BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of the Joint Application of Consolidated Communications Holdings, Inc. and Condor Holdings LLC for Approval of the Proposed Acquisition of the Common Stock of CCHI by Condor, and the Resulting Transfer of Control of Consolidated Communications of Kansas Company and Consolidated Communications of Missouri Company	)	Docket No. 24-CCHI-521-ACQ

NOTICE OF FILING OF STAFF'S REPORT AND RECOMMENDATION

COMES NOW, the Staff of the State Corporation Commission of the State of Kansas (Staff and Commission, respectively), and files its Report and Recommendation regarding the proposed acquisition of the common stock of Consolidated Communications Holdings, Inc. by Condor Holdings, LLC and the resulting transfer of control of Consolidated Communications of Kansas Company and Consolidated Communications of Missouri Company.

Staff supports approval of the Transaction, conditioned by the Commission's acceptance of the Enhanced Quality of Service ("QoS") Standards discussed within Staff's report. The Enhanced QoS Standards are necessary to remedy known and observed quality of service problems in Kansas. Staff has previously shared these Enhanced QoS Standards with the Applicants, and Staff's understanding is that the Applicants do not oppose this condition being placed on the transaction.

Staff views the Transaction as being in the public interest and recommends the Commission approve the Transaction. Staff also recommends that the Commission formalize CCHI's statements that no portion of the acquisition premium incurred as a result of this Transaction will be recovered from Kansas ratepayers, whether through rates or the KUSF.

WHEREFORE, Staff submits its Report and Recommendation for Commission review and consideration and for such other relief as the Commission deems just and reasonable.

Respectfully submitted,

/s/ Carly R. Masenthin

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M E M O R A N D U M

To: Andrew J. French, Chairperson
Dwight D. Keen, Commissioner
Annie Kuether, Commissioner

From: Adam H. Gatewood, Senior Managing Financial Analyst
Hemant Bhagat, Senior Telecommunications Analyst
Steve Garrett, Deputy Chief of Telecommunications
Justin Grady, Deputy Director of Utilities
Jeffery McClanahan, Director of Utilities

Date: July 19, 2024

Re: Docket No: 24-CCHI-521-ACQ
In the Matter of the Joint Application of Consolidated Communications Holdings, Inc. and Condor Holdings LLC for Approval of the Proposed Acquisition of the Common Stock of CCHI by Condor, and the Resulting Transfer of Control of Consolidated Communications of Kansas Company and Consolidated Communications of Missouri Company.

EXECUTIVE SUMMARY:

In this Docket the current majority owner of a publicly traded corporation, which owns and controls two rural local exchange companies serving Kansas, requests authority from the Commission to acquire the remaining outstanding shares. With this Transaction, that majority owner and a Canadian pension fund will take the corporation private, becoming its only stockholders.

Staff supports approval of the Transaction, conditioned by the Commission's acceptance of the "Enhanced Quality of Service Surveillance of Consolidated-KS" (**Enhanced QoS Standards** or **Standards**) discussed later in Staff's report. The Enhanced QoS Standards are necessary to remedy known and observed quality of service problems that occurred a while a party to this transaction was the majority shareholder. Staff has previously shared these Enhanced QoS Standards with the Applicants, and our understanding is that the Applicants do not oppose this condition being placed on the transaction.

BACKGROUND:

A. Parties to the Transaction:

Consolidated Communications Holdings, Inc. (**CCHI**) is a publicly held corporation, a major broadband and business communications provider serving consumers, enterprise customers, and wireless and wireline carriers across rural and urban communities in 21 states, with broadband services producing most of its revenues.[1] CCHI is the ultimate parent of Consolidated Communications of Kansas Company (**Consolidated Kansas**) and Consolidated Communications of Missouri Company (**Consolidated Missouri**), together are called **Kansas Operating Entities**. Consolidated Kansas is a rural incumbent local exchange carrier (RLEC and ILEC) formerly known as Sunflower Telephone Company,[2] providing service within the following Kansas exchanges: Americus, Leoti, Sharon Springs, Cedar Point, Tribune, Wallace, Saffordville, Weskan, and Jetmore. Consolidated Missouri is also an RLEC, and ILEC, formerly known as FairPoint Communications Missioui, Inc.,[3] provides services to the Cleveland and Drexel Exchanges in Kansas.

Condor Holdings LLC (**Condor**) is a Delaware limited liability company, a wholly owned subsidiary of Searchlight III CVL, L.P. (**Searchlight III CVL**), which is an affiliate of Searchlight Capital Partners, L.P. (**Searchlight**), a registered investment advisor with the SEC, is a global private equity investment company with nearly $12 billion in assets under management.[4] British Columbia Investment Management Corporation (**BCI**) will become part-owner of CCHI. It is one of the largest investors in Canada, with approximately C$233 billion in assets under management.[5]

B. Proposed Transaction:

The Transaction takes CCHI, which is currently a publicly traded company, private, with the ultimate ownership residing with two investors; one investor already owns a significant percentage of CCHI's equity and voting interests. Searchlight-affiliated funds hold 33.8% voting interest and 67.8% equity interest in CCHI. Post Transaction, Searchlight affiliated funds will hold approximately a 76.8% equity interest, and BCI-affiliated funds the remaining 23.2%. Exhibit A to the Application contains ownership and voting control diagrams of CCHI pre and post-transaction with the precise names and ownership of the investment vehicles.

C. Standards of Review:

Because the Transaction results in a change in control of the RLECs, it requires Commission review and action under K.S.A. 66-131, K.S.A. 66-136,[6] and 66-2005(w). The Transaction affects the ultimate ownership and control of the RLECs serving Kansas; thus, under K.S.A. 66-136, the

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[1] Joint Application, p. 2 (Jan. 25, 2024) (Application).
[2] The Commission approved Sunflower's name change in Docket No. 19-SFLT-197-CCN.
[3] Commission approved name change in Docket No. 19-FCMT-161-CCN.
[4] Application p. 3.
[5] Application p. 4.
[6] See, e.g., Docket No. 14-KGSG-100-MIS (Docket 14-100), Dec. 19, 2013 Order Approving Unanimous Settlement Agreement, ¶ 29-30; Docket No. 07-BHCG-1063-ACQ (Docket 07-1063); and Docket No. 07-KCPE-1064-ACQ (Docket 07-1064), May 15, 2008 Order Granting Joint Motions to Adopt Stipulation and Agreement and Approving Agreements, ¶ 6.

Commission has jurisdiction to review this Transaction to ensure the Transaction promotes public convenience. Additionally, K.S.A. 66-2005(w) requires, in part:

> [T]elecommunications carriers that were not authorized to provide switched local exchange telecommunications services in this state as of July 1, 1996 ... must receive a certificate of convenience based upon a demonstration of technical, managerial and financial viability and the ability to meet quality of service standards established by the commission.

K.S.A. 66-131 and 66-136 provide that a public utility cannot transact business until it has obtained a Certificate of Convenience (COC) from the Commission that the public convenience will be promoted and the Commission approves the assignment or transfer of a COC. Specifically, K.S.A. 66-136 states,

> No franchise or certificate of convenience and necessity granted to a common carrier or public utility governed by the provisions of this act shall be assigned, transferred or leased, nor shall any contract or agreement with reference to or affecting such franchise or certificate of convenience and necessity or right thereunder be valid or of any force or effect whatsoever, unless the assignment, transfer, lease, contract or agreement shall have been approved by the commission…

In determining whether a COC should be assigned or transferred, public convenience ought to be the Commission's primary concern, the interest of the public utility company already serving the territory the secondary concern, and the desires of the Applicant should be relatively minor considerations.[7] The public convenience means the convenience of the public, not of any particular individual. Public necessity means a public need without which the public would be inconvenienced.[8]

The Commission has determined that mergers and acquisitions involving Kansas utilities must benefit the State of Kansas positively and be in the public interest.[9] The Commission established Merger Standards to analyze the benefits arising from such a transaction and assess whether a transaction meets the public interest test. The Merger Standards were derived through an analysis of a transaction that involved two electric utilities with an aggregate customer count of well over a half-million retail customers in Kansas; however, the Commission has recognized that each jurisdictional utility acquisition and/or merger is unique in the manner and the degree to which it affects Kansas communities, Kansas consumers, and the utilities' shareholders.

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[7] Kansas Gas & Electric Co. v. Public Service Commission, 122 Kan. 462, 466, 251 P.1097 (1977).

[8] Atchison, Topeka & Santa Fe Railway Co v. Public Service Commission, 130 Kan. 777, 288 P. 755 (1930); Central Kansas Power Co. v. State Corporation Commission, 206 Kan 670, 482 P.2d 1 (1970).

[9] *Id. See also* Docket Nos. 172-745 and 174-155-U, Nov. 15, 1991 Order and Docket No 97-WSRE-676-MER, Sept. 28, 1999 Order on Merger Application.

I. ANALYSIS:

A. Technical, Managerial, and Financial Qualifications

Pursuant to K.S.A. 66-2005(w), the Commission must determine whether the Transaction calls into question the "technical, managerial, and financial viability" to operate and maintain the assets and operations of the Kansas Entities in an efficient and sufficient manner.

