expense Dollars
- Explain differences over 10%

MODERN TELECOMMUNICATIONS COMPANY
Case No. TM-95-142
Missouri PSC Depreciation Department

ACCOUNT	ACCOUNT DESCRIPTION	FUTURE NET SALVAGE %	AVERAGE SERVICE LIFE	AVERAGE LIFE RATE %
2112	Motor Vehicles	12	8.6	10.23
2115	Garage Work Equipment	1	13.0	7.62
2116	Other Work Equipment	6	14.0	6.71
2121	Buildings	2	35.0	2.80
2122	Furniture	6	14.0	6.71
2123.1	Office Support Equipment	3	10.0	9.70
2123.2	Company Communications Equipmen	3	8.4	11.55
2124	General Purpose Computers	13	6.4	13.59
2212	Digital Electronic Switching	0	15.0	6.67
2215	Electro-Mechanical Switching	1	1.0	10.70
2232	Circuit Equipment	-3	10.0	10.30
2351	Public Telephone Terminal Equipmen	10	10.3	8.74
2362	Other Terminal Equipment	0	8.7	11.49
2411	Poles	-30	21.0	6.19
2421.1	Aerial Cable - Metallic	-16	21.0	5.52
2422.1	Underground Cable - Metallic	-5	26.0	4.04
2422.2	Underground Cable - Non-Metallic	-5	28.0	3.75
2423.1	Buried Cable - Metallic	-3	24.0	4.29
2423.2	Buried Cable - Non-Metallic	-3	28.0	3.68
2426	Intrabuilding Network Cable	-14	11.9	2.00
2431	Aerial Wire	-70	12.0	14.17
2441	Conduit Systems	0	50.0	2.00

SCHEDULE 2