

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

STATE CORPORATION COMMISSION

AUG 08 2006

 Docket Room

In the Matter of the Joint Application of)
Rural Telephone Service Company, Inc.)
(RuralTel) and Gorham Telephone)
Company, Inc (Gorham), for Permission of)
RuralTel to Cease Operating as a Telephone)
Public Utility in Two Kansas Exchanges It)
Is Acquiring from United and to Grant)
Gorham a Certificate of Public Convenience)
for the Same Two Exchanges, and for)
Authority to Transfer Property, Plant and)
Equipment of RuralTel Located in the Two)
Exchanges to Gorham and Complete All)
Matters Incident to the Transfer.)

Docket No. 06-GRHT-1095-COC

JOINT MOTION TO APPROVE STIPULATION AND AGREEMENT

COME NOW the Staff of the State Corporation Commission of the State of Kansas (Staff and Commission, respectively) and United Telephone of Kansas, Inc., United Telephone Company of Eastern Kansas, Inc. (United), and the Citizens' Utility Ratepayer Board ("CURB") (collectively "the parties") and request the Commission for an order approving the Stipulation and Agreement (S&A) attached as "Attachment A." In support of this joint motion, the parties state as follows:

1. United Telephone Company of Kansas, Inc. and United Telephone Company of Eastern Kansas, Inc. (collectively referred to as "United") and Rural Telephone Service, Inc (RuralTel) filed a joint application on March 3, 2006, requesting approval for RuralTel's acquisition of twelve exchanges from United and a certificate of public convenience and authority to begin operation in these exchanges. This matter has been approved by the Commission on July 27, 2006 and August 3, 2006 in Docket Nos. 06-RRLT-963-COC and 06-

UTDT-962-CCS, respectively. In a subsequent transaction, on April 7, 2006, RuralTel and Gorham filed to sell the Luray and Paradise exchanges from RuralTel and requested a certificate of public convenience and authority for Gorham to begin operation in these exchanges. The parties agree that in order to avoid customer confusion, this subsequent transaction should take place at the same time as the sale from United to RuralTel. By approving the subsequent sale to Gorham to occur concurrently with the sale from United to RuralTel, customers in Luray and Paradise will not experience multiple changes in local service provider. Based on 2005 data, these exchanges represent approximately 300 billable customer access lines, including a few resold lines. The purchase of these exchanges will increase the number of access lines served by Gorham by almost 100%. The exchanges are located northeast of Hays, and contiguous to Gorham's current service area.

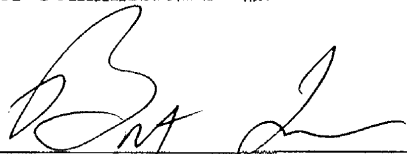
2. On April 7, 2006, the Commission opened this docket and Docket No. 06-RRLT-1094-CCS. On May 31, 2006, the Commission granted intervention to CURB and issued a protective order governing the treatment and handling of confidential information in both dockets.

3. As a result of negotiations, the parties have reached the stipulations and agreements contained in the S&A. Because all parts of the S&A are interrelated, the parties agree to remain bound by the S&A only if the Commission approves the S&A in its entirety.

4. The parties believe that the S&A represents a fair and equitable resolution of the issues contained in this proceeding. The parties believe that approval of the S&A is in the public interest and will promote settlement among the parties, resulting in administrative efficiency.

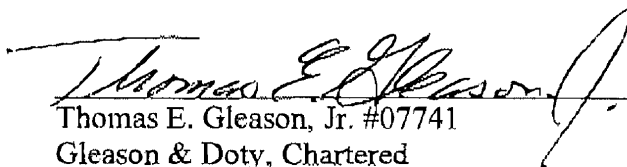
WHEREFORE the parties respectfully request the Commission issue an order approving the attached S&A, and for such other and further relief as the Commission deems just and proper.

For Commission Staff:



Bret Lawson, #14729
Assistant General Counsel
1500 S.W. Arrowhead Road
Topeka, KS 66604
(785) 271-3273 phone
(785) 271-3167 fax

For Gorham Telephone, Inc.



Thomas E. Gleason, Jr. #07741
Gleason & Doty, Chartered
PO Box 6
Lawrence, KS 66044-0006
(785) 842-6800 phone
(785) 856-6800 fax

For the Citizens' Utility Ratepayer Board




C. Steven Rarrick #13127
Citizens' Utility Ratepayer Board
1500 S.W. Arrowhead Road
Topeka, KS 66604
(785) 271-3200 phone
(785) 271-3116 fax

VERIFICATION

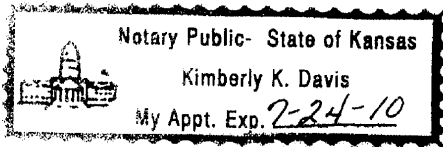
STATE OF KANSAS)
) ss.
COUNTY OF SHAWNEE)

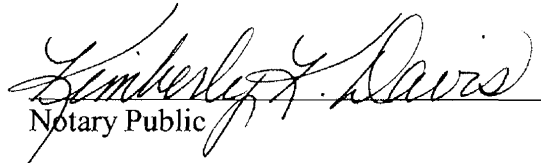
Bret Lawson, of lawful age, being duly sworn upon his oath deposes and states that he is Assistant General Counsel for the Kansas Corporation Commission of the State of Kansas; that he has read and is familiar with the foregoing Joint Motion to Approve Stipulation and Agreement and believes that the statements therein are true to the best of his knowledge, information and belief.



Bret Lawson

SUBSCRIBED AND SWORN to before me this 8th day of August, 2006.





Notary Public

My Appointment Expires: July 24, 2010

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of the Joint Application of)
Rural Telephone Service Company, Inc.)
(RuralTel) and Gorham Telephone)
Company, Inc (Gorham), for Permission of)
RuralTel to Cease Operating as a Telephone)
Public Utility in Two Kansas Exchanges It)
Is Acquiring from United and to Grant)
Gorham a Certificate of Public Convenience)
for the Same Two Exchanges, and for)
Authority to Transfer Property, Plant and)
Equipment of RuralTel Located in the Two)
Exchanges to Gorham and Complete All)
Matters Incident to the Transfer.)

Docket No. 06-GRHT-1095-COC

STIPULATION AND AGREEMENT

This Stipulation and Agreement (S&A) is entered into between Gorham Telephone Company, Inc. (Gorham), the Citizens' Utility Ratepayer Board (CURB) and the Staff of the Corporation Commission of the State of Kansas (Staff and Commission, respectively). The above parties may be referred to collectively as "the parties." This S&A is a joint recommendation of the parties and may not represent the recommendations that would have been presented by the parties in this docket absent an S&A. A willingness to be a party to this S&A does not bind any party from taking other positions in future proceedings; it merely indicates that the party sees the S&A terms as a reasonable compromise which can be recommended to the Commission in matters relating to the purchase of these certificated exchanges by Gorham. The parties agree that adoption of this S&A is in the public interest and that the stipulations, as set forth below, should be approved by the Commission.

Background

1. The Commission is vested with the power and authority to supervise, control, and regulate each telecommunications public utility operating in Kansas pursuant to K.S.A. 66-1,188. Further, the Commission is empowered to do all things necessary and convenient for the exercise of such power, authority, and jurisdiction.

2. United Telephone Company of Kansas, Inc. and United Telephone Company of Eastern Kansas, Inc. (collectively referred to as “United”) and Rural Telephone Service, Inc (RuralTel) filed a joint application on March 3, 2006, requesting approval for RuralTel’s acquisition of twelve exchanges from United and a certificate of public convenience and authority to begin operation in these exchanges. This matter has been approved by the Commission on July 27 and August 3, 2006 in Docket Nos. 06-RRLT-963-COC, and 06-UTDT-962-CCS, respectively. In a subsequent transaction, on April 7, 2006, RuralTel and Gorham filed to sell the Luray and Paradise exchanges from RuralTel and requested a certificate of public convenience and authority for Gorham to begin operation in these exchanges. The parties agree that in order to avoid customer confusion, this subsequent transaction should take place at the same time as the sale from United to RuralTel. By approving the subsequent sale to Gorham to occur concurrently with the sale from United to RuralTel, customers in Luray and Paradise will not experience multiple changes in their local service provider. Based on 2005 data, these exchanges represent approximately 300 billable customer access lines, including a few resold lines. The purchase of these exchanges will increase the number of access lines served by Gorham by almost 100%. The exchanges are located northeast of Hays, and contiguous to Gorham’s current service area.

3. On May 17, 2006, CURB filed to intervene in the docket. On May 31, 2006, the Commission granted CURB's petition and also issued a protective order.

Financial/Operational Qualifications

4. Gorham has sufficient managerial and operational qualifications to obtain certification to serve these territories. It is an experienced provider of local service and currently serves two exchanges in northwest Kansas as the ILEC. Gorham has provided a letter from Merrill Lynch that states that Gorham has sufficient borrowing capacity to fund the purchase.¹ Gorham is seeking a loan from the Rural Utility Service RUS to fund network upgrades to the facilities in the two exchanges. Based on the current cash flow for the exchanges, the parties agree that the purchase price is reasonable for the revenue stream being acquired.

Gorham Request for an Acquisition Premium

5. Gorham does not and will not seek recovery of an acquisition premium (AP). Thus, the acquisition premium, calculated as the purchase price less the net book value, will be booked below the line and not given any treatment for regulatory purposes.

Facility Upgrades

6. United has not deployed Digital Subscriber Line (DSL) service in the Luray and Paradise exchanges. Gorham indicates it plans to deploy broadband service to those exchanges as quickly as possible. Initially, this will only provide service to customers within the technical

¹ Response to Staff DR 7, letter dated May 18, 2006.

limitation of the outside plant (about 3 miles²). Gorham plans to upgrade its outside plant facilities to extend DSL beyond the distance limitation in order to make enhanced services available to all customers.

7. There is no Internet Service Provider (ISP) in Luray and Paradise. Under the provisions of K.S.A. §66-2011, United currently offers customers its Info-Link service which allows customers to place toll calls to an ISP provider within the 785 area code for a flat rate per month.³ Gorham has a subsidiary that provides ISP service. With cutover Gorham will provide local numbers for Luray and Paradise customers to call in order to reach its ISP service. Gorham will advise the current Info-Link customers that a local ISP is now available and that they can choose to discontinue the Info-Link service, however the service is still available for existing subscribers; as a matter of technical necessity Gorham may require any customer choosing to continue the existing service to designate Gorham or its affiliate as the customer's presubscribed intraLATA toll carrier.

8. In detailing its anticipated cash flows to support its planned investments, Gorham makes numerous assumptions about the future of Federal USF support and interstate access cost recovery. However, these forecasts do not incorporate the fact that the FCC is considering modification of the Federal USF support mechanism. In this S&A, Staff is not requiring the investment upgrades, and is not making a judgment or recommendation about the planned upgrades. The parties agree that any issues related to the upgrades will be addressed in any future audit or rate application.

² Some network configurations may impede the ability to provide DSL service even when the customer is within 3 miles.

³ Info-Link's monthly rates are \$15 for the off-peak service 5pm -8am on weekdays and all day on weekends, and \$25 for the anytime plan for ISPs in Russell, and \$30 for ISPs elsewhere in the 785 area code.

Tariffs

9. Gorham agrees to implement tariffs as shown in its response to Staff Data Request No. 8 and as delineated herein.⁴ Gorham agrees that it will continue to charge the monthly Local Service rates and corresponding Lifeline Credits currently charged by United for the two exchanges and add those as separate rate groups to Gorham Services Tariff. Gorham will use its own General Exchange Tariff rates for all other services (i.e. call waiting, caller ID, installation charges, etc.). United offers a number of discounted service bundles to its customers. Gorham will implement bundles of vertical services as well as sell its vertical services on an ala carte basis. Gorham agrees to structure its offerings so that the cost for its vertical service offerings is less than or approximately equal⁵ to the rate offered by United. In a separate S&A, United on behalf of Embarq Communications, Inc., United's long distance subsidiary, will agree to continue to provide long distance service to customers who do not change their long distance provider.⁶ Gorham is free to offer its own toll service as an alternative to these customers. Gorham agrees not to charge toll service rates (recurring or nonrecurring) higher than the toll service rates charged in the existing Gorham exchanges for a period of one year or until the Luray and Paradise exchanges are re-homed to Gorham, whichever occurs first. Gorham will use its own access tariff. The intrastate access rates for Gorham and United are both approximately 2¢ per minute. Gorham agrees to file proposed tariffs at least 30 days prior to cutover.

⁴ In the initial filing Gorham indicated that it would concur in United's tariffs. After further review, Gorham has determined that strict adherence to United's tariff is not in its best interest.

⁵ While most customers will experience a decrease, some customers may see an increase not greater than \$0.50 per month.

⁶ Embarq Communications, Inc. will default customers who fail to choose an alternative plan to its 7¢ per minute plans for residential and business customers, Docket No. 06-UTDT-962-CCS.

CLEC Entry into the Two Exchanges

10. Many Competitive Local Exchange Carriers (CLECs) have requested certification to operate in United's service territory. United has identified the CLECs that are providing service in the twelve exchanges sold to RuralTel. Gorham agrees to provide resale and interconnection service to the following seven CLECs currently providing service and have existing interconnection agreements with United (at this time only Nex-Tech Inc. and Granite Telecommunications are believed to be providing service in Luray and Paradise):

Interconnection Company	Type of Service	Agreement Date	Dkt No.
Basic Phone, Inc.	Resale only	04/15/1999	99-UTDT-841-IAT
Budget Phone	Resale only	10/13/2003	04-UTDT-349-IAT ⁷
dPI Teleconnect	Resale & UNE	08/03/1999	99-UTDT-842-IAT ⁷
Giant Communications, Inc.	Resale & UNE	04/08/2005	05-UTDT-909-IAT
Granite Telecommunications	Resale & UNE	04/25/2005	06-UTDT-303-IAT
Navigator Telecommunications	Resale & UNE	11/01/1998	06-UTDT-097-IAT
Nex-Tech Inc.	Resale & UNE	02/24/2005	05-UTDT-874-IAT

11. Gorham agrees to continue resale of services at the same discount rate, terms, and conditions as provided by United respectively to each of the CLECs identified above through the balance of each CLEC's current interconnection agreement with United.⁸ Prior to the expiration of each CLEC's existing interconnection agreement with United, Gorham will enter into good faith negotiations with the CLEC for a new interconnection agreement so as to continue to provide resale of services to the CLECs providing service in the two exchanges. Gorham agrees that prior to cutover it will take all necessary steps to ensure that any necessary agreements are in

⁷ United is in the process of renegotiating an interconnection agreement with these CLECs. Gorham agrees to provide resale service to these CLECs using the newly negotiated contracts for a minimum of six months after cutover. At that time, Gorham may continue using the United negotiated contract until the expiration date, or may negotiate new interconnection agreements with the CLECs.

⁸ Staff notified via letter those CLECs whose interconnection agreement calls for UNE service. Staff's letter stated that UNE service would not be available in the 12 exchanges after the sale and if the carrier had concerns, it should contact Staff and intervene in the docket. Granite Telecommunications actually had some UNE lines in service; thus, Staff contacted the company, which said that it is in the process of changing the UNE lines to resale and did not see a problem not having UNEs available. None of the CLECs have contacted Staff nor intervened in the docket.

place so that the affected CLECs are able to continue to provide service to their customers. Gorham will contact the affected CLECs within 10 days after approval of this S&A by the Commission and provide contact information to the affected CLECs for service order processing and inquiries. Gorham will provide CLECs the cutover dates as soon as possible prior to cutover of each exchange in which a CLEC provides service.

Continuation of Existing Services

12. Pursuant to a stipulation reached in Docket No. 00-UTDT-455-GIT and extended first in 02-GIMT-272-MIS and again in 06-SCCC-200-MIS, United agreed to provide free “800” service to certain county seats and rural school districts. Neither Luray nor Paradise are county seats, however, one school district is receiving the free “800” service. Gorham agrees to provide free “800” service to qualified customers under terms of the prior United stipulations, until July, 2010.

Carrier of Last Resort and Obligation to Serve

13. Gorham, by virtue of the issuance of a Certificate of Convenience and Authority herein, will be the successor to United/RuralTel⁹ in the two exchanges for purposes of determining the Carrier of Last Resort (COLR) in those exchanges as specified in K.S.A. 66-2009(a).

14. With regard to the network operation for the Luray and Paradise exchanges to Gorham, Gorham agrees to enter into a service agreement for RuralTel to provide the network switching service to the Luray and Paradise customers until such time as Gorham is able to cut

⁹ “United/RuralTel” is used to reflect that these exchanges are passing from United to RuralTel who in turn is immediately passing them to Gorham.

the customers to its own switch. Gorham will provide a copy of that service agreement to the Commission within 10 days of its execution with RuralTel and before the cutover.

Exchange Descriptions

15. The parties agree that the correct metes and bounds descriptions were filed by the applicant and are the ones that should be used in the Commission's order to describe the exchanges. Any subscribers outside these certified areas now being served by United (and Gorham following the sale), or any subscribers within these areas now being served by other LECs from other exchanges may continue receiving service until such time as they are legally disconnected.¹⁰

KUSF Related Issues

16. Beginning on the effective date of cutover, Gorham is authorized to assess the rural LEC average per line KUSF assessment, as determined annually by the Commission, to customers within the two exchanges purchased from RuralTel. Lifeline credits provided by Gorham to customers within each purchased exchange will be equal to the amount of credit provided by United.