The Applicants state that there will be no discernable impact from the Transaction on the day-to-day management of the Kansas Operating Entities as those officers and managers will remain.[10] The current management at the Kansas Operating Entities has demonstrated its abilities to manage RLEC operations. The parent company of the Kansas Operating Entities bears the ultimate responsibility for providing sufficient capital resources to the RLECs. As CCHI will become a privately held company at the close of the Transaction, the owners of CCHI, Searchlight, and BIC are responsible for providing the Kansas Operating Entities capital. Searchlight and BIC state that they possess the ability to obtain the capital necessary for the Kansas Operating Entities.[11]

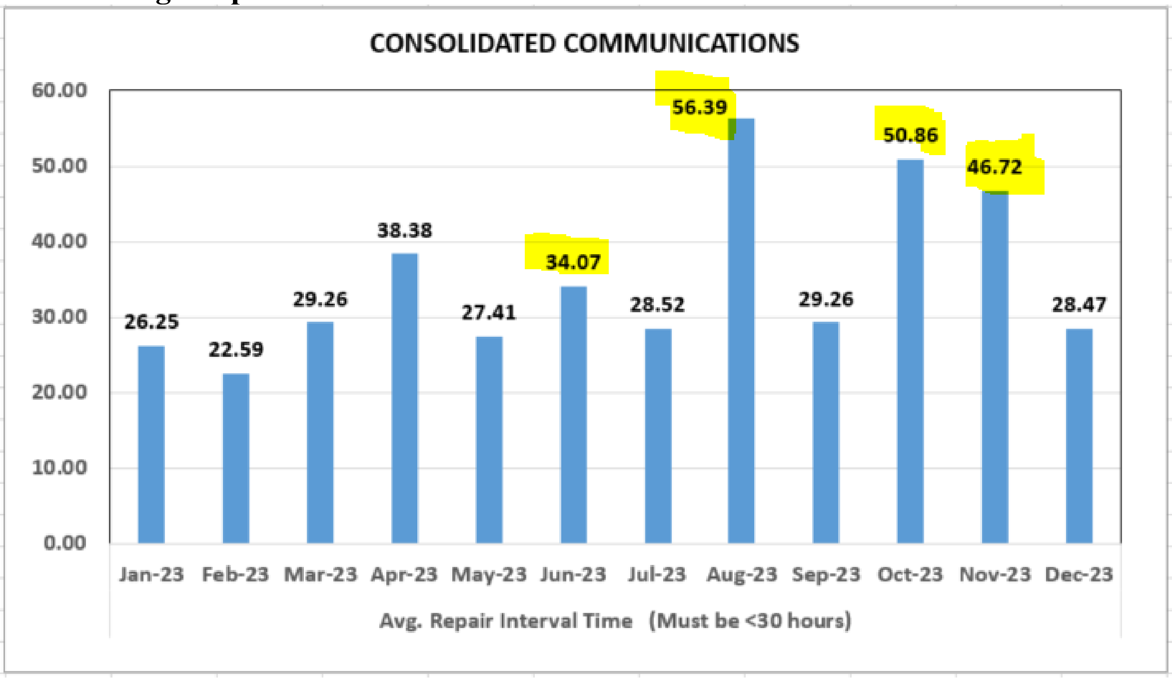
B. Quality of Service Standard Qualifications

2023 Quality of Service

Consolidated Communications of Kansas (Consolidated Kansas) failed the 30-hour benchmark Average Customer Repair Interval (ACRI) time in 4 out of 6 rolling months between June 2023 and November 2023 (Chart below). The Company also had jeopardy condition for missing ACRI benchmark for two consecutive months in October and November of 2023. In addition, the Company had a few borderline performance issues with ACRI in 2023.

[10] Frey Direct, p. 9.
[11] Frey Direct, p. 5; Application, pp. 3-4.

