COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION FOR APPROVAL OF THE TRANSFER OF CONTROL OF ALLTEL KENTUCKY, INC. AND KENTUCKY ALLTEL, INC.	))))	CASE NO. 2005-00534

O R D E R

On December 22, 2005, Alltel Kentucky, Inc. ("Alltel Kentucky"), Kentucky Alltel, Inc. ("Kentucky Alltel"), Alltel Communications, Inc., Alltel Holding Corp., Valor Communications Group ("Valor"), and Alltel Holding Corporate Services, Inc. (collectively "Applicants") filed an application for the transfer of control of Alltel Kentucky and Kentucky Alltel. The proposal also included the transfer of Alltel Communications, Inc.'s long-distance resale customers. This initial application was submitted pursuant to KRS 278.020.

On January 23, 2006, the Applicants submitted an amended application requesting that the Kentucky incumbent local exchange carrier ("ILEC") subsidiaries, Kentucky Alltel and Alltel Kentucky, be permitted to guarantee certain indebtedness of their parent corporation. This amended application was submitted pursuant to KRS 278.300. On February 16, 2006, the Applicants prefiled testimony thereby completing the application process.

On April 12, 2006, the Applicants notified the Commission by letter that they had entered into an agreement with their lenders removing the Kentucky operating companies' proposed guarantees and asset liens. According to the Applicants, this removal of guarantees and liens eliminates the need to seek approval under KRS 278.300.

Intervenors in this proceeding are the Attorney General by and through his Rate Intervention Division, Lexington-Fayette Urban County Government ("LFUCG"), SouthEast Telephone, Inc., ALEC, Inc., Kentucky Telephone Company, NuVox Communications, Inc., Brandenburg Telephone Company, the Communications Workers of America ("CWA"), and the International Brotherhood of Electrical Workers ("IBEW"). Intervenors prefiled their testimony on April 21, 2006. A public hearing was convened on April 25, 2006. The transcript of the hearing has been filed and post-hearing briefs have been received.

A few days before the public hearing, the Attorney General and LFUCG filed motions to dismiss this case and to request a more definite statement about the proposal. The Attorney General's basis for his motion to dismiss was the Applicants' letter informing the Commission that the Kentucky ILECs' proposed guarantees and asset liens had been removed. The Attorney General believes that this dramatically altered the filing and that the matter should be dismissed without prejudice to Applicants refiling. LFUCG asked that the Applicants be required to clarify with more details what they are seeking from the Commission. Both of these motions should be denied. The concerns raised by the motions were addressed during the public hearing. Dismissing this proceeding merely to reinitiate it would not serve the public interest.

PROPOSED TRANSACTION

The Applicants propose to separate the wireline business of Alltel Corporation from the wireless business of Alltel Corporation and merge the wireline business with Valor. To accomplish this, two new subsidiaries of Alltel Corporation have been created, Alltel Holding Corp. and Alltel Holding Corporate Services, Inc. Alltel Corporation, the parent of the Kentucky ILECs, will transfer the ownership of Alltel Kentucky, Kentucky Alltel, and Alltel Corporation's other ILEC subsidiaries to Alltel Holding Corp. Likewise, customers of Alltel Communications, Inc.'s long-distance resale business will be transferred to Alltel Holding Corporate Services, Inc., which will become a wholly owned subsidiary of Alltel Holding Corp. Alltel Holding Corp.'s ownership will be transferred from Alltel Corporation to Alltel Corporation's shareholders, thereby establishing Alltel Holding Corp. as a stand-alone holding company. Finally, Alltel Holding Corp. will merge into Valor. The stand-alone wireline holding company is to be called Windstream Corporation ("Windstream"). It will serve approximately 3.4 million access lines in 16 states. At the conclusion of the transaction, shareholders of Alltel Corporation will own 85 percent of Windstream, and shareholders of Valor will own 15 percent of Windstream.

STATUTORY PROVISIONS

KRS 278.020(5) provides that no person may acquire or transfer control or ownership of a utility under the jurisdiction of the Commission without prior approval by the Commission, which approval shall not be withheld if the Commission determines that the acquirer has the financial, technical, and managerial abilities to provide reasonable service. The Commission must also determine that the acquisition is made in accordance with the law and for a proper purpose and is consistent with the public interest. KRS 278.020(6) allows the Commission to grant any application in whole or in part upon terms and conditions it deems necessary or appropriate.

As it appears from the Applicants' April 12, 2006 letter, referenced infra, that no assumption of debt is proposed for the Kentucky ILECs, KRS 278.300 is inapplicable to this proceeding.

DISCUSSION

Applicants assert that the spin-off of the wireline business and the merger with Valor will occur only at the holding company level. The Kentucky ILECs will remain intact, their employees will remain unchanged, and their rates will remain unchanged. According to the Applicants, the transaction will be transparent to Kentucky ratepayers except for the name changes of the ILECs.

