

STATE OF ILLINOIS



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ILLINOIS COMMERCE COMMISSION

Office of General Counsel

August 24, 2007
FILE COPY ORIGINAL

Marlene H. Dortch
Office of the Secretary
Federal Communications Commission
445 - 12th Street, SW
Washington, DC 20554

Re: CC Docket No. 96-45
In the Matter of Federal-State Joint Board on Universal Service
Federal High-Cost Support Certification for Newly Designated Rural Carriers in
Illinois – Mid-Century Telephone Co Operative

Dear Secretary Dortch:

Pursuant to its May 23, 2001 Rural Task Force (“RTF”) Order in the above-referenced proceeding, the Commission required states that wish to receive federal universal service high-cost support for rural carriers within their boundaries to file a certification with the Commission and USAC stating that all federal high-cost funds flowing to rural carriers in that state will be used in a manner consistent with Section 254(e). The Commission ruled that states should be required to file annual certifications with the Commission to ensure that carriers use universal service support “only for the provision, maintenance and upgrading of facilities and services for which the support is intended,” consistent with Section 254(e).

Under 47 C.F.R. 54.314(d)(6), a carrier newly designated as an eligible telecommunications carrier within the meaning of Section 214(e)(2) or (e)(6): “shall be eligible to receive [high cost] support ... as of the effective date of its designation as an eligible telecommunications carrier under section 214(e)(2) or (e)(6), provided that ... the state commission files the certification described in paragraph (a) of this section within 60 days of the effective date of the carrier’s designation as an eligible telecommunications carrier”

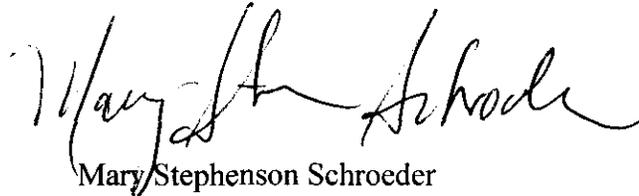
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This filing comports with the Commission's requirement regarding newly-designated eligible rural telecommunications carriers. It lists a rural telecommunications carrier operating in Illinois that has been newly designated by the Illinois Commerce Commission as eligible telecommunications carrier in an additional study area in Illinois, by Order of the Commission dated June 27, 2006 (a copy of which is enclosed). The carrier, Mid-Century Telephone Cooperative, currently serves the study area designated as no. 1054 (NECA 34-1054), and with its designation as an ETC in the June 27, 2007 Order, will also serve the study area currently identified as no. 1093 (NECA 34-1093).¹ Mid-Century Telephone Cooperative has certified that that all federal universal service support will be used solely for the provision, maintenance and upgrading of facilities and services for which the support is intended.

August 24, 2007

Sincerely,

ILLINOIS COMMERCE COMMISSION



Mary Stephenson Schroeder
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¹ Mid-Century Telephone Cooperative has acquired substantially all of the asset of Yates City Telephone, and with ETC designation will be assuming eligible telecommunications carrier responsibilities in the Yates City Telephone study area, no. 1093. Yates City will cease to operate as an ETC. See Order, attached.

cc: Irene M. Flannery
Universal Service Administrative Company
2120 L Street, NW - Suite 600
Washington, DC 20037

Joseph D. Murphy, Esq.
Counsel for Mid-Century Telephone Cooperative

(enclosure)

**LIST OF NEWLY-DESIGNATED CERTIFIED ELIGIBLE RURAL
TELECOMMUNICATIONS CARRIERS**

MID-CENTURY TELEPHONE COOPERATIVE, INC.