2023 Average Repair Interval Time



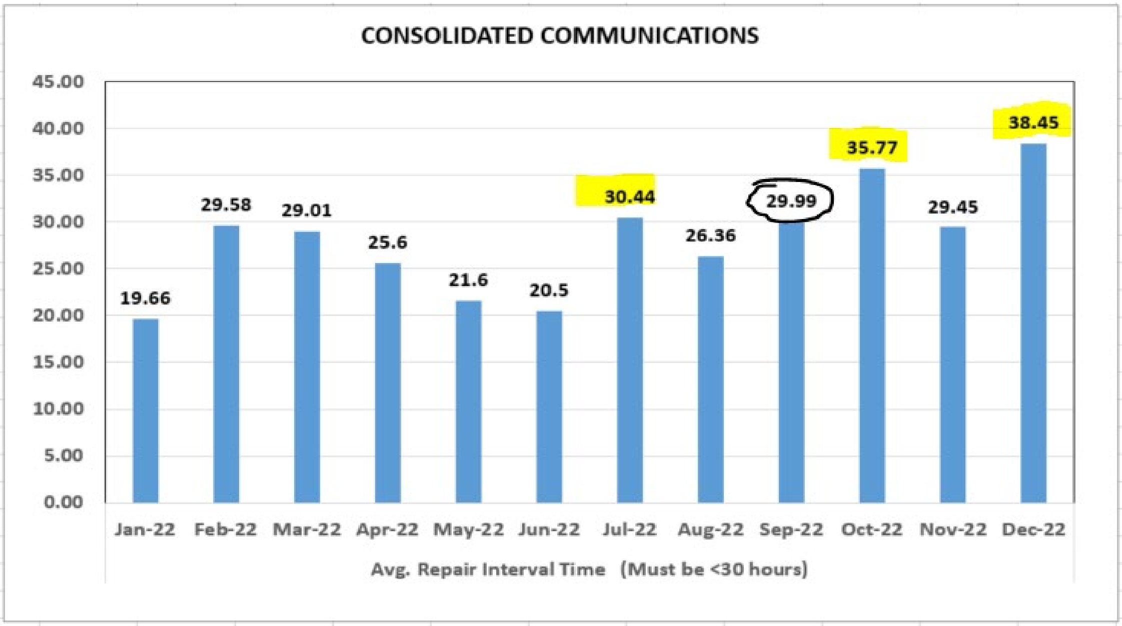
In November 2023, the Company was requested to provide a corrective action plan to resolve the Average Customer Repair Interval Time. The Company responded indicating several challenges in the fourth quarter 2023 relating to recruiting qualified technicians and contractors in rural Kansas markets for resolving issues relating to repairs, system maintenance, customer care and installs, damaged pedestals hit by vehicle, and cable damage caused by country road grading. The Company's action plans included recruitment of qualified technicians offering competitive wage and benefits package, mobilizing a crew of technicians from Texas to help in the Kansas market after the Thanksgiving holiday and a continued focus on restoring services to impacted customers.

In January 2024, Consolidated Kansas reported difficulty meeting the Average Repair Interval metric in Q4. The Company indicated working with contractors to clean up remotes and central offices and prioritizing repair items and notified of the lack of available qualified technicians to work in Kansas market. The Company was planning to rebuild some of the primary routes and provide better efficiency in diagnosing trouble. The Company spent 14 days rehabbing or replacing approximately 200 damaged pedestals in the field between Thanksgiving and Christmas with the help of four technicians from Texas and a Kansas area supervisor. The worsening winter conditions in January made it a challenge for out-of-state crews to assist with maintenance.

<u>2022 Quality of Service</u>

Consolidated Kansas's Average Repair Interval Time in 2022 was not sufficient either. The Company missed the benchmark three times in a period of six months between July and December and was almost non-compliant. In addition, the Company had four borderline performances in twelve months.

