

STATE OF IOWA  
DEPARTMENT OF COMMERCE  
UTILITIES BOARD

<p>IN RE:</p> <p>IOWA TELECOMMUNICATIONS SERVICES, INC., d/b/a IOWA TELECOM, AND MONTEZUMA MUTUAL TELEPHONE COMPANY</p>	<p>DOCKET NOS. SPU-05-25 WRU-05-58-263</p>
-------------------------------------------------------------------------------------------------------------------------	------------------------------------------------

**ORDER APPROVING REORGANIZATION AND GRANTING WAIVER**

(Issued January 23, 2006)

On December 23, 2005, Iowa Telecommunications Services, Inc., d/b/a Iowa Telecom (Iowa Telecom), and Montezuma Mutual Telephone Company (Montezuma) filed with the Utilities Board (Board) a proposal for reorganization and a request for a waiver of the Board's reorganization review requirement of Iowa Code § 476.77.

Iowa Telecom and Montezuma propose a reorganization where Iowa Telecom will acquire Montezuma's controlling capital stock. According to Iowa Telecom, the proposed reorganization involves three steps: 1) a new Iowa Telecom "merger" subsidiary will be formed; 2) at the financial closing of the transaction, Iowa Telecom will pay the purchase price to Montezuma shareholders and the merger subsidiary will be merged with Montezuma; and 3) each share of the Montezuma stock will be converted into the per share merger consideration. The parties state that as a result of the reorganization, Montezuma will be the surviving corporation operating as an

indirect subsidiary of Iowa Telecom. No objection to the proposed reorganization was filed.

Iowa Code § 476.76 (2005) states that prior to any reorganization, a public utility is required to file with the Board a "proposal for reorganization with supporting testimony and evidence to establish that the reorganization is not contrary to the interests of the public utility's ratepayers and the public interest." However, the Board may waive this requirement if the Board finds that "board review is not necessary in the public interest." Iowa Code § 476.77. The parties request a waiver of this requirement.

In support of their request for waiver, the parties assert that the Board has granted a similar waiver on two occasions. The first case, identified as Docket No. WRU-02-37-272, involved a proposal by Qwest Corporation (Qwest) to sell its QwestDex directory publishing business. The second case, identified as Docket No. WRU-03-68-272, also involved a proposal by Qwest to dividend its entire ownership of its subsidiary, Qwest Wireless, to Qwest's immediate parent, Qwest Services Corporation. Iowa Telecom and Montezuma assert that the Board's analysis in these two cases applies to the facts in this proposed reorganization and should result in the granting of a similar waiver.

To grant the waiver, the Board must find, based upon clear and convincing evidence, that the request meets the four criteria in 199 IAC 1.3. The four criteria are: 1) the application of the rule would cause undue hardship, 2) the waiver would

not prejudice the substantial legal rights of any person, 3) the provisions of the rule are not specifically mandated by statute, and 4) substantially equal protection of public health, safety, and welfare will be afforded by a means other than prescribed by the rule.

The Board finds that a waiver of Iowa Code § 476.77 should be granted based on the Board's review of the information provided by Iowa Telecom and Montezuma. The Board finds that application of the reorganization review statute would pose an undue hardship on Iowa Telecom. Such a review would require Iowa Telecom and Montezuma to participate in a lengthy and expensive proceeding for an acquisition that involves 2,500 access lines and no change in the operations of either company. The Board also finds that granting the waiver will not prejudice the substantial legal rights of any other person, as there will not be any change in management for Iowa Telecom and the only change for Montezuma will be the shareholders, officers, and directors; the reorganization will be transparent to customers.

The Board also finds that review of this reorganization is not mandated by statute or other provision of Iowa law and that the public health, safety, and welfare will be protected. Both Iowa Telecom and Montezuma will remain providers of Iowa Telecom services and will provide the same services as were provided prior to the reorganization. In addition, Iowa Telecom will have the same managerial structure and the services provided and rates charged by Iowa Telecom will remain the same after the reorganization.

In concurrence with their request for waiver of the reorganization review requirement of Iowa Code § 476.77, Iowa Telecom and Montezuma filed their proposal for reorganization. While the Board waives the requirement to formally review the proposed reorganization, the Board has evaluated the proposal filed by the parties pursuant to the five statutory criteria established in Iowa Code § 476.77(3). According to § 476.77(3), the Board may consider all of the following criteria when reviewing a proposal for reorganization:

- a. Whether the board will have reasonable access to the books, records, documents, and other information relating to the public utility or any of its affiliates.
- b. Whether the public utility's ability to attract capital on reasonable terms, including the maintenance of a reasonable capital structure, is impaired.
- c. Whether the ability of the public utility to provide safe, reasonable, and adequate service is impaired.
- d. Whether the ratepayers are detrimentally affected.
- e. Whether the public interest is detrimentally affected.

The Board finds that there will be no change to the location of the books and records of Iowa Telecom as a result of this reorganization and, as such, the Board will continue to have reasonable access to such records in satisfaction of the first criterion.

The Board also finds Iowa Telecom's ability to attract capital on reasonable terms will not be impaired. After the proposed reorganization, Iowa Telecom's earnings before interest, taxes, depreciation, and amortization will improve because by purchasing Montezuma, there will be an increase in the incremental free cash flow without materially changing Iowa Telecom's overall leverage. In addition, Iowa

Iowa Telecom does not need to acquire financing to purchase Montezuma; rather, Iowa Telecom states that the requisite cash on hand and available credit facility are currently in place.

The Board finds that the reorganization will have no impact on Iowa Telecom's ability to provide safe, reasonable, and adequate service. The customer service employees, processes, and procedures of each company will remain separated and the same skilled workforce that maintains the two companies will remain unchanged.

The Board also finds that ratepayers will not be detrimentally affected. Iowa Telecom's customers will continue to receive the same customer service at reasonable rates following the reorganization. There will not be any impact on customer billing, customer contact numbers, or repair processes.

Finally, the Board finds that the public interest will not be detrimentally affected as a result of this reorganization. Iowa Telecom will benefit from the strengthening of its financial and market position through the growth of its Iowa operations and the reorganization will not have a negative impact on the rates or service levels of either company or the availability of the current products and services since the companies will be operated separately.

After reviewing the proposed reorganization, the Board finds that following the transaction both Iowa Telecom and Montezuma will remain separate entities, the services and the quality of those services will not be impacted, and Iowa Telecom's ability to attract capital on reasonable terms will likely be enhanced by this

reorganization. The Board finds that all criteria of Iowa Code § 476.77(3) have been met and, therefore, the proposed reorganization filed by Iowa Telecom and Montezuma is approved.

**IT IS THEREFORE ORDERED:**

1. The "Application for Review of Proposed Reorganization" filed by Iowa Telecommunications Services, Inc., d/b/a Iowa Telecom, and Montezuma Mutual Telephone Company on December 23, 2005, and identified as Docket No. SPU-05-25, is granted as described in this order.

2. The "Motion for Waiver or, in the Alternative, Expedited Process of Reorganization Review Requirement" filed by Iowa Telecommunications Services, Inc., d/b/a Iowa Telecom, and Montezuma Mutual Telephone Company on December 23, 2005, and identified as Docket No. WRU-05-58-263, is granted as described in this order.

**UTILITIES BOARD**

/s/ John R. Norris

/s/ Diane Munns

ATTEST:

/s/ Judi K. Cooper  
Executive Secretary

/s/ Curtis W. Stamp

Dated at Des Moines, Iowa, this 23<sup>rd</sup> day of January, 2006.