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STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Yates City Telephone Company d/b/a FairPoint :
Communications / Yates City Telephone Company :
and Mid-Century Telephone Cooperative, Inc. :

Joint Application for approval of sale and purchase :
of telephone properties and related assets used in :
the provision to Telecommunications Services in :
the Yates City Exchange pursuant to Sections 7-203 :
and 7-204 of the Public Utilities Act; for the :
approval and issuance of a Certificate of Exchange :
Service Authority for the Yates City Exchange to :
Mid-Century Telephone Cooperative, Inc. pursuant :
to Section 13-405 and the cancellation of Yates City :
Telephone Company's Certificate of Exchange :
Service Authority for the Yates City Exchange upon :
the closing of this of this sale and purchase of :
assets transaction; for Authority for Yates City :
Telephone Company to discontinue the provision of :
service to the Yates City Exchange pursuant to :
Section 13-406; for an Order designating Mid :
Century Telephone Cooperative, Inc. as an Eligible :
Telecommunications Carrier under 47 U.S.C. § :
214(e)(2) of the Telecommunications Act of 1996 for :
the Yates City Exchange and the cancellation of :
Yates City Telephone Company's designation as an :
eligible carrier for the Yates City Exchange upon :
closing; and for the granting of all other necessary :
and appropriate relief. :

07-0237

ORDER

By the Commission:

I. INTRODUCTION AND PROCEDURAL BACKGROUND

On April 2, 2007, Yates City Telephone Company d/b/a FairPoint Communications/Yates City Telephone Company ("YCTC") and Mid-Century Telephone Cooperative, Inc. ("Mid-Century") (collectively, "Joint Applicants") filed with the Illinois Commerce Commission ("Commission") a verified Joint Application pursuant to Sections 7-203 and 7-204 of the Public Utilities Act ("Act"), 220 ILCS 5/1-101 et seq., for approval of the transfer of control and reorganization of YCTC as the result of Mid-Century acquiring substantially all of the operating assets of YCTC. Sections 7-203 and

7-204 apply to a utility's reorganization or acquisition, and Section 13-101 of the Act makes those sections applicable to a telecommunications carrier that provides non-competitive services. Joint Applicants also filed their Joint Application pursuant to Section 13-405 of the Act in order to expand the local exchange certificate authority of Mid-Century to cover the Yates City Exchange, and to cancel YCTC's certificate on the closing of the sale and purchase transaction. In addition, YCTC is seeking authority under Section 13-406 of the Act to discontinue the provision of service to the Yates City Exchange. Finally, Joint Applicants seek an order designating Mid-Century as an Eligible Telecommunications Carrier ("ETC") under the Federal Telecommunications Act of 1996 ("TA96"), 47 U.S.C. 151 et seq., for the Yates City Exchange and the cancellation of YCTC's designation as an ETC for the Yates City Exchange upon closing of the purchase and sale transaction.

Pursuant to due notice, hearings were held in this matter before a duly authorized Administrative Law Judge of the Commission at its offices in Springfield on April 18 and June 13, 2007. Appearances were entered by counsel for Joint Applicants and by counsel for Commission Staff ("Staff"). Russell Schrodt, General Manager of Mid-Century, and Patrick Morse, the Senior Vice President of Governmental Affairs of YCTC, testified on behalf of Joint Applicants. Michael McNally, a Senior Financial Analyst in the Finance Department of the Financial Analysis Division of the Commission's Public Utilities Bureau, Mike Ostrander, an Accountant in the Accounting Department of the Financial Analysis Division, Jeff Hoagg, the Principal Policy Advisor in the Telecommunications Division of the Public Utilities Bureau, and Samuel McClerren, an Engineering Analyst in the Engineering Department of the Telecommunications Division, testified on behalf of Staff. At the end of the June 13 evidentiary hearing, the record was marked "Heard and Taken."

II. DESCRIPTION OF THE PROPOSED REORGANIZATION

Mid-Century was incorporated on August 14, 1950 to develop and provide modern telephone service for various exchanges which could not otherwise obtain good telephone service. Since 1950, Mid-Century has been providing telecommunications services, including local exchange telecommunications service, as an incumbent local exchange carrier ("ILEC") subject to this Commission's jurisdiction and regulation of telephone cooperatives. Mid-Century presently provides service to approximately 4,600 access lines in its Altona, Bishop Hill, Ellisville, Fairview, Gilson, LaFayette, Marietta, Maquon, Smithfield, Summum, Table Grove, Victoria, and Williamsfield exchanges. Mid-Century is designated as an ETC under Section 214(e)(2) of the TA96 for its service areas consisting of those same exchanges by this Commission in Docket No. 97-0435.

Mid-Century has demonstrated a consistent dedication to high quality through, for example:

- The introduction of CLASS services in January of 1996;
- The introduction of local dial-up Internet service in April of 1996;

- The introduction of personal 800 numbers in October of 1998;
- The introduction of DSL Internet service in October of 2003; and
- *The achievement of 100% broadband availability to its members in 2006.*

Similarly, through its long history, Mid-Century has established a series of "firsts" for local exchange carriers in rural Illinois, including:

- The first to offer four party service.
- The first to offer all one party service in its operating area.
- The first to utilize 100% digital switching.
- The first to install fiber optic buried plant facilities.

YCTC provides telecommunications services as an ILEC in one exchange located almost entirely in Knox County, Illinois, serving approximately 470 access lines. YCTC is a wholly owned subsidiary of FairPoint Communications, Inc. ("FairPoint"). FairPoint also operates as separate indirect subsidiaries within Illinois C-R Telephone Company d/b/a FairPoint Communications/C-R Telephone Company, The El Paso Telephone Company d/b/a FairPoint Communications/The El Paso Telephone Company, and Odin Telephone Exchange, Inc., d/b/a FairPoint Communications/Odin Telephone Exchange, Inc., each of which is certificated to provide local exchange services in Illinois. The proposed transaction will have no impact on the operation of these other subsidiaries.

YCTC and Mid-Century entered into an Asset Purchase Agreement dated February 14, 2007, pursuant to which YCTC will sell and Mid-Century will purchase substantially all of the assets of YCTC, all of which are used to operate the Yates City Exchange. The proposed transactions will increase Mid-Century's current 4,600 access line count by approximately 470 lines. Conversely, the proposed transaction will provide Yates City Exchange customers with access to the substantial service infrastructure of Mid-Century, which currently operates 13 exchanges, four of which are contiguous to the Yates City Exchange.

III. COMPLIANCE WITH SECTIONS 7-203 AND 7-204 OF THE ACT

A. Joint Applicants Position

The transaction described in the Joint Application and summarized in Section II of this Order constitutes a "reorganization" as that term is defined in Section 7-204 of the Act and, therefore, requires approval of the Commission pursuant to Section 7-204. Section 7-204 establishes specific criteria for the Commission's review and approval of a reorganization, and lists specific determinations that the Commission must make in order to approve a proposed reorganization. Section 7-204(b) states that the Commission shall not approve any proposed reorganization if the Commission finds that the reorganization will adversely affect the utility's ability to perform its duties under the Act. Section 7-204(b) further states that in reviewing any proposed reorganization, the Commission must find that:

- 1) the proposed reorganization will not diminish the utility's ability to provide adequate, reliable, efficient, safe and least-cost public utility service;
- 2) the proposed reorganization will not result in the unjustified subsidization of non-utility activities by the utility or its customers;
- 3) costs and facilities are fairly and reasonably allocated between utility and non-utility activities in such a manner that the Commission may identify those costs and facilities which are properly included by the utility for ratemaking purposes;
- 4) the proposed reorganization will not significantly impair the utility's ability to raise necessary capital on reasonable terms or to maintain a reasonable capital structure;
- 5) the utility will remain subject to all applicable laws, regulations, rules, decisions and policies governing the regulation of Illinois public utilities;
- 6) the proposed reorganization is not likely to have a significant adverse effect on competition in those markets over which the Commission has jurisdiction; and
- 7) the proposed reorganization is not likely to result in any adverse rate impacts on retail customers.

