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October 27, 2005

BY OVERNIGHT MAIL

Thomas Dorman, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, KY 40602-8294

Re: McLeodUSA Telecommunications Services, Inc.
Notice of Proposed Restructuring

Dear Mr. Dorman:

McLeodUSA Telecommunications Services, Inc. ("McLeodUSA" or "Company"), through undersigned counsel, transmits an original and ten (10) copies of this filing to notify the Commission of a consensual (i.e. "pre-packaged") Chapter 11 financial restructuring ("Restructuring") that will change the capital structure of McLeodUSA's ultimate parent company, McLeodUSA Incorporated ("Parent", together with McLeodUSA, "Parties"). This purely financial Restructuring, in which certain secured creditors will become the shareholders of Parent and existing equity in Parent will be extinguished, will enable McLeodUSA's current operations to continue without interruption or any changes to the rates, terms and conditions of the services that its customers currently receive.

Because of the consensual nature of the Restructuring, the Chapter 11 proceedings will take place on an expedited basis and are expected to conclude by November 28, 2005. Based on a review of Kentucky law, it is the Parties' understanding that Commission approval is not required to complete the transaction described herein. Accordingly, the Parties submit this letter for informational purposes only to ensure the continuing accuracy of the Commission's records. The Parties further state as follows:

I. Description of McLeodUSA Telecommunications Services, Inc. ("McLeodUSA")

McLeodUSA is an Iowa corporation with principal offices located at McLeodUSA Technology Park, 6400 C Street, SW, Cedar Rapids, Iowa 52406-3177. McLeodUSA provides integrated communications services, including local services, primarily in 25 Midwest, Southwest, Northwest, and Rocky Mountain states. McLeodUSA is a wholly owned subsidiary of McLeodUSA Holdings, Inc. which, in turn, is a wholly owned subsidiary of Parent.

In Kentucky, McLeodUSA is authorized to provide resold intrastate communications services and local exchange service pursuant to tariffs accepted by the Commission effective December 22, 1996 and April 21, 2001, respectively.

II. Contact Information

Questions or inquiries concerning this filing may be directed to:

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III. Description of the Restructuring

The financial Restructuring is part of a plan of reorganization (the "Plan") that has been agreed upon by Parent and a majority of its secured creditors. Parent is currently soliciting its creditors votes on the Plan consistent with the Bankruptcy Code, and intends to file the Plan with the United States Bankruptcy Court for the Northern District of Illinois (the "Bankruptcy Court") upon completion of the solicitation process, thereby commencing the Chapter 11 proceedings.

This "pre-packaged" Plan will enable McLeodUSA to continue current operations without interruption or any change in the rates, terms or conditions of the services that its customers currently receive.[1] The consensual Plan will protect unsecured creditors and enable the Parties to emerge from Chapter 11 as soon as possible. Given the consensual nature of the Plan, the Chapter 11 proceedings will take place on a very expedited basis. The Parties anticipate that

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[1] As part of the Restructuring, Parent and its wholly owned subsidiaries will each act as a debtor-in-possession ("DIP") in the Chapter 11 proceeding and a DIP credit facility in the amount of $50 million will be issued for working capital and general corporate purposes in accordance with approved budgets to assure that operations continue on an uninterrupted basis during the Restructuring. As with the existing credit facility, all of Parent's wholly owned subsidiaries, including McLeodUSA, will act as guarantors and pledge all or substantially all of their assets to secure the DIP credit facility. This credit facility and the associated security interests will be refinanced with the proceeds of the exit facility described elsewhere in this filing upon consummation of the Restructuring.

they will commence these cases on or about October 28, 2005, and, as noted above, that the Bankruptcy Court will consider final approval of the Plan on or about November 28, 2005.

Also as noted above, the proposed Restructuring is purely financial in nature, and will not alter the terms, conditions or services offered by McLeodUSA in Kentucky. Pursuant to the consensual Plan, certain secured creditors will become the shareholders of Parent, and existing equity will be extinguished.[2] Direct ownership of McLeodUSA will not change.

