

**STATE OF MISSOURI
PUBLIC SERVICE COMMISSION
JEFFERSON CITY
May 25, 2000**

CASE NO: TM-2000-403

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Enclosed find a certified copy of an ORDER in the above-numbered case(s).

Sincerely,



Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge

**STATE OF MISSOURI
PUBLIC SERVICE COMMISSION**

At a Session of the Public Service
Commission held at its office
in Jefferson City on the 25th
day of May, 2000.

In the Matter of the Joint Application)
of GTE Midwest Incorporated and Iowa)
Telecommunications Services, Inc., for)
Authority to Transfer and Acquire Part)
of GTE Midwest Incorporated's Franchise,)
Facilities and System Located in the)
State of Missouri and for Issuance of)
Certificates of Service Authority to Iowa)
Telecommunications Services, Inc., d/b/a)
Iowa Telecom and for Authority for Iowa)
Telecommunications Services, Inc., d/b/a)
Iowa Telecom to Borrow Funds in Connection)
Therewith to Execute a Telephone Loan)
Contract, Promissory Notes, and a Mortgage)
Security Agreement and Financing Statement)

Case No. TM-2000-403

ORDER APPROVING JOINT APPLICATION TO TRANSFER ASSETS

On January 4, 2000, GTE Midwest Incorporated (GTE) and Iowa Telecommunications Services, Inc., d/b/a Iowa Telecom (ITS) filed a joint application seeking authority to transfer certain assets from GTE to ITS. Pursuant to an asset purchase agreement entered into by and between GTE and ITS on July 1, 1999, GTE proposes to sell to ITS all of GTE's local telephone exchanges located in the state of Iowa. Three of those Iowa exchanges include approximately 105 access lines that serve customers physically located in Missouri. Since these access lines are located in Missouri, GTE and ITS are requesting approval of the proposed transaction by the Commission. In addition, ITS seeks a certificate of service

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authority to provide telecommunications services, including basic local and interexchange telecommunications services, in the service areas that it is purchasing from GTE. ITS also seeks authority to borrow from Rural Telephone Finance Corporation and Fleet Securities, Inc., or another broker, an amount of money sufficient to complete the proposed transactions.

The three affected exchanges that extend into Missouri are the Athens, Iowa exchange, which extends into Clark County, Missouri; the Braddyville, Iowa exchange, which extends into Nodaway County, Missouri; and the South Seymour, Iowa exchange, which extends into Putnam County, Missouri. On January 11, 2000, the Commission issued an Order and Notice that provided notice of the joint application to the county commissions of Clark, Nodaway and Putnam counties, to the members of the general assembly who represent those counties, and to the newspapers that serve those counties. Notice was also provided to all basic local and interexchange telecommunications companies in Missouri. The Order and Notice provided that any person wishing to intervene should file an application with the Commission on or before January 31, 2000. No requests to intervene were received.

The requirement for a hearing is met when the opportunity for hearing has been provided and no proper party has requested the opportunity to present evidence. State ex rel. Rex Deffenderfer Enterprises, Inc. v. Public Service Commission, 776 S.W.2d 494, 496 (Mo. App. 1989). Since no one has asked permission to intervene or requested

a hearing, the Commission may grant the relief requested based on the application.

On April 28, 2000, the Staff of the Commission (Staff) filed a Recommendation and Memorandum concerning the joint application. Pursuant to 4 CSR 240-2.080(16), parties are allowed not more than ten days in which to respond to any pleading unless otherwise ordered by the Commission. No party has filed a response to Staff's Recommendation and Memorandum.

Staff's Memorandum examines the proposed transaction and concludes that it will not be detrimental to the public interest and will not harm GTE's customers in the exchanges being sold. Staff also points out that the Iowa Utilities Board has already approved the transaction. Staff recommends that the Commission approve the sale of the Missouri system assets to ITS. Staff also recommends that GTE be authorized to discontinue providing telecommunications services in the sold exchanges as of the date of transfer.

Staff's Memorandum also addresses ITS' request for certificates of authority to provide basic local, local exchange and interexchange telecommunications service. ITS' application indicates that it proposes no immediate change in the rates, term and conditions of the service that GTE currently provides to the customers in the exchanges in question. ITS proposes to adopt GTE's tariffs for those three exchanges or file new ITS tariffs substantially similar to the existing GTE tariffs. Staff concludes that ITS will continue to provide the same rates and level of service that has been provided by GTE. Staff also concludes that ITS has

sufficient managerial, technical and financial qualifications to provide the necessary services. Finally, Staff indicates that ITS' application complies with all other requirements of Missouri law and regulation except the requirement that a proposed tariff with a 45-day effective date be filed along with the application. Staff recommends that the Commission waive the regulation that would require that the tariff be filed with the application. Staff further recommends that the Commission grant the requested certificates of authority but that the certificates not become effective until ITS' tariffs become effective.

The Joint Application requests authority for ITS to borrow money to finance the purchase of the exchanges. Staff's Recommendation concludes that because ITS is operating in both Iowa and Missouri, Section 392.290.2, RSMo 1994, provides that it need not obtain authorization from the Commission to borrow the funds it seeks.

Finally, Staff recommends that, as a condition for approval of the transaction, a deferred income tax provision be recognized for the Missouri properties. Staff indicates that this provision would ensure that there would be no financial detriment to Missouri ratepayers as a result of the loss of GTE's regulated deferred tax reserve and deferred tax credits as a result of the sale of the exchanges.

The Commission has reviewed the application, the accompanying documentation, and Staff's Recommendation and Memorandum and finds that the proposed transfer of assets will have no adverse impact on the Missouri customers of GTE. The Commission finds that the proposed transaction is not detrimental to the public interest and should be

approved, subject to the conditions recommended by Staff. The Commission further finds that ITS should be granted certificates of authority to provide basic local, local exchange and interexchange telecommunications service. Finally, the Commission finds that, pursuant to Section 392.290.2, RSMo 1994, ITS does not need Commission approval to borrow money, execute promissory notes, or execute and deliver a mortgage, security agreement and financing statement for the purpose of placing a lien on its assets and securing the loan.

IT IS THEREFORE ORDERED:

1. That the transfer and acquisition by Iowa Telecommunications Services, Inc., d/b/a Iowa Telecom of that part of GTE Midwest Incorporated's franchise, facilities, and system used in providing service to the public in the Missouri exchanges listed in Exhibit 4 of the Joint Application is approved.

2. That GTE Midwest Incorporated is authorized to discontinue providing telecommunications services to the Missouri exchanges listed in Exhibit 4 of the Joint Application, effective upon the transfer of those exchanges to Iowa Telecommunications Services, Inc., d/b/a Iowa Telecom and the effective date of implementing tariffs.

3. That Iowa Telecommunications Services, Inc., d/b/a Iowa Telecom is granted certificates of service authority to provide basic local, local exchange and interexchange telecommunications service. That such certificates of service authority shall become effective upon the effective date of tariffs to be filed by Iowa Telecommunications Services, Inc., d/b/a Iowa Telecom.

4. That Iowa Telecommunications Services, Inc., d/b/a Iowa Telecom's request for waiver of 4 CSR 240-2.060(4)(H) is granted.

5. That Iowa Telecommunications Services, Inc., d/b/a Iowa Telecom shall file new tariffs substantially similar to the existing tariffs of GTE Midwest Incorporated.

6. That GTE Midwest Incorporated shall file proposed tariff sheets to remove from its tariffs all references to the provisioning of basic local, local exchange and interexchange telecommunications services to the exchanges being sold to Iowa Telecommunications Services, Inc., d/b/a Iowa Telecom.

7. That the tariffs to be filed by GTE Midwest Incorporated and Iowa Telecommunications Services, Inc., d/b/a Iowa Telecom shall contain the same proposed effective date.

8. That Iowa Telecommunications Services, Inc., d/b/a Iowa Telecom shall use an additional offset to rate base in any filing for a general increase in telecommunications rates in Missouri initiated in the next five years to compensate for rate base deductions associated with deferred taxes eliminated by this transaction, unless Iowa Telecommunications Services, Inc., d/b/a Iowa Telecom can show that its actual deferred tax reserve is the same as, or greater than, that reserve would have been, taking into account the amortization provided hereinafter, absent the sale of these exchanges. The amount of offset shall reduce by 20 per cent per year on the anniversary date of the closing of the transaction.

9. That this order shall become effective on June 6, 2000.

BY THE COMMISSION



Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge

(S E A L)

Lumpe, Ch., Crumpton, and Drainer, CC., concur
Murray and Schemenauer, CC., absent

Woodruff, Regulatory Law Judge

Atty/Sec'y: Woodruff / Bryce

5-18 Date Circulated TM-2000-403 CASE NO.

18/05
Lumpe, Chair

[Signature]
Crumpton, Commissioner

absent
Murray, Commissioner

absent
Schemenauer, Commissioner

[Signature]
Drainer, Vice-Chair

5-25
Agenda Date

Action taken: 3-OAS

Must Vote Not Later Than _____

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

I have compared the preceding copy with the original on file in this office and
I do hereby certify the same to be a true copy therefrom and the whole thereof.

WITNESS my hand and seal of the Public Service Commission, at Jefferson City,
Missouri, this 25th day of May 2000.

Dale Hardy Roberts

**Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge**