Finally, Section 7-204(c) states that the Commission shall not approve a reorganization without ruling on (i) the allocation of any savings resulting from the proposed reorganization; and (ii) whether the companies should be allowed to recover any costs incurred in accomplishing the proposed reorganization and, if so, the amount of costs eligible for recovery and how the costs will be allocated.

In the Joint Application and the testimony of Mr. Schrodtt and Mr. Morse, Joint Applicants represent that the proposed reorganization will comply with the requirements of Sections 7-203 and 7-204(b). With respect to the requirement of Section 7-204(b) that "the Commission shall not approve any proposed reorganization if the Commission finds, after notice and hearing, that the reorganization will adversely affect the utility's ability to perform its duties under the Act," Mr. Schrodtt observed that "[b]ecause, as a result of the closing on the Proposed Transaction, [YCTC] will be selling its assets and withdrawing from service, . . . the 'utility' that the Commission should be considering is Mid-Century." (Joint Applicants Ex. 1.0, lines 139-141) Joint Applicants further state that, as a currently regulated telephone cooperative under the Act:

Mid-Century is extremely familiar with the operation of a local exchange and with the Illinois regulations and Commission expectations that come with such operations. Mid-Century is a highly respected operator and firmly believes that the Illinois Commission will find that interconnecting the Yates City switch with the Mid-Century network will improve the

operations of the Yates City exchange, even beyond the high standard that the Commission has come to expect from [YCTC]. (Id., lines 144-150)

Joint Applicants also explain:

Nothing in the proposed reorganization will adversely affect Mid-Century's ability to perform its duties under the Act, particularly in the Yates City exchange. . . . Mid-Century has a staff of 32, including competent managers, customer service representatives and technicians. For Mid-Century, this will merely increase its access line count by slightly more than 10%. . . . Mid-Century has plans to interconnect the facilities in the Yates City exchange with Mid-Century's Smithfield switch in a way that will bring CLASS features to the Yates City exchange, will bring universal broadband service to that exchange, and will establish an opportunity to bring fiber to the home for every customer in the Yates City exchange. Mid-Century can clearly fulfill its duties under the Act to the direct benefit of the customers in the Yates City exchange with no degradation of the service for any Mid-Century customer. (Id., lines 156-166)

Therefore, Joint Applicants state that this proposed reorganization clearly meets the criteria of Section 7-204(b).

With respect to the requirement of Section 7-204(b)(1) that a proposed reorganization "will not diminish the utility's ability to provide adequate, reliable, efficient, safe and least-cost public utilities services," Joint Applicants state that the proposed transactions described in the Joint Application will provide the customers in the Yates City Exchange not only with the quality service they have received from YCTC, but also with access to the substantial infrastructure of Mid-Century, which currently operates in four contiguous exchanges.

With respect to the requirements of Section 7-204(b)(2) that "the proposed reorganization will not result in the unjustified subsidization of non-utility activities by the utility and its customers" and of Section 7-204(b)(3) that "costs and facilities are fairly and reasonably allocated between utility and non-utility activities in such a manner that the Commission may identify those costs and facilities which are properly included by the utility for ratemaking purposes," the Joint Applicants state that the proposed reorganization will not result in the unjustified subsidization of non-utility activities by Mid-Century or its customers. With regard to setting rates, because Mid-Century is a cooperative, operated by its member customers, Section 13-701 of the Act removes Mid-Century's ratemaking from the Commission's jurisdiction. Section 13-701 states:

Notwithstanding any other provision of this Act to the contrary, the Commission has no power to supervise or control any telephone cooperative as respects assessment schedules or local service rates made or charged by such a cooperative on a nondiscriminatory basis. In addition, the Commission has no power to inquire into, or require the

submission of, the terms, conditions or agreements by or under which telephone cooperatives are financed. A telephone cooperative shall file with the Commission either a copy of the annual financial report required by the Rural Electrification Administration, or the annual financial report required of other public utilities.

Mid-Century does, nevertheless, adhere to the Uniform System of Accounts detