COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PETITION BY ALLTEL CORPORATION TO ACQUIRE THE KENTUCKY ASSETS OF VERIZON SOUTH, INCORPORATED	)))	CASE NO. 2001-00399

O R D E R

On November 30, 2001, Kentucky ALLTEL, Inc. (ALLTEL), a wholly owned subsidiary of ALLTEL Corporation, and Verizon South, Inc. (Verizon) (collectively Applicants) filed a joint application pursuant to KRS 278.020(4) and (5) and 807 KAR 5:001, Section 8, requesting Commission approval for Verizon to transfer its Kentucky assets to ALLTEL.

PROCEDURE

On November 21, 2001, the Commission, on its own motion, initiated this investigation into the reasonableness of this proposed acquisition and established a procedural schedule providing for discovery, intervenor testimony, rebuttal testimony, public hearing, and post-hearing briefs. Brandenburg Telecom LLC (Brandenburg), South Central LLC (South Central), the Communications Workers of America (CWA), and Lexington-Fayette Urban County Government (LFUCG) moved to intervene. The Commission granted these motions.

At the conclusion of the January 9, 2002 hearing, the Applicants requested the right to file post-hearing briefs. This request was granted and the Applicants, Brandenburg, South Central, and LFUCG filed post-hearing briefs on January 31, 2002.

All parties agreed that good cause had been shown to extend the date by which an Order must be entered to February 15, 2002.

PROPOSED TRANSACTION

Verizon is a corporation organized pursuant to the laws of the state of Virginia that provides local and intraLATA toll telephone service to customers in the Commonwealth of Kentucky. Verizon s authority to provide retail telephone service in Kentucky is pursuant to Certificates of Public Convenience and Necessity issued by this Commission. Verizon has over $279 million in annual intrastate operating revenues.[1]

ALLTEL is a corporation organized pursuant to the laws of the state of Delaware with its principal office in Louisville, Kentucky. ALLTEL s present address is 239 South 5th Street, Suite 1511, Louisville, Kentucky 40202.

ALLTEL is a wholly owned subsidiary of ALLTEL Corporation, a Delaware corporation, with its principal place of business located at One Allied Drive, Little Rock, Arkansas 72202. Subsidiaries of ALLTEL Corporation currently provide telecommunications services in 49 states and operate as an incumbent local exchange carrier (ILEC) in 15 states.[2] ALLTEL Corporation is the second largest independent ILEC in the United States with approximately 2.6 million access lines.[3] ALLTEL is the sixth largest wireless carrier and serves approximately 6.3 million customers.[4] In 2000,

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[1] Direct Testimony of George Page at 5.

[2] ALLTEL Corporation has ILEC operations in Alabama, Arkansas, Florida, Georgia, Kentucky, Michigan, Mississippi, Nebraska, New York, North Carolina, Ohio, Oklahoma, Pennsylvania, South Carolina, and Texas.

[3] Direct Testimony of George Page at 7.

[4] Id.

ALLTEL Corporation reported an operating income of $1.7 billion and a net income of $863 million.

Joint Applicants entered into an Asset Purchase Agreement on October 31, 2001. Pursuant to this agreement, Verizon s regulated telephone properties and related assets in Kentucky will be transferred to ALLTEL in consideration of the payment to Verizon of the purchase price, as defined in Section 3.1 of the agreement. ALLTEL Corporation, the parent company of ALLTEL, will provide the $1.9 billion purchase price on behalf of ALLTEL. The asset purchase agreement is subject to certain conditions, one of which is approval by this Commission with respect to the transfer to ALLTEL of the assets, including but not limited to the relevant Certificates of Public Convenience and Necessity. Upon Commission approval of the acquisition and the closing of the transaction, the Certificates of Public Convenience and Necessity for the properties will be reissued in the name of ALLTEL.

STATUTORY PROVISIONS

KRS 278.020(4) provides that no person may acquire or transfer control or ownership of a utility without prior approval by the Commission. The Commission shall approve the transfer if it 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, for a proper purpose, and is consistent with the public interest. KRS 278.020(5) allows the Commission to grant any application in whole or in part upon terms and conditions it deems necessary or appropriate.