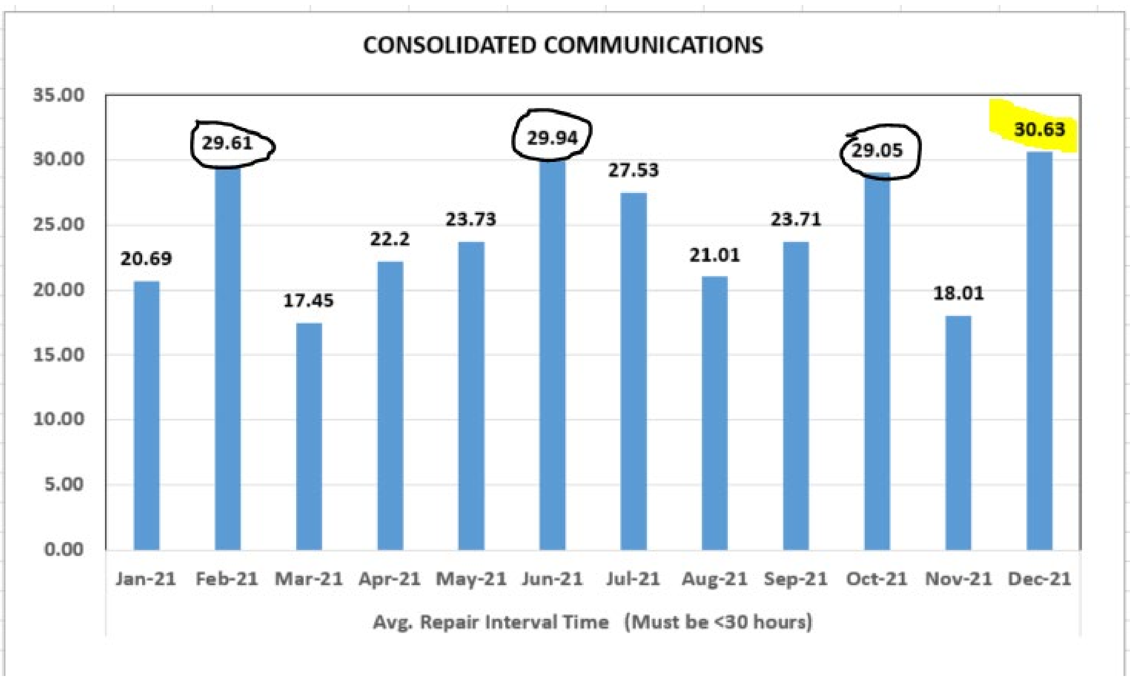
2022 - Average Repair Interval Time



2021 Quality of Service

Consolidated Kansas missed Average Repair Interval Time once in 2021 and had three borderline performances.

2021 – Average Repair Interval Time



Staff is concerned about these QoS findings and the levels of ACRI failings by the Applicants. Most concerning to Staff is the fact that at the time of these ACRI failings, Searchlight was the majority stockholder in CCHI and the proposed Transaction would increase and concentrate

Searchlight's ownership in these assets. The data shown in this section is part of routine quality of service reporting to the Commission by RLECs in Docket Nos. 191,206-U and 95-GIMT-047-GIT. To encourage corrective action, Staff recommends that the Applicants meet a higher threshold of ACRI and be subject to higher penalties when they fail to meet the enhanced standard. Staff presented the Applicants with an enhanced level of QoS surveillance and through discussions Staff and the Applicants reached agreement on the Enhanced QoS Standards. Staff believes the Enhanced QoS Standards are a means to correct the ACRI failings, which will bring the transaction in line with the technical, managerial, and financial qualifications.

The following are the Enhanced QoS Standards recommended by Staff and not opposed by the Applicants.

- **Enhanced Quality of Service Threshold**
    - The current threshold is 30 Hour Average Customer Repair Interval (ARI) with two (2) consecutive months of failing to meet the ARI triggering a "jeopardy condition". If the ARI threshold is not met for three (3) consecutive months, then a "noncompliance condition" is triggered.[12]
    - Given the ARI issues, Staff recommends an Enhanced Quality of Service Plan that recommends the Commission make the following changes to CCHI's Quality of Service thresholds:
        - A lower Enhanced-ARI threshold of 25 hours;
        - A jeopardy condition would be deemed to occur in any single month that the Kansas Operating Entity fails to meet the Enhanced-ARI; and
        - If the Enhanced-ARI threshold is not met in a single month then a "non-compliance condition" is triggered.
        - Each month in which the Enhanced-ARI threshold is not met shall result in a fine of $5,000 per month.
    - Staff acknowledges that service interruptions or outages that are directly caused by a Force Majeure Event (i.e., acts of God and other events beyond the reasonable control of the Kansas Operating Entity) shall not be considered for purposes of determining whether a jeopardy condition or non-compliance event has occurred.
    - Third-party damages shall be included in ARI metrics, but may be evaluated on a case-by-case basis to determine the "at fault" party and whether repairs were made in a timely manner.

- **Term Period of Enhanced QoS Surveillance**
    - Three years beginning 3/31/2025 and continuing for fiscal year 2025, 2026 and 2027, and Q1 of 2028.

[12] Order Adopting Staff's Report and Recommendation; Penalty Assessment, Docket No. 14-GIMT-118-CPL (Jan. 5, 2016).

- If the Kansas Operating Entity meets the Enhanced-ARI threshold condition for 12 consecutive months, the Enhanced QoS Surveillance shall end upon written confirmation via email by the parties and the Kansas Operating Entity would return to the current QoS standards and penalties.
- Staff will file a notice to the Commission in the 24-521 Docket after the Enhanced QoS Surveillance has ended.
- At any time in the future, after the end of Enhanced QoS Surveillance, if the Kansas Operating Entity's ARI deteriorates, Staff may elect to petition the Commission to resume the Enhanced QoS Surveillance and Enhanced Penalties.

- **Remedial Measures**
  - While under the Enhanced QoS Surveillance, the Kansas Operating Entity agrees that it will not seek to raise rates on intrastate-based tariffed services (excluding access). This includes an agreement that the Kansas Operating Entity will not propose any basic local exchange price increases under K.S.A. 66-2007 during the time period of enhanced QoS surveillance.
  - While under the Enhanced QoS Surveillance, the Kansas Operating Entity agrees it will include language on all billing statements, to be approved by Staff, that includes the number for KCC's Public Affairs and Consumer Protection Office.

- **Reporting Under Enhanced QoS Surveillance**
  - As soon as possible, but not later than seven (7) days after an outage (defined as a service interruption of 12 hours or more), the Kansas Operating Entity will submit to Staff reasonably detailed outage reports (e.g., network operations, field operations, engineering), dispatch reports, and other actions taken in resolving the service outage, including communications related to customer complaints.
  - After closing and before the start date of the Enhanced ARI, the company will provide a comprehensive plan to remedy the QoS issues including related capital expenditure plans.
  - Staff emphasizes that it intends to conduct audits of these reports and the underlying data as a means to verify improvements of the Kansas Operating Entity and learn more about any potential system issue(s) behind the outage. Staff reserves its right under Kansas statutes to seek additional information from that required above.

C. Merger Standards to Evaluate the Public Interest Standard

The proposed Transaction affects the Kansas Operating Entities' ability to provide telecommunications services in 11 exchanges in Kansas. Therefore, in tandem with the evaluation of the Applicants' managerial, technical, and financial qualifications, the Joint Applicants and Staff viewed the proposed Transaction in light of the Merger Standards as follows:

a. The effect of the transaction on customers, including:

   i. The effect of the proposed transaction on the financial condition of the newly created entity as compared to the financial condition of the stand-alone entities if the transaction did not occur;

   ii. Reasonableness of the purchase price, including whether the purchase price was reasonable in light of the savings that can be demonstrated from the merger and whether the purchase price is within a reasonable range;

   iii. Whether ratepayer benefits resulting from the transaction can be quantified;

   iv. Whether there are operational synergies that can justify payment in excess of book value; and

   v. The effect of the proposed transaction on the existing competition.

b. The effect of the transaction on the environment.

c. Whether the proposed transaction will be beneficial on an overall basis to state and local economies and to communities in the area served by the resulting public utility operations in the state. Whether the proposed transaction will likely create labor dislocations that may be particularly harmful to local communities, or the state generally, and whether measures can be taken to mitigate the harm.

d. Whether the proposed transaction will [preserve] the jurisdiction of the KCC and the capacity of the KCC to effectively regulate and audit public utility operations in the state.

e. The effect of the transaction on affected public utility shareholders.

f. Whether the transaction maximizes the use of Kansas energy resources.

g. Whether the transaction will reduce the possibility of economic waste.

h. What impact, if any, the transaction has on public safety.

The Merger Standards assist in determining whether a proposed transaction provides a net benefit to ratepayers, shareholders, and the public generally and, thereby, "promotes the public interest." In most merger and acquisition cases involving utilities under the full economic and rate regulation of the Commission, the appropriate focus for this standard is whether the transaction results in benefits for the public that can be quantified. The Commission has recognized that with regard to evaluating a proposed Transaction in light of the Merger Standards, "some factors may be less relevant than others to the present proceeding."[13]

The Joint Applicants provided their views of the Merger Standards as related to the Transaction in the Joint Application, the Attachments, and the Direct Testimony of Michael J. Shultz, Vice President of Regulatory and Public Policy of CCHI, and the Direct Testimony of Andrew Frey, Partner, Searchlight Capital Partners, L.P. on behalf of Condor Holdings LLC. Staff's Report

[13] Order Approving Joint Application, ¶ 38, Docket No. 13-BHCG-509-ACQ (Oct. 3, 2013).

includes the Joint Applicants' position on each Merger Standard, Staff's analysis of the Joint Applicant's position, and Staff's recommendation regarding whether the proposed Transaction meets the Standard.

(a) The effect of the transaction on consumers, including:

(i) The effect of the proposed transaction on the financial condition of the newly created entity as compared to the financial condition of the stand-alone entities if the transaction did not occur.

Applicants Response:

The Joint Applicants submit that the Transaction does not create a new entity; it is an existing stockholder of CCHI taking CCHI private by increasing its ownership with the addition of a second equity investor, BCI. The Joint Applicants also emphasize that CCHI is financially sound at this time, before the Transaction.[14] The Transaction will provide CCHI and the Kansas Operating Entities access to a greatly expanded source of capital from Searchlight and BCI.[15]

Staff's Response:

Staff generally agrees with the Joint Applicant's statements regarding this Merger Standard. However, it is important to point out that at this time, CCHI has a non-investment grade bond rating of "B-" by Standard & Poors (S&P). A sub-investment grade bond rating does not mean issues with CCHI are a going-concern, but it does indicate that any additional capital will be costly relative to companies with strong financial profiles. With that point of clarification, Staff tends to agree with the Applicant that taking the CCHI private with two well-capitalized shareholders could offer access to capital to finance growth and modernization opportunities. It is incumbent on Condor to see to it that the Kansas Operating Entities benefit from that new capital; the Enhanced QoS Standards proposed by Staff are one means to ensure that Kansas consumers see some benefits of the Applicant's promised capital expenditures.

As discussed above the Transaction amounts to a "take private" through an acquisition of outstanding shares with Searchlight owning 76.8% and BCI owning 23.2% of the equity. Searchlight is a self-titled private equity firm and BCI is a pension fund.[16] Staff takes a cautious view of private equity (PE) ownership of public utilities; for as much as the private equity industry touts its members as long-term investors, they never define that time horizon. At a high level, Staff finds it difficult to reconcile PE's promise to investors of higher than market returns while at the same time fulfilling their obligations to a capital intensive industry like that of a public utility; such as meeting the very basic quality of service standards. Staff has documented serious QoS deficiencies that occurred while Searchlight has been the largest single shareholder.[17] Furthering Staff's concern is the simple fact that ownership is reduced to just two entities and no financial

[14] Shultz Direct p. 11.
[15] *Id.*, p. 11.
[16] https://searchlightcap.com/
https://www.bci.ca/
[17] As of March 31, 2024, Searchlight Capital Partners LP held 34.08% of outstanding common shares and has held 33% since December 31, 2021. Reported by S&P Capital IQ.

filings with the Securities & Exchange Commission traditionally seen with publicly held companies.

With regard to the telecommunications industry, Staff's concerns are somewhat lessened by the competitive alternatives available to consumers with cellular and satellite delivered internet services. Regulations and statutes recognize that these alternatives exist and exert pricing constraints on telecommunications services. For instance, K.S.A. 66-2007 allows rate of return regulated RLECs to modify prices within a certain scope without filing a revenue requirement driven rate review unless consumers seek a review of the rate.

(ii) Reasonableness of the purchase price, including whether the purchase price was reasonable in light of the savings that can be demonstrated from the merger and whether the purchase price is within a reasonable range.

Applicants Response:

The Transaction does not anticipate significant synergies[18] despite the fact that the $4.70 per share being offered for all outstanding shares[19] is a 33% premium on the trading price of October 13, 2023.[20]

Staff's Response:

A premium is being paid to acquire the outstanding shares. The lack of quantified synergies or savings is not troubling, as the Joint Applicants have stated that they would not seek to recover the acquisition premium from rates charged to Kansas Operating Entities customers or the Kansas Universal Service Fund support.[21]

(iii) Whether ratepayer benefits resulting from the transaction can be quantified.

Applicants Response:

The Joint Applicants state that ratepayers (in Kansas) will see benefits that can be quantified in terms of rates as well as broadband speeds and availability.[22]

Staff's Response:

The Joint Applicants state that ratepayers will see benefits as noted above. The discussion of benefits provided in the Application and Testimony is general and broad across the company, with no project specific to the Kansas Operating Entities or time frame when consumers will likely experience those benefits. In light of the QoS issues and ACRI failings documented by Staff, the Joint Applicants' broad statements are not sufficient to meet this merger standard. Staff believes the Enhanced QoS Standards are a remedy and a means to address this merger standard. As discussed above the Enhanced QoS Standards require the Joint Applicants to provide a

[18] Shultz Direct p.10.
[19] *Id.*, p. 8.
[20] Application p. 9.
[21] *Id.*, p. 6.
[22] *Id.*, p. 9; Shultz Direct p. 15.

comprehensive plan to remedy the QoS issues that includes capital expenditure plans specific to Consolidated Kansas exchanges. As noted above the Enhanced QoS Standards also provides for penalties if the Applicants fail to meet the ACRI standards.

(iv) Whether there are operational synergies that justify payment of a premium in excess of book value.

Applicants Response:

See above a) ii

Staff's Response:

See above a) ii

(v) The effect of the proposed transaction on the existing competition.

Applicants Response:

The Joint Applicants state that the Transaction will not diminish competition, eliminate any telecommunications service provider and that the Kansas Operating Entities face vigorous competition in the exchanges they serve.[23]

Staff's Response:

Staff agrees with the Joint Applicants' position on this standard regarding the exchanges served by the Kansas Operating Entities. Regulations and statutes recognize that these alternatives exist and exert pricing constraints on telecommunications services. For instance, K.S.A. 66-2007 allows rate of return regulated RLECs to modify prices within a certain scope without filing a revenue requirement driven rate review unless consumers seek a review of the rate

(b) The effect of the transaction on the environment.

Applicants Response:

The Joint Applicants note that CCHI has a formalized environmental policy as part of its corporate culture, cited on its corporate website. The Transaction itself is not expected to have any effect on the environment.[24]

Staff's Response:

It is Staff's opinion that this particular Merger Standard plays only a minor role in evaluating the public interest of a telecommunications merger, as the industry is not subject to environmental regulation to the degree that natural gas and electric utilities are.

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[23] Shultz Direct, p. 13.
[24] Shultz Direct, p. 14.

(c) Whether the proposed transaction will be beneficial on an overall basis to state and local economies and to communities in the area served by the resulting public utility operations in the state. Whether the proposed transaction will likely create labor dislocations that may be particularly harmful to local communities, or the state generally, and whether measures can be taken to mitigate the harm.

Applicants Response:

The Applicants state that the Transaction will allow CCHI to continue it fiber optic network expansion to bring broadband services to underserved and unserved communities across its Kansas markets. It anticipates there will be no significant changes in personnel at the Kansas Operating Entities due to this Transaction and no changes in officers and management.[25]

Staff's Response:

Again, as with Standard a) iii, the Joint Applicants discuss benefits from modernization and expansion of fiber networks from a company-wide view while not providing details specific to the exchanges served by the Kansas Operating Entities. Staff believes the Enhanced QoS Standards that includes capital expenditure plans specific to Consolidated Kansas exchanges demonstrate benefits specific to the Kansas communities served by CCHI.

(d) Whether the proposed transaction will preserve the jurisdiction of the KCC and the capacity of the KCC to effectively regulate and audit public utility regulations in the state.

Applicants Response:

The Transaction will not change the Commission's authority over the Kansas Operating Entities.[26]

Staff's Response:

Staff agrees with the Joint Applicants' assessment. The RLECs will continue to file Annual Reports, notify the Commission of any changes in their structure or operations, pay Commission assessments, meet intrastate access rate and local service rate requirements pursuant to K.S.A. 66-2005, and file tariffs. The Companies will continue to report their revenues and pay the related KUSF assessments.

(e) The effect of the transaction on affected public utility shareholders.

Applicants Response:

The Joint Applicant notes that the Transaction was approved by shareholders and the Board of Directors. To consummate the Transaction the shareholders will receive a significant premium in payment for their shares.[27]

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[25] Shultz Direct p. 14-15; Application, p. 10.
[26] Shultz Direct, p. 16; Application, p. 10.
[27] Application, p. 10; Shultz Direct, p. 16.

Staff's Response:

Existing shareholders will receive a substantial premium over the trading price of CCHI common stock prior to this Transaction's proposal. After the Transaction closes, Condor and BCI will be the only shareholders.

(f) Whether the transaction maximizes the use of Kansas energy resources.

Applicants Response:

No material effect on Kansas energy resources.[28]

Staff's Response:

Staff believes that this Merger Standard does not provide useful evidence for the "public interest" test in acquisitions involving transactions between telecommunications companies.

(g) Whether the transaction will reduce the possibility of economic waste.

Applicants Response:

The Transaction does not change the number of market participants and will afford CCHI greater access to capital.[29]

Staff's Response:

Staff agrees with the Applicants as the Transaction is unlikely to result in stranded investments in the exchanges served by the Kansas Operating Entities.

(h) What impact, if any, the transaction has on the public safety.

Applicants Response:

The Kansas Operating Entities provide 911 service in their respective exchanges; those arrangements will not change due to the Transaction.[30]

Staff's Response:

Staff agrees with the Applicants and would add that the Enhanced QoS Standards will improve community access to emergency services.

[28] Application p. 11; Shultz Direct p. 17.
[29] *Id*.
[30] *Id*.

RECOMMENDATION

Staff's review of the proposed Transaction supports that it will promote the public interest, as conditioned by Staff's recommended Enhanced QoS Standards. Staff views the Transaction as being in the public interest and recommends the Commission approve the Transaction. Staff also recommends that the Commission formalize CCHI's statements that no portion of the acquisition premium incurred as a result of this Transaction will be recovered from Kansas ratepayers, whether through rates or the KUSF.

CERTIFICATE OF SERVICE

24-CCHT-521-ACQ

I, the undersigned, certify that a true and correct copy of the above and foregoing Notice of Filing of Staff R&R was served via electronic service this 19th day of July, 2024, to the following:

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