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COMMONWEALTH OF KENTUCKY
OFFICE OF THE ATTORNEY GENERAL

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April 13, 2006

RECEIVED

Mr. Mark Overstreet, Esq.
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P.O. Box 634
Frankfort, KY 40602-0634
VIA U.S. MAIL; COPY VIA E-MAIL

APR 13 2006

**PUBLIC SERVICE
COMMISSION**

Dear Mark,

This letter is in response to yours dated April 12, 2006, e-mailed to our offices late that afternoon.

Your letter states that the lenders providing a substantial portion of the financing necessary to accomplish the transaction contemplated in KY PSC Case No. 2005-00534 have agreed to remove the operating company guarantees and asset liens for selected regulated subsidiaries from the previously proposed debt financing security package. Your letter further states that this includes AKI; KAI; Alltel Holding Corporate Services, Inc.; and regulated subsidiaries operating in Florida, Georgia, Mississippi, Missouri, Nebraska, New York, North Carolina, Ohio and Pennsylvania.

While this may prove to be a welcome development, it nonetheless raises a number of new questions which we ask be resolved.

First, this development is clearly a material change which we believe requires the application to somehow be addressed, amended, revised or restated, to reflect the correct facts and circumstances resulting from the revised proposal. Put another way, we believe that your letter alone does not suffice to revise all the relevant and necessary facts and terms in the current application.

Second, the two rounds of discovery between your clients, intervenors, and PSC staff clearly contemplated materially different financing arrangements, which assumed the guarantees/liens. The responses to those requests dealing with the guarantees/liens, or in any manner implicated by the financing changes associated with removal of the guarantees/liens requirement, would need amendment, revision or restatement.

Third, the letter implies that removal of the security requirements from the previously arranged financing package was the only change to the prices, terms and conditions associated with the financing package. Until provided documentation demonstrating otherwise, we are assuming that



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in the absence of the guarantees/liens, other terms in the revised financing package (e.g., interest rates) would have changed in favor of the lender. Therefore, any responses to discovery requests addressing or implicated by other terms (e.g., interest rates) of the revised financing package would likewise also have to be addressed.

Fourth, your letter references an agreement with your client's financiers, so we would need a copy of that agreement, together with any and all attachments, side letters, schedules, etc. pertaining thereto. Ancillary to this issue is whether the agreement to remove the guarantees/liens has any conditions. For example, could guarantees/liens be re-imposed under certain conditions? Is the agreement to forego guarantees/liens only temporary, or is it intended to be permanent over the life of the financing arrangement?

Fifth, the debt financing agreement is clearly a collection of interrelated provisions that stand as a whole, and must be viewed in their entirety. All discovery responses to date indicate that guarantees/liens were perceived as an integral and necessary piece of the finance package. The question that immediately comes to mind is, what did the Joint Applicants have to give up for their financiers to agree to this concession? Additionally, we have a question ancillary to this issue: we assume higher interest rates will be imposed in exchange for the foregoing of guarantees/liens – this will have at least some impact on the financial projection information provided to Duff & Phelps for its use in the solvency opinions, and the financial projections analyzed by management and provided to the Joint Applicants' respective Boards in connection with this matter (e.g., documents provided in response to AG-1-47). We further assume that the respective Boards have reviewed, considered and approved the revised financing package. Consequently, all materials provided to and/or used by the respective Boards in this regard should be available for immediate transmission to the parties and PSC staff, as a matter of updating your responses to both prior discovery rounds, particularly since the Joint Applicants have requested and continue to request expedited treatment of this matter.

Lastly, we ask that any other responses not noted above be updated in the event they have changed as a result of the new financing-related development referenced in your letter.

Again, we thank you and your clients for communicating this new development to us, and we look forward to discussing it with you in further detail.

Sincerely,

Handwritten signature of Dennis G. Howard, II in cursive script.

Dennis G. Howard, II
Acting Director
Office of Rate Intervention

cc: Ms. Beth O'Donnell; Counsel of record