After careful consideration and deliberation, the Commission has determined that, if certain conditions specified herein are met, then ALLTEL will meet the standards set forth in KRS Chapter 278. The Applicants have provided evidence to support their assertion that ALLTEL has the financial, technical, and managerial ability to provide reasonable service to Kentucky consumers.

One of the primary reasons that ALLTEL will have the financial ability to provide reasonable service is that it is acquiring a financially sound ongoing business without issuing debt.[5] Additionally, ALLTEL s financial resources will not be affected by the payment of the purchase price, as ALLTEL Corporation will provide both the premium and the purchase price.[6] ALLTEL will not be responsible for any debt issued to acquire the assets and ALLTEL Corporation will not include the premium or related amortization in ALLTEL s balance sheet or income statement.[7]

ALLTEL has also demonstrated the technical and managerial ability necessary to provide reasonable service to Kentucky customers. Verizon currently employs approximately 1,758 employees in Kentucky.[8] Approximately 950 of these employees will transfer to ALLTEL and many of Verizon s management personnel will continue with ALLTEL following the acquisition. The remaining employees will stay with Verizon. The transferred employees will serve in conjunction with ALLTEL s existing management

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[5] Direct Testimony of George Page at 5 and at Exhibit B.

[6] ALLTEL Corporation is not a utility as defined in KRS 278.010(3) and therefore is not subject to scrutiny pursuant to KRS 278.300.

[7] Direct Testimony of George Page at 8.

[8] Id. at 9.

team. Many of ALLTEL s management leaders have successfully managed and operated other ILECs and possess an average of over 20 years each of telecommunications experience.[9] ALLTEL will also receive support and assistance from ALLTEL Corporation s management and telecommunications personnel.

We further find that, if ALLTEL agrees to the conditions upon which our approval is conditioned, the proposed acquisition is made in accordance with law, does not violate any statutory prohibition, and is consistent with the public interest. ALLTEL s management expertise and sound financial resources, when combined with the vast technical experience of ALLTEL Corporation, ensure that Kentucky consumers will be served by a company experienced in meeting the challenges associated with bringing reliable and affordable services to its customers.

While ALLTEL has demonstrated to this Commission that it has the financial, technical, and managerial ability to provide reasonable service to Kentucky customers if it agrees to comply with certain conditions, the Commission continues to have concerns about some aspects of the proposed transaction. These areas are the subject of the conditions upon which our approval is contingent and will be diligently monitored in the coming months.

<u>Service Quality and Rates</u>

During this proceeding, the Commission learned of the substandard customer service provided by ALLTEL in Nebraska. In a 2001 report, the Nebraska Public Service Commission identified several flaws with the customer service and stated that the company had failed to provide the quality of service required when it acquired

[9] Direct Testimony of Steve Mowery at 5.

Aliant Communications in 1999.[10] At a public hearing on the issue, ALLTEL s Nebraska customers complained of excessive hold time, significant billing errors, excessive static, and untimely service repair.[11] ALLTEL has attributed the service quality deficiencies in Nebraska to a difficult conversion from the Aliant service system to the ALLTEL service system.[12] ALLTEL has since improved service in Nebraska.[13] However, to maintain the level of service quality Kentuckians have enjoyed under Verizon, this Commission will require ALLTEL to adopt the service standards imposed on Verizon when GTE merged with Bell Atlantic.[14] Accordingly, ALLTEL will be required to file monthly service reports using the 2 prior years as a benchmark for performance standards. In addition, ALLTEL shall file a report of corrective action if it fails to meet any Commission service objective for 3 consecutive months.[15]

With regard to rates, ALLTEL has identified six items in Verizon s existing tariff that it will be unable to offer due to system limitations. Those items include Advance Credit Management, Lifeline Toll Control, Directory Assistance Call Completion,

[10] Nebraska Public Service Commission Report, Application No. C-2483/PI 43, August 21, 2001, at 8.

[11] Id. at 3-4.

[12] Direct Testimony of Steve Mowery at 8.

[13] After hiring more service representatives and providing additional training for existing employees, the company has met or exceeded most service quality standards. Direct Testimony of Steve Mowery at 10.

[14] Case No. 99-296, Joint Application of Bell Atlantic Corporation and GTE Corporation For Order Authorizing Transfer of Utility Control (Order dated September 7, 1999) at 9.

[15] 1996-1997 PSC Management Audit of GTE.

Automatic Time and Charge Reporting Service, LDMTS Conference Call, and Local Calling Card Service. Advanced Credit Management is a service that Verizon uses to rate a customer s credit to determine that customer s credit worthiness and determine credit limits for toll usage. Lifeline Toll Control provides for a limitation on the Lifeline customer s toll usage. Lifeline Toll Control blocks toll usage completely or limits toll usage to a certain dollar amount. Directory Assistance Call Completion provides for the completion of a call of a requested number through Directory Assistance. Automatic Time and Charge Reporting Service provides billing information on paid toll messages routed through the Traffic Service Position System facilities equipped to provide this service. LDMTS Conference Call service provides for a bridge to complete conference calls of three of more parties. Local Calling Card Service provides for billing of local calls through a calling card.

The Commission finds that the provision of these services is technically infeasible for ALLTEL to provide; however, the overall impact on Kentucky customers will be minimal. Other alternatives are available for most services and demand for some are quite low. However, because ALLTEL testified that it could provide optional Toll Blocking for Lifeline customers, the Commission will require the company to provide this service.[16] ALLTEL should apprise the Commission of any other services currently offered by Verizon that it will not provide and any potential impact on Kentucky customers.

[16] Transcript of Evidence (T.E.) at 113.

Possible Earnings Reductions

Since the fourth quarter of 1999, the Commission Staff has been meeting quarterly with Verizon to address earnings in excess of Verizon s authorized rate of return. These meetings were ordered as a condition of the merger between GTE and Bell Atlantic.[17] The Commission Staff and Verizon have been successful in addressing earnings issues and service-related issues. Verizon has voluntarily reduced its earnings by $46 million. Verizon is not earning in excess of its authorized rate of return at this time; however, the Commission requires ALLTEL to continue these quarterly meetings with the Commission Staff unless and until the Commission authorizes an alternative regulation plan for ALLTEL. The uncertainties about the future cost structure of ALLTEL after it takes over the Kentucky Verizon properties, the facilitation of transition of new management, and the need for the Commission to be kept apprised of any changes that may occur in the coming months indicate the value of these continued discussions.

Call Centers

To avoid conversion difficulties in Kentucky, ALLTEL has committed to hire and train 240 new customer service workers to meet the anticipated increase in call volume that this acquisition will generate. These additional service representatives are an integral part of ALLTEL s plan for appropriately converting Verizon s Kentucky properties. The added service representatives will provide new order and change order service, as well as other services for Kentucky wireline customers.[18] Increasing

[17] Case No. 99-296 at 10.

[18] Direct Testimony of George Page at 11-12.

personnel at the existing call center in Charlotte, North Carolina, instead of establishing a new, stand-alone call center in Kentucky, will benefit the company by $7 million annually.[19]

The Commission recognizes that ALLTEL s decision to increase the manpower in the existing call center is a necessary business decision. However, the Commission encourages ALLTEL management to consider Kentucky as a site for future infrastructure expansion. The Commonwealth has many advantages including low energy costs, economic development initiatives and an excellent work force. The Commission believes that these Kentucky attributes, as well as others, would prove beneficial to ALLTEL in any future expansion initiatives.

Operational Support System

The Telecommunications Act of 1996[20] requires telephone companies to open their networks to competition. Three paths of entry into the local market are contemplated: the construction of new networks, resale, and the use of unbundled network elements (UNE) in the ILEC s network. Section 251(c)(3) requires ILECs to provide nondiscriminatory access to network elements on rates, terms, and conditions that are just, reasonable, and nondiscriminatory. Nondiscriminatory access to the operational support system (OSS) of ALLTEL by its competitors is a chief concern of the Commission. The Commission has reservations concerning ALLTEL s OSS system. The FCC s First Report and Order implementing local competition discusses OSS requirements:

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[19] T.E. at 264.