Although the precise equity ownership of Parent will not be known until the Company emerges, the new shareholders will be major institutional investment companies, and Company does not expect that any single entity or group of entities will hold 50% or more of the stock of the Parent and, thereby, no entity will hold more than a 50% indirect share of McLeodUSA. Specifically, the following entities will be the five largest equity holders in Parent and therefore are anticipated to be the five largest indirect owners of McLeodUSA following the Restructuring:

Fidelity Investments (approximately 31%)
Wayzata Investment Partners LLC (approximately 15%)
Credit Suisse First Boston, Zurich (approximately 6%)
Odyssey Credit Investors (approximately 6%)
Secondary Loan & Distressed Credit Trading (approximately 5%)

McLeodUSA currently guarantees, and has pledged all or substantially all of its assets, to secure Parent's obligations under its existing credit facilities. As of September 1, 2005, obligations outstanding under the Senior Prepetition Credit Agreement totaled approximately \$100 million plus \$7.4 million in unfunded letters of credit. The obligations under the senior credit agreement will convert to "New Term Loan Notes" pursuant to the Plan. As of September 1, 2005, obligations outstanding under the Junior Prepetition Credit Agreement totaled approximately \$677.3 million plus accrued and unpaid interest. The obligations under the Junior Prepetition Credit Agreement will be converted into equity pursuant to the Plan. Thus, the total debt currently guaranteed by McLeodUSA's pledge of all or substantially all of its assets is, as of September 1, 2005, approximately \$785 million plus accrued and unpaid interest.

As part of the Restructuring, McLeodUSA will enter into a new post-bankruptcy "exit" credit facility which will provide for a secured, revolving credit facility in an amount not exceeding \$50 million, with a letter of credit sub facility in an amount not exceeding \$15 million. The exit facility credit agreement will also govern the New Term Loan Notes described above. The exit facility will provide the Parties with the financing necessary to provide liquidity for operational and working capital to allow them to emerge from the Restructuring as a financially

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[2] Under the Plan, all equity interests in Parent will be extinguished, including the 58% majority share of the equity interest in Parent currently held by various partnerships and investment funds controlled or managed by Forstmann Little & Co.

stronger operation. After the Restructuring, the total debt guaranteed by McLeodUSA's pledge of all or substantially all of its assets will be approximately $150 million plus accrued and unpaid interest. McLeodUSA will pledge all or substantially all of its assets to secure Parent's obligations under the exit facility credit agreement. This pledge will replace the pledge that currently secures Parent's obligations under the Senior Prepetition Credit Agreement and Junior Prepetition Credit Agreement.

Following the Restructuring, McLeodUSA's customers will continue to receive service under the same rates, terms and conditions of service today. McLeodUSA will remain a wholly owned indirect subsidiary of Parent, will continue to operate and provide services to McLeodUSA's customers, and will retain the assets used in the provisions of those services. As a result, the proposed Restructuring will not involve a change in McLeodUSA's operating authority in Kentucky and McLeodUSA's tariffs will remain in effect. Accordingly, the Restructuring will be completely transparent to McLeodUSA's customers.

IV. **Public Interest Considerations**

McLeodUSA respectfully submits that the proposed Restructuring serves the public interest. In particular, McLeodUSA submits that: (1) the Restructuring will increase competition in the Kentucky telecommunications market by reinvigorating McLeodUSA as a viable competitor and (2) the Restructuring will preclude any disruption of service that might otherwise result from the Parties' financial condition.

The proposed financial Restructuring is expected to facilitate competition by improving the operational position of McLeodUSA and allowing McLeodUSA to expand its service offerings in the future. The consensual Plan will allow McLeodUSA to maintain its assets while eliminating a significant portion of its debt. The Plan also strengthens McLeodUSA by converting debt secured by McLeodUSA's assets into equity interest in Parent. The company that emerges from Bankruptcy will be much stronger financially with significantly reduced debt. The reinvigoration of McLeodUSA as a viable competitor will thereby significantly enhance competitive choices for telecommunications consumers.

Moreover, given that the Restructuring will not directly affect McLeodUSA's rates, terms and conditions of services, the Restructuring will not negatively impact customers. Indeed, unlike a Chapter 11 reorganization in which a debtor's assets are being sold to a third party, the customers of McLeodUSA will continue to receive service from the same company under the same rates, terms, and conditions of service that those customers currently receive. The Restructuring will therefore be entirely transparent to customers of McLeodUSA. Moreover, pursuant to the Plan, no creditor, other then the secured creditors, will be affected by the Restructuring which will ensure uninterrupted operations of McLeodUSA.

Conclusion

Please date stamp and return the extra copy of this letter in the attached self-addressed stamped envelope. If there are any questions regarding this filing, please contact the undersigned counsel. Thank you for your attention to this matter.

Respectfully submitted,

Brian McDermott /DCB

Jean L. Kiddoo
Brian M. McDermott