

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

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

Docket No. 06-RRLT-963-COC

STATE CORPORATION COMMISSION

AUG 15 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-RRLT-1094-CCS

JOINT MOTION TO APPROVE MODIFIED STIPULATION AND AGREEMENT

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

1. On July 27, 2006, Staff, RuralTel, and CURB filed a Joint Motion to Approve Stipulation and Agreement in the above-captioned dockets. The Commission issued its order approving the original Stipulation and Agreement (S&A) in Docket No. 06-RRLT-963-COC on July 27, 2006. On August 9, 2006, the Commission issued its order approving the S&A in Docket No. 06-RRLT-1094-CCS.

2. On August 10, 2006, Cunningham Communications, Inc. (CCI) filed a Motion to Intervene and Petition for Reconsideration of the Commission's July 27, 2006 order approving the S&A in Docket No. 06-RRLT-963-COC. CCI stated that it is a competitive local exchange Carrier (CLEC) authorized to do business in the areas served by United at the time CCI's certificate was granted. CCI stated that it is prepared to offer service in the Downs exchange pending approval of its interconnection agreement with United. The Commission approved that agreement on August 15, 2006 in Docket No. 07-UTDT-094-IAT. The Downs exchange is one of the exchanges being sold by United to RuralTel. CCI seeks to be included in the CLECs listed in the S&A that are offering service in the exchanges and to which RuralTel agrees to be obligated to interconnect pursuant to the agreements the CLECs negotiated with United.

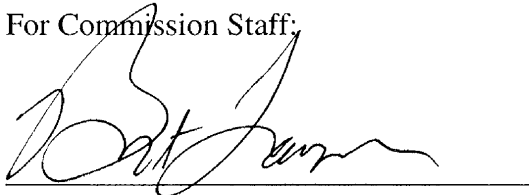
3. For its request to be granted intervention, CCI states that no other party to this proceeding is capable of protecting CCI's interests and that the public interest that CCI's ability to offer services be considered. CCI seeks approval of a modified S&A that includes CCI in the list of CLECs. CCI states that RuralTel does not oppose modifying the S&A to include CCI in the list of CLECs.

4. The parties to the original S&A have agreed to modify the S&A to include CCI in the list of CLECs. The parties request that the Commission issue an order approving the Modified S&A in Docket No. 06-RRLT-963-COC. Docket No. 06-RRLT-1094-CCS is not

affected by the addition of CCI to the list of CLECs; however, the Modified S&A, like the original S&A, is captioned with both docket numbers and will need to be approved in both dockets.

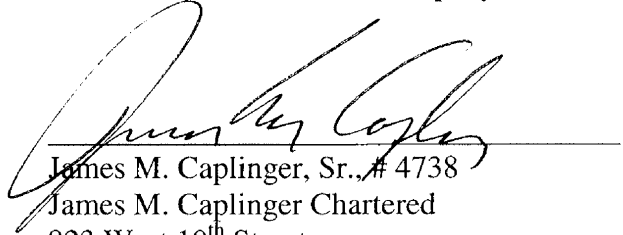
WHEREFORE the parties respectfully request the Commission issue an order approving the attached Modified S&A, and for such other and further relief as the Commission deems just and proper.

For Commission Staff:



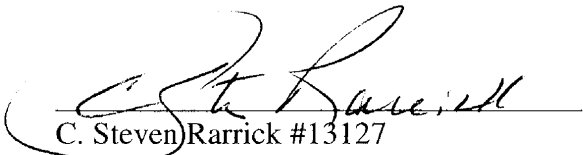
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For the Citizens' Utility Ratepayer Board



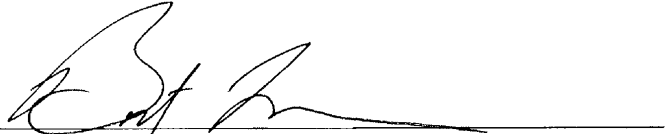
C. Steven Rarrick #13127
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VERIFICATION

STATE OF KANSAS)
) SS:
COUNTY OF SHAWNEE)

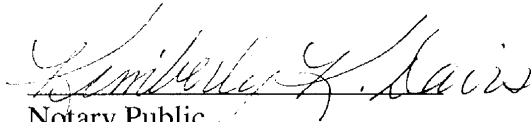
Bret Lawson, of lawful age, being first duly sworn upon oath states:

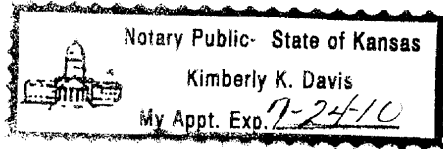
That he is the attorney for the Corporation Commission Staff in this matter; that he has read and is familiar with the foregoing joint motion and that the statements made therein are true and correct to the best of his information, knowledge and belief.



Bret Lawson

Subscribed and sworn to before me this 15th day of August 2006.


Notary Public



My appointment expires:
July 24, 2010

CERTIFICATE OF SERVICE

06-RRLT-963-COC & 06-RRLT-1094-CCS

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing Joint Motion to Approve Modified Stipulation and Agreement was placed in the United States mail, postage prepaid, or hand-delivered this 16th day of August, 2006, to the following:

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CERTIFICATE OF SERVICE

06-RRLT-963-COC & 06-RRLT-1094-CCS

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A handwritten signature in black ink that reads "Kim Davis". The signature is written in a cursive style and is positioned above a solid horizontal line.

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Docket No. 06-RRLT-1094-CCS

MODIFIED STIPULATION AND AGREEMENT

This Stipulation and Agreement (S&A) is entered into between Rural Telephone Service Company, Inc. (RuralTel), 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 RuralTel. 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 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. The twelve exchanges are Burr Oak, Courtland, Esbon, Ionia, Lebanon, Republic, and Webber owned by United Telephone Company of Eastern Kansas, and Downs, Luray, Osborne, Paradise, and Russell owned by United Telephone Company of Kansas. Based on 2005 data, these exchanges represent approximately 5,000 billable customer access lines, including 368 resold lines. The purchase of these exchanges will increase the number of access lines served by RuralTel by approximately 50%. The exchanges are located northeast of Hays, and contiguous to RuralTel's current service area.

3. On March 10, 2006, CURB filed to intervene in the docket. On March 17, 2006, the Commission granted CURB's petition and also issued a protective order.

Acquisition of Nex-Tech Customers in Osborne

4. On April 12, 2006, RuralTel and Nex-Tech, Inc. (Nex-Tech) filed a joint application for Nex-Tech to cease operations in the Osborne exchange and to transfer property, plant and equipment to RuralTel. Nex-Tech is operating as a Competitive Local Exchange Company (CLEC) in Osborne and had acquired over half the customers. Nex-Tech is a wholly owned subsidiary of RuralTel and the companies do not want to compete against each other. Since this application is an integral part of RuralTel's acquiring Incumbent Local Exchange Carrier (ILEC) status for the Osborne exchange from United, it has been made a part of RuralTel's request for certification docket. The transfer of assets will only require accounting entries between the subsidiary and the parent company. Nex-Tech is an Eligible Telecommunications Carrier (ETC) and requests that the KUSF support it currently receives for its Osborne customers be transferred to RuralTel.

Sale to Gorham Telephone Company

5. In a subsequent transaction, on April 7, 2006, RuralTel and Gorham Telephone Company, Inc. (Gorham) filed to sell two of the acquired exchanges, Luray and Paradise, from RuralTel to Gorham. This subsequent transaction is before the Commission in Docket Nos. 06-GRHT-1095-COC and 06-RRLT-1094-CCS. Conditions for RuralTel's sale of the two exchanges to Gorham are included in this S&A. 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 concurrently, customers in Luray and Paradise will never need to interact with RuralTel.

Financial/Operational Qualifications

6. RuralTel has sufficient managerial and operational qualifications to obtain certification to serve these territories. It is an experienced provider of local service and currently serves 28 exchanges in northwest Kansas as the ILEC. RuralTel has indicated that it has obtained approval for a Rural Utility Service (RUS) loan to fund the purchase price and an extensive upgrade of the facilities. Funds from the RUS loan will not be available to RuralTel at the time of the sale; thus, the Rural Development Utilities Program has agreed to provide interim funding until the RUS funds are available.¹ Based on the current cash flow for the exchanges, the parties agree that the purchase price is reasonable for the revenue stream being acquired.

RuralTel Request for an Acquisition Premium

7. RuralTel 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. Since RuralTel is only retaining 10 of the 12 exchanges, any acquisition premium associated with Luray and Paradise should not remain on its books.

Facility Upgrades

8. Of those exchanges involved in this transaction, United has deployed Digital Subscriber Line (DSL) service only in the Courtland exchange. RuralTel indicates it plans to

¹ Supplemental response to Staff DR #7.

expand broadband service to all of the exchanges and upgrade facilities to extend DSL beyond the current distance limitation in order to make enhanced services available to all customers. In order to provide immediate broadband service, RuralTel has stated that one of its subsidiaries will provide wireless broadband service in some exchanges until facility upgrades can be completed.

9. In detailing its anticipated cash flows to support its planned investments, RuralTel 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.

Tariffs

10. RuralTel agrees to implement tariffs as shown in its response to Staff Data Request No. 10 and as delineated herein.² RuralTel agrees that, except for Osborne, it will continue to charge the monthly Local Service rates and corresponding Lifeline Credits currently charged by United for all of the exchanges and add those as separate rate groups to RuralTel Services Tariff. For Osborne, RuralTel will charge the monthly Local Service rates currently charged by Nex-Tech.³ RuralTel 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

² In the initial filing RuralTel indicated that it would concur in United's tariffs. After further review, RuralTel has determined that strict adherence to United's tariff is not in its best interest.

³ Nex-Tech's local rates are lower than United's, and Nex-Tech provides service to the majority of customers in Osborne. RuralTel did not want the majority of customers to experience a rate increase that would occur if United's local rates were used in Osborne. Staff and CURB agree this is a better approach.

discounted service bundles to its customers. RuralTel will implement United's three most popular vertical service package offerings.⁴ RuralTel agrees to offer the local service features contained in other bundles so that the rates are approximately equal⁵ to the rates 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 RuralTel is free to offer its own toll service as an alternative to these customers. RuralTel will use its own access tariff. The intrastate access rates for RuralTel and United are both approximately 2¢ per minute. RuralTel agrees to file proposed tariffs within 45 days after Commission approval or at least 30 days prior to the first cutover, whichever occurs first.

CLEC Entry into the Twelve Exchanges

11. 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. RuralTel agrees to provide resale and interconnection service to the following seven CLECs currently providing service in the twelve exchanges and have existing interconnection agreements with United:

Company	Type of Service	Interconnection 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

⁴ The three most popular service packages are identified by United as 1FLCAPA, 1FLCAES, and 1FLCAEA. RuralTel will grandfather these packages for existing customers.

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.

⁷ United is in the process of renegotiating an interconnection agreement with these CLECs. RuralTel agrees to provide resale service to this CLEC using the newly negotiated contracts for a minimum of six months after cutover.

Cunningham Communications, Inc.	Resale only ⁸	08/15/2006	07-UTDT-094-IAT
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

12. RuralTel 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.⁹ Prior to the expiration of each CLEC's existing interconnection agreement with United, RuralTel 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 twelve exchanges. Since the Luray and Paradise exchanges are being sold to Gorham, RuralTel's obligation to provide resale service is limited to the 10 exchanges it is retaining. RuralTel agrees that prior to cutover it will take all necessary steps to ensure that any necessary agreements are in place so that the affected CLECs are able to continue to provide service to their customers. RuralTel will contact the affected CLECs within 10 days after approval by the Commission of this S&A and provide contact information to the affected CLECs for service order processing and inquiries. RuralTel will provide CLECs the cutover dates as soon as possible prior to cutover of each exchange in which a CLEC provides service.

At that time, RuralTel may continue using the United negotiated contract until the expiration date, or may negotiate new interconnection agreements with the CLECs.

⁸ Cunningham Communications Inc. will offer facilities based services.

⁹ 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.

Continuation of Existing Services

13. 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. Russell and Osborne are county seats and several school districts¹⁰ are receiving the free “800” service. RuralTel 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

14. RuralTel, by virtue of the issuance of a Certificate of Convenience and Authority herein, will be the successor to United in the ten exchanges for purposes of determining the Carrier of Last Resort (COLR) in those exchanges as specified in K.S.A. 66-2009(a). Nex-Tech is relieved of its obligation to serve its customers in the Osborne exchange, with those customers being served by RuralTel effective with the date of the cutover. Nex-Tech’s ETC designation in the Osborne exchange is also rescinded.

15. With regard to the sale of the Luray and Paradise exchanges to Gorham, RuralTel agrees to continue to provide the network switching service to the Luray and Paradise customers until such time as Gorham is able to cut the customers to its own switch. This will be provided under a service agreement. Rural will provide a copy of that service agreement to the Commission within 10 days of its execution with Gorham and before the cutover.

¹⁰ In response to CURB DR 1.4, United identifies eight schools in Russell (5), Courtland (1) and Burr Oak (2).

Exchange Descriptions

16. Staff's review identified a number of discrepancies between the Commission's metes and bounds descriptions for the Ionia and Lebanon exchanges and those filed by the companies. After review by the companies, the corrected metes and bounds were filed in the docket. The parties agree that these corrected descriptions should be used in the Commission's order to describe the exchanges. Any subscribers outside these certified areas now being served by United (and RuralTel 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.¹¹

KUSF Related Issues

17. Beginning on the effective date of cut-over, RuralTel is authorized to assess the rural LEC average per line KUSF assessment, as determined annually by the Commission, to customers within the 10 exchanges purchased from United, as well as the Osborne exchange. Lifeline credits provided by RuralTel to customers within each purchased exchange will be equal to the amount of credit provided by United.

18. The sale will occur after September 30, 2006. Prior to March 1, 2007, RuralTel 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

¹¹ "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 RuralTel will receive for the 10 exchanges will be based on the total KUSF supportable lines reported by United for each zone within the 10 exchanges, as of September 30, 2005.

19. For the KUSF Year 11 calculations, Staff will impute annualized revenues based on revenues reported by United for the 10 exchanges for the period of March 1 through the end of the month proceeding the cut-over to determine the RuralTel's KUSF assessable revenues. To determine RuralTel's total KUSF assessable lines, Staff will impute to RuralTel the total KUSF assessable lines reported by United for the 10 exchanges, as of September 30, 2006. The KUSF support RuralTel will receive for the 10 exchanges will be based on the total KUSF supportable lines reported by United for each zone within the 10 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 2007¹², for all KUSF supportable lines. The amount of net KUSF support RuralTel will receive for the 10 exchanges will remain at the level of net KUSF support calculated for KUSF Year 11 until RuralTel seeks KUSF support for its own investment or the Commission initiates an audit or investigation.

20. With regards to the KUSF support currently disbursed to Nex-Tech, the parties agree that the KUSF support will be transferred to RuralTel, effective with the cut-over. Prior to March 1, 2007, RuralTel will receive the same amount of KUSF support that Nex-Tech is receiving on the date of the cutover. For the KUSF Year 11 calculations, Staff will impute

¹² Universal Service Administrative Company's (USAC)'s Federal USF support for the First Quarter 2007.

annualized revenues, based on revenues for the exchange reported by Nex-Tech for the period of March 1 to the end of the month preceding cut-over to determine RuralTel's KUSF assessable revenues. To determine RuralTel's total KUSF assessable lines, Nex-Tech will report the total KUSF assessable lines in the Osborne exchange as of September 30, 2006 to Staff to impute to RuralTel. The KUSF support payable to RuralTel will be based on the total KUSF supportable lines reported by Nex-Tech, by zone, multiplied by the amounts in 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 offset by the applicable Federal USF¹³ for all KUSF supportable lines. The amount of net KUSF support RuralTel will receive for the lines in the Osborne exchange previously served by Nex-Tech will remain at the level of net KUSF support calculated for KUSF Year 11, until RuralTel seeks KUSF support for its own investment or the Commission initiates an audit or investigation.

21. RuralTel agrees that its net KUSF support associated with the Luray and Paradise exchanges will transfer to Gorham following the sale closing, in accordance with the provisions found in Article 9 of the Asset Transfer Agreement between RuralTel and Gorham.

Study Area Waiver by the Federal Communications Commission

22. 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 objection to FCC waiver of its rules to permit removal of the Exchanges from the United study area and to add them to the RuralTel study area.

¹³ IBID.

Agreement

23. 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 RuralTel's request for a Certificate of Public Convenience and Authority to be the incumbent local exchange carrier for the twelve exchanges. The parties also request the Commission adopt this S&A as a resolution of the issues related to the transfer. RuralTel has already obtained FCC approval of the transaction. Upon Commission approval, United and RuralTel will make the necessary cutover arrangements which will enable them to implement the cutover within 120 days or November 15, 2006, which ever comes later.

Reservations

24. 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.

25. 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) 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.

26. 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.

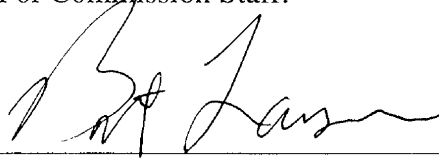
27. If the Commission accepts this S&A in its entirety and incorporates the same into its final order in this docket, the parties intend to be bound by its terms and the Commission's order incorporating its terms as to all issues addressed in this S&A, and will not appeal the Commission's order on those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

28. 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.

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

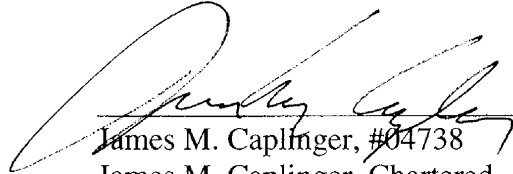
IN WITNESS WHEREOF, the parties have executed and approved this Stipulation and Agreement, by subscribing their signatures below.

For Commission Staff:



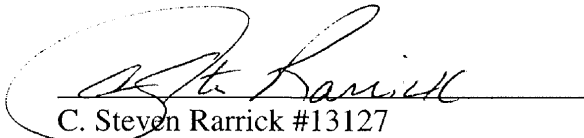
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For Rural Telephone Service Company, Inc.



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