The Attorney General, CWA, and IBEW ask that the Commission deny the spin-off and merger. They contend that the financial strength of the wireline business corporation created as a result of this proposed transaction is too uncertain to be in the public interest. The CWA and IBEW also express concern that Windstream will be too financially weak to have resources to invest in Kentucky. They assert that the $2.4 billion special dividend that Windstream must pay to Alltel Corporation to complete the transaction will cause Windstream to be financially weak. In response to these allegations, the Applicants point to a Duff & Phelps, LLC study which indicates that Windstream will be financially viable.

The Attorney General, CWA, and IBEW request that, if the Commission approves the spin-off and merger, certain conditions be imposed on the Applicants. Under crossexamination, Applicants agreed to certain outcomes if the Commission were to approve this spin-off and merger. No reduction in the employee headcount in Kentucky would occur as a result of this transaction.[1] Should any non-investment grade debt (rated below BBB) be incurred by Windstream, any additional costs of such debt shall not be recovered from the Kentucky ratepayers.[2] Pension plans of Alltel Corporation shall be transferred to Windstream for both employees of Alltel Corporation subsidiaries and Valor.[3] Moreover, the division of pension fund assets between Alltel Corporation and Windstream should be proportional to the prospective pension fund liabilities of the two entities. In the event that Windstream defaults and attempts are made by its creditors to take control of the Kentucky ILEC assets, these lenders are legally obligated to seek approval of the Commission before taking control of the Kentucky ILECs.

The Applicants have demonstrated economies of scale in terms of labor, expenditures, and capital investments which will result from this spin-off and merger. In addition, they have shown that the Kentucky customers will benefit from a stand-alone wireline entity which will not need to compete directly against wireless operations within its corporate structure for capital investment.

CONCLUSION

After careful consideration and deliberation, the Commission has determined that if certain conditions specified herein are met, then Windstream will meet the standards

[1] Transcript of Evidence ("T.E.") at 116, lines 20-25.

[2] T.E. at 151, lines 7-22.

[3] T.E. at 164, line 19.

set forth in KRS 278.020. The Applicants have provided sufficient evidence to support their assertion that Windstream will have the financial, technical, and managerial ability to provide reasonable service to Kentucky consumers. The Commission further finds that if Windstream agrees to the terms upon which the Commission's approval is conditioned, the proposed transaction will be made in accordance with the law, does not violate any statutory prohibition, and is consistent with the public interest. Windstream's management expertise and adequate financial resources, along with its technical expertise, will provide Kentucky end-users with reliable and reasonable services.

IT IS THEREFORE ORDERED that:

1. The application for the spin-off by Alltel Corporation of its wireline business and the merger with Valor is approved, subject to the following terms and conditions contained herein.

2. The Attorney General's motion to dismiss and LFUCG's motion to clarify the proceeding are denied.

3. The headquarters of the Kentucky ILECs of Windstream shall remain in Kentucky.[4]

4. The ratepayers shall not bear directly or indirectly any costs, liabilities, or obligations incurred pursuant to the proposed spin-off and merger.[5]

5. Windstream shall not pledge the regulated assets of its Kentucky ILECs. This includes any liens or guarantees on its operating subsidiaries for the purpose of

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[4] T.E. at 117, lines 1-4, 9, 12-17.

[5] T.E. at 117, lines 18-23.

completing its debt financing. Should such liens or guarantees become necessary in Windstream's view, then approval shall be sought from the Commission.[6]

6. Windstream shall provide to the Commission and the parties to this action each initial credit rating agency report occasioned by the spin-off and merger within 15 days of their issuance.[7]

7. The Commission and the parties to this action shall be notified of any downgrading of the Windstream debt within seven days of such downgrade.

8. Windstream and the Kentucky ILECs shall employ and continue to employ adequate resources to meet the quality of service standards established by the Commission.[8]

9. Windstream shall continue to invest in wireline-based high-speed Internet access facilities and capabilities in the Commonwealth of Kentucky.[9]

10. Should the transaction approved herein not be tax-free as indicated by the Applicants, the Applicants shall so advise the Commission.

11. The CEOs or other persons authorized to act on behalf of each of the Applicants in this proceeding shall file, within 10 days of the date of this Order, a written acknowledgement agreeing to be bound by each of the conditions contained herein.

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[6] T.E. at 121, line 23 through 122, line 1; 122, lines 12-17.

[7] T.E. at 124, line 24 through 125, line 5.

[8] T.E. at 125, lines 9-16.

[9] T.E. at 125, line 25 through 126, line 23.

Done at Frankfort, Kentucky, this 23rd day of May, 2006.

By the Commission

ATTEST:

Executive Director