17. The sale will occur after September 30, 2006. Prior to March 1, 2007, Gorham will receive the same amount of KUSF support that United is receiving on the date of the cutover, as determined by the High Cost Model approved by the Commission in Docket No. 99-GIMT-326-GIT. Consistent with Commission orders, the Gross KUSF support payable will be reduced by the average per line Federal High Cost Loop, Local Switching, and Safety Net

¹⁰ "legally disconnected" simply means that the customer may continue service until he/she decides to disconnect or is disconnected for nonpay or misuse of telephone service, in compliance with the Billing Practice Standards and company tariffs.

Support, (Federal USF) received by United of Kansas and United of Eastern Kansas study areas, respectively, for KUSF Year 10, for all KUSF supportable lines. The KUSF support Gorham will receive for the two exchanges will be based on the total KUSF supportable lines reported by United for each zone within the two exchanges, as of September 30, 2005.

18. For the KUSF Year 11 calculations, Staff will impute annualized revenues based on revenues reported by United for the two exchanges for the period of March 1 through the end of the month proceeding the cutover to determine the Gorham's KUSF assessable revenues. To determine Gorham's total KUSF assessable lines, Staff will impute to Gorham the total KUSF assessable lines reported by United for the two exchanges, as of September 30, 2006. The KUSF support Gorham will receive for the two exchanges will be based on the total KUSF supportable lines reported by United for each zone within the two exchanges, as of September 30, 2006. These lines, by exchange and zone, will be applied to the High Cost Model approved by the Commission in Docket No. 99-GIMT-326-GIT to arrive at the Gross KUSF support payable. Consistent with Commission orders, the Gross KUSF support payable will be reduced by the average per line Federal USF received by United of Kansas and United of Eastern Kansas study areas, respectively, as determined for the First Quarter 2007¹¹, for all KUSF supportable lines. The amount of net KUSF support Gorham will receive for the two exchanges will remain at the level of net KUSF support calculated for KUSF Year 11 until Gorham seeks KUSF support for its own investment or the Commission initiates an audit or investigation.

Study Area Waiver by the Federal Communications Commission

19. The parties agree that a study area waiver is in the public interest and recommend that in approving this Stipulation and Agreement the Commission explicitly state its lack of

¹¹ Universal Service Administrative Company's (USAC)'s Federal USF support for the First Quarter 2007.

objection to FCC waiver of its rules to permit removal of the Luray and Paradise Exchanges from the United/RuralTel¹² study area and to add them to the Gorham study area.

Agreement

20. With the resolution of the above issues between the parties, CURB's and Staff's concerns with the transaction have been addressed. The parties request that the Commission approve the sale and transfer of property, and grant Gorham's request for a Certificate of Public Convenience and Authority to be the incumbent local exchange carrier for the two exchanges. The parties also request the Commission adopt this S&A as a resolution of the issues related to the transfer. Upon Commission approval, RuralTel and Gorham will make the necessary cutover arrangements which will enable them to implement the cutover within 130 days.

Reservations

21. This S&A fully resolves issues specifically addressed in this S&A between the parties. The terms of the S&A constitute a fair and reasonable resolution of the issues addressed. The terms and provisions of this S&A have resulted from negotiations between the parties and are interdependent. In the event the Commission does not approve and adopt the terms of the S&A in total, any party has the option to terminate this S&A and, if so terminated, none of the signatories shall be bound by, prejudiced by, or in any way affected by any of the agreements or provisions of the S&A, unless otherwise provided.

22. Unless and only to the extent otherwise specified in this S&A, the parties to this S&A shall not be prejudiced by, bound by, or affected in any way by the terms of the S&A: (1)

¹² "United/RuralTel" is used to reflect that these exchanges are passing from United to RuralTel who in turn is immediately passing them to Gorham.

in any further Commission or court proceeding; (2) in any proceeding currently pending under a separate docket; and/or, (3) in this proceeding, if the Commission decides not to approve this S&A in total or in any way conditions its approval of the same. The Commission's approval of this S&A shall have no precedential effect in any other proceeding.

23. This S&A does not prejudice or waive any party's legal rights, positions, claims, assertions, or arguments in any proceedings in this docket or any other proceeding before this Commission, except as otherwise specified.

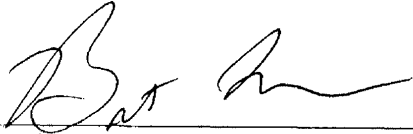
24. If the Commission accepts this S&A in its entirety and incorporates the same into its final order in this docket, the parties intend to be bound by its terms and the Commission's order incorporating its terms as to all issues addressed in this S&A, and will not appeal the Commission's order on those issues.

25. The parties shall have the right to present a party witness to the Commission in support of this S&A and provide to the Commission whatever further explanation the Commission requests. Any rationales for settlement advanced by the parties are independent of each other and not acquiesced in or otherwise adopted by the parties.

26. This S&A shall be binding on all parties as of the date of the Commission's order adopting the same.

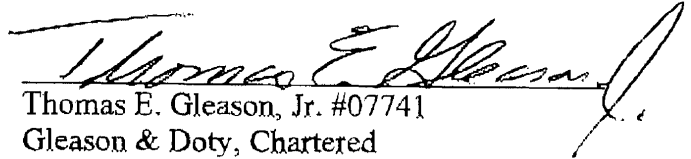
IN WITNESS WHEREOF, the parties have executed and approved this Stipulation and Agreement, by subscribing their signatures below.

For Commission Staff:



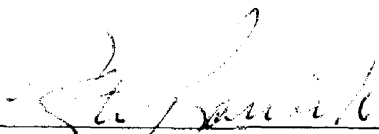
Bret Lawson, #14729
Assistant General Counsel
1500 S.W. Arrowhead Road
Topeka, KS 66604
(785) 271-3273 phone
(785) 271-3167 fax

For Gorham Telephone, Inc.



Thomas E. Gleason, Jr. #07741
Gleason & Doty, Chartered
PO Box 6
Lawrence, KS 66044-0006
(785) 842-6800 phone
(785) 856-6800 fax

For the Citizens' Utility Ratepayer Board



C. Steven Rarrick #13127
Citizens' Utility Ratepayer Board
1500 S.W. Arrowhead Road
Topeka, KS 66604
(785) 271-3200 phone
(785) 271-3116 fax

CERTIFICATE OF SERVICE

06-GRHT-1095-COC

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing Joint Motion to Approve Stipulation and Agreement was placed in the United States mail, postage prepaid, or hand-delivered this 8th day of August, 2006, to the following:

WARREN LANDRY JR., CHAIRMAN & CEO
BASICPHONE, INC.
PO BOX 1260
BRIDGEPORT, TX 76426-1260
Fax: 409-883-7433

R. DANIEL HYDE JR., PRESIDENT
BUDGET PHONE, INC.
1325 BARKSDALE BLVD
SUITE 200
BOSSIER CITY, LA 71111

C. STEVEN RARRICK, ATTORNEY
CITIZENS' UTILITY RATEPAYER BOARD
1500 SW ARROWHEAD ROAD
TOPEKA, KS 66604
Fax: 785-271-3116
s.rarrick@kcc.state.ks.us
**** Hand Deliver ****

DAVID M. PIKOFF, VICE PRESIDENT
DPI-TELECONNECT, L.L.C.
2997 LBJ FREEWAY
SUITE 225
DALLAS, TX 75234
Fax: 972-488-8636

GENE MORRIS, PRESIDENT
GIANT COMMUNICATIONS, INC.
418 WEST 5TH ST.,
SUITE C
HOLTON, KS 66436
Fax: 785-866-4121

THOMAS E. GLEASON, ATTORNEY
GLEASON & DOTY, CHARTERED
P.O. BOX 6
LAWRENCE, KS 66044-0006
Fax: 785-856-6800
gleason@sunflower.com

GEOFF COOKMAN, DIRECTOR--REGULATORY AFFAIRS
GRANITE TELECOMMUNICATIONS, LLC
100 NEWPORT AVENUE EXT #1
QUINCY, MA 02171-1734
Fax: 617-847-0931
gcookman@granitenet.com

BRET LAWSON, ASSISTANT GENERAL COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD ROAD
TOPEKA, KS 66604-4027
Fax: 785-271-3354
b.lawson@kcc.state.ks.us
**** Hand Deliver ****

LOUIS F. MCALISTER JR, PRES. & CEO
NAVIGATOR TELECOMMUNICATIONS, LLC
8525 RIVERWOOD PARK DRIVE
PO BOX 13860
NORTH LITTLE ROCK, AR 72113-0860
Fax: 501-301-1602

JEFF WICK, CHIEF OPERATING OFFICER
NEX-TECH, INC.
2418 VINE STREET
PO BOX 339
HAYS, KS 67601
Fax: 785-625-4479
jwick@nex-tech.com