[20] Pub. L. No. 104-104, 110 Stat. 56 (1996).

> Much of the information maintained by these systems is critical to the ability of other carriers to compete with incumbent LECs using unbundled network elements or resold services. Without access to review, *inter alia*, available telephone numbers, service interval information, and maintenance histories, competing carriers would operate at a significant disadvantage with respect to the incumbent. Other information, such as the facilities and services assigned to a particular customer, is necessary to a competing carrier's ability to provision and offer competing services to incumbent LEC customers. Finally, if competing carriers are unable to perform the functions of pre-ordering, ordering, provisioning, maintenance and repair, and billing for network elements and resale services in substantially the same time and manner that an incumbent can for itself, competing carriers will be severely disadvantaged, if not precluded altogether, from fairly competing. Thus providing nondiscriminatory access to these support systems functions, which would include access to the information such systems contain, is vital to creating opportunities for meaningful competition. [21]

ALLTEL does not possess an electronic gateway into an OSS system at this time and has relied instead on a paper system to serve competitive local exchange carriers (CLECs).[22] However, due to a preponderance of CLEC orders, ALLTEL is now developing a Web-based graphical user interface (GUI).[23] ALLTEL is developing the GUI s design requirements to incorporate the functionality and features required by interconnecting CLECs. ALLTEL asserts that its OSS system for competitors will be fully operational by the July 31 acquisition date, stating that the process is not rocket

[21] FCC 96-325, Implementation of the Local Competition Provisions in the Telecommunications Act of 1996, <u>rel.</u> August 8, 1996, at ¶ 518.

[22] Direct Testimony of Alfred Busbee at 7. A paper system utilizes e-mail and facsimile to provide OSS services. <u>Id.</u>

[23] While this is a step in the right direction, the development of a GUI does not constitute an electronic, real-time OSS system.

science.[24] Given the complexity of developing an OSS system that allows CLEC electronic order flow-through, the Commission finds ALLTEL s assertions somewhat surprising.

In contrast to ALLTEL, Verizon has spent years developing its OSS system. As a result, Verizon employees have attained a wealth of knowledge in the area of OSS development. Brandenburg and South Central have specifically requested that the Commission require ALLTEL to purchase Verizon s OSS system.[25] The Commission finds it is not feasible to do so because Verizon s OSS system is fully integrated into the entire Verizon network and cannot be extricated. While the Commission understands that ALLTEL has made a business decision against purchasing Verizon s OSS system,[26] the Commission fails to understand the lack of cooperation between Verizon and ALLTEL in implementing ALLTEL s new OSS system. The Commission also questions ALLTEL s failure to seek advice and input from any CLEC or other experienced entities.[27] Kentucky s CLECs demand and are entitled to an efficient, fully-functional OSS system and expect a certain level of familiarity with the processes involved in interconnecting with an ILEC network.

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[24] T.E. at 216.

[25] Brandenburg and South Central post-hearing brief at 3.

[26] Direct Testimony of Alfred Busbee at 5.

[27] T.E. at 174. ALLTEL goes on to say during the hearing that its under-development OSS system is being beta-tested by a regional CLEC, doing business through resale. This is entirely different and less demanding than the UNE environment that ALLTEL feels totally confident it can serve, without any actual CLEC flow-through testing.

This Commission is very familiar with the challenges and complexities associated with OSS development and implementation, and finds ALLTEL s position on these issues very troubling. The Commission anticipates that a number of setbacks and delays may occur as ALLTEL begins to implement an electronic OSS for CLEC interface with its systems.[28] Consequently, the Commission makes the following requirements as conditions to approval of this acquisition. The Commission will work closely with ALLTEL to ensure that the goals specified herein are met. ALLTEL will be required to provide monthly OSS updates to the Commission through the year 2003, at which time the Commission will review both the reporting and implementation process. These reports should be filed into the record of this case and served on the parties. The monthly OSS update reports shall contain information on each of the following requirements:

1. ALLTEL will meet quarterly with a consortium of Kentucky CLECs to implement mutual design objectives. Brief summaries containing a list of the attendees and issues discussed should be filed as part of the monthly OSS update report.

2. ALLTEL will develop a change management system.

3. ALLTEL will create an interface testing and training environment.

4. ALLTEL will create a methodology to evaluate order flow prior to handling actual orders.

5. ALLTEL will conduct volume/metrics testing.

6. ALLTEL will make reasonable efforts to achieve parity between itself and the CLECs.

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[28] As stated above, an OSS system entails much more than a GUI.

7. ALLTEL will create a mechanism to address collocation issues and network design verification and validation.

8. ALLTEL will conduct end-to-end testing of both the wholesale and retail trouble report processes.

9. ALLTEL will conduct maintenance and repair evaluations.

10. ALLTEL will conduct billing transaction and process testing.

11. ALLTEL will create a bill production and distribution process.

12. ALLTEL will offer CLEC training.

13. ALLTEL will offer work center/help desk development.

To ensure ALLTEL s continued compliance with the requirements of state and federal laws regarding parity of competitive offerings, the Commission herein initiates a proceeding to investigate necessary performance measures. By no later than July 1, 2002, ALLTEL shall propose performance measures in a format similar to those ordered for BellSouth Telecommunications, Inc. in Case No. 2001-105.[29]

Digital Subscriber Loop

ALLTEL Corporation currently serves more than 25,000 Digital Subscriber Loop (DSL) customers in over 139 exchanges.[30] This number includes several hundred customers receiving DSL service in ALLTEL s Bullitt County, Kentucky exchanges. ALLTEL views DSL deployment as a strategic evolutionary phenomena that s occurring

[29] Case No. 2001-105, Investigation Concerning the Propriety of InterLATA Services by BellSouth Telecommunications, Inc., Pursuant to the Telecommunications Act of 1996 (Order dated October 19, 2001).

[30] Direct Testimony of George Page at 10.

in the wireline industry [31] and further states that it s going to be our lifeblood down the road, in all honesty. [32] This Commission is encouraged by these views and wholeheartedly supports ALLTEL s vision of the future of DSL.

Due in part to Kentucky s rural landscape and previous management decisions, the service area that ALLTEL will acquire is currently underserved with 82 percent of the exchanges lacking DSL capability.[33] ALLTEL has articulated a tentative plan to expand DSL to eight new exchanges.[34] This would extend DSL service to 62,000 additional access lines. While the Commission is pleased with this initiative to expand DSL deployment, it encourages future deployments, and looks forward to ongoing dialogue between ALLTEL on this issue. The Commission has received several comments regarding the availability of DSL and will carefully monitor ALLTEL s deployment strategy.[35]

Collective Bargaining

In response to concerns of Verizon s employees raised during the hearing, ALLTEL has committed to honor to the letter the collective bargaining agreements

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[31] T.E. at 65.

[32] T.E. at 68.

[33] Direct Testimony of George Page at 10.

[34] T.E. at 64. The exchanges committed to within 6 months of the acquisition closing date are Columbia, Campbellsville, Glasgow, Lebanon, Leitchfield, Irvine, Russell, and Barbourville.

[35] Commission Staff has received numerous e-mail and informal inquiries regarding the future availability of DSL from ALLTEL.

currently in place between Verizon and its employees.[36] Indeed, this commitment is part of the Asset Purchase Agreement. ALLTEL has also promised to honor all work rules, compensation agreements, and dispute resolution agreements. The Commission also requires ALLTEL to honor all memoranda of understanding between Verizon and its employees. On February 1, 2002, CWA advised the Commission that it now does not oppose the asset transfer.

Merger of Kentucky Subsidiaries

In approving the petition by ALLTEL Corporation to acquire the Kentucky assets of Verizon, the Commission has determined that, for the present, ALLTEL will be permitted to operate two separate ILECs in this Commonwealth. The Commission agrees with ALLTEL that a merger of these two subsidiaries concurrent with the acquisition of the business from Verizon would cause unnecessary complications and confusion in the process.[37] The Commission also agrees that there are several operational differences between the two utilities that will have to be resolved before a merger can take place.[38]

However, the Commission does not believe that maintaining two separate ILECs will always be in the public interest. Therefore, within 2 years of the closing date of the acquisition, the Commission will require ALLTEL to file a plan regarding the merger of ALLTEL, Inc. and ALLTEL Kentucky, Inc. In developing the plan, ALLTEL, as a preliminary matter, should assume that the local service rate schedules now in place in

[36] T.E. at 46.

[37] Response to Item 12 of the Commission Staff s Second Data Request.

[38] Direct Testimony of Steven Mowery at 13-15.

ALLTEL Kentucky, Inc. could be retained as a separate rate schedule. ALLTEL should also assume that the ALLTEL Kentucky, Inc. study area will remain separate from the ALLTEL, Inc. study area for interstate settlement purposes. Finally, ALLTEL shall include in its plan the assumption that ALLTEL, Inc. s intrastate access charge tariff will be adopted for ALLTEL Kentucky, Inc. s operating area. Such a plan should result in lower access charge fees for interexchange carriers that they can, in turn, pass on to Kentucky ratepaypers in the form of lower toll charges.[39]

Capital Commitments

In conjunction with the merger of GTE and Bell Atlantic, certain commitments were made to the Commonwealth of Kentucky. They were: (1) to extend CLASS services to 100 percent of GTE s exchanges within 4 years of the merger close; (2) to enter the Louisville market within 18 months of the merger close and provide high speed data services; (3) to provide a guaranteed minimum of $222 million in capital commitments for 3 years following the merger; and (4) to expand local calling plans to local calling areas across the state.[40] Verizon has fulfilled three of these commitments. It has extended CLASS services to all exchanges in its territory except two (Tollesboro and Garrison). It expects to deploy CLASS features in these exchanges by May 2002, prior to any closing date of this acquisition. Verizon has also advised the Commission that it now has entered the Louisville market providing service through a subsidiary,

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[39] ALLTEL Kentucky NTSRR rate element - $2.51/month/access line vs. Verizon NTSRR rate element - $2.1075/month/access line.

[40] Case No. 99-296 (Order dated September 7, 1999).

Verizon Select Services, Inc. Moreover, Verizon has also expanded local calling plans to all of its service areas by tariffs effective August 24, 2000.

Verizon has also stated that it has substantially met the commitment of $222 million in capital. However, the Commission disagrees. Verizon states that it will have spent $190 to $200 million by close of the acquisition.[41] This expenditure falls short of the $222 million commitment. The Commission will require Verizon to fulfill its commitment of $222 million in capital spending prior to close of sale as a condition to approving the proposed acquisition.

Moreover, ALLTEL should file annually its capital budget and expenditures for Kentucky in the format adopted by Verizon based on the management audit of GTE. This includes the budget information relating to Recommendations No. III.C.3 and III.D.2, including the supplemental TAC Focus/Plant Maintenance (Field Initiated Profiles)/Business Case reports. In addition, ALLTEL should inform the Commission if there is any material change in either program structure or budget commitment that differs from Verizon s previous expenditures.[42]

Suspension or Modification for Rural Carriers

The Commission acknowledges that ALLTEL meets the federal standards to qualify for the rural suspension or modification available pursuant to Section 251(f)(2) of the 1996 Telecommunications Act to companies that operate fewer than 2 percent of the nation s access lines. ALLTEL recognizes that it would have to petition this

[41] T.E. at 297-298.

[42] See, the Company Response to Recommendation No. III.C.2 on page MAAP III-35 of the Comprehensive Management Audit of GTE South, Incorporated, Management Audit Action Plans issued January 7, 1998.

Commission for approval before asserting this suspension or modification. However, ALLTEL does not presently anticipate the need to assert any suspension or modification.[43]

Establishing UNE Rates

In an administrative proceeding, the Commission ordered Verizon or its successor to submit UNE rates with supporting documentation by no later than March 18, 2002.[44] In that proceeding, Verizon filed a motion, on January 24, 2002, for an extension of time to file its proposed UNE rates. Verizon asserts that if this asset transfer is approved, then ALLTEL will be the proper entity to file proposed UNE rates.[45] The Commission herein requires ALLTEL to file its proposed UNE rates in the format specified by the Commission in Administrative Case No. 382 by no later than September 5, 2002. Moreover, the Commission directed its Staff to schedule an informal conference to begin discussions about Verizon s UNE rates and whether those rates will be appropriate for ALLTEL to charge its competitors. The Commission anticipates that representatives from both Verizon and ALLTEL will attend this conference. At this conference, ALLTEL should also be prepared to discuss the methodology that it has used in New York to develop UNE rates.[46] Moreover, the

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[43] T.E. at 105.

[44] Administrative Case No. 382, An Inquiry Into the Development of Deaveraged Rates for Unbundled Network Elements (Order dated December 18, 2001) at 38.

[45] By Order dated February 8, 2002, in Administrative Case No. 382, the Commission granted Verizon s motion.

[46] T.E. at 234.

Commission expects ALLTEL to obtain from Verizon all information necessary for ALLTEL to propose reasonable UNE rates in the near future.

CONCLUSIONS

The Applicants have provided sufficient evidence to prove that ALLTEL has the financial, technical, and managerial ability to provide reasonable service to Kentucky customers, when certain conditions are met. The proposed acquisition is made in accordance with law, does not violate any statutory prohibition, and is executed for a proper purpose. The proposed acquisition is consistent with the public interest in that it will maintain both the level and quality of services received and will promote the overall advancement of telecommunication services in Kentucky with the addition of certain conditions prescribed herein.

The Commission, having reviewed the evidence of record and having been otherwise sufficiently advised, HEREBY ORDERS that the application for the approval of ALLTEL s acquisition of Verizon s Kentucky assets is approved, subject to the following terms and conditions:

1. ALLTEL shall file on a monthly basis service quality reports using the 2 prior years as a benchmark for performance standards.

2. ALLTEL shall file a report of corrective action if it fails to meet any Commission service objective for 3 consecutive months.

3. ALLTEL shall provide optional Toll Blocking for Lifeline customers.

4. ALLTEL shall apprise the Commission of any other services currently offered by Verizon that it will not provide and any potential impact on Kentucky customers.

5. ALLTEL shall meet quarterly with Commission Staff to discuss potential earnings reductions, unless and until the Commission authorizes an alternative regulation plan for ALLTEL.

6. ALLTEL shall provide monthly OSS update reports through the year 2003. The monthly reports shall include the status of each OSS requirement specified herein.

7. ALLTEL shall honor the collective bargaining agreements and all memoranda of understanding between Verizon and its employees.

8. Within 2 years of the closing date of this acquisition, ALLTEL shall file a plan regarding the merger of ALLTEL, Inc. and ALLTEL Kentucky, Inc. In developing the plan, ALLTEL shall rely on the assumptions specified herein.

9. Within 30 days of the date of this Order, Verizon shall file a plan to fulfill its commitment of $222 million in capital spending prior to close of sale.

10. Verizon and ALLTEL shall meet with Commission Staff to discuss the establishment of ALLTEL s UNE rates.

11. ALLTEL shall honor all interconnection agreements entered into by Verizon.

12. ALLTEL shall report on a 6-month basis the changes in the number of hourly employees and management personnel in Kentucky.

13. The CEOs or persons authorized to act on behalf of Verizon and ALLTEL 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.

14. The terms and conditions imposed herein are effective upon the date of this Order.

Done at Frankfort, Kentucky, this 13th day of February, 2002.

By the Commission

ATTEST:

Deborah T. Eversole for
Thomas M. Dorman

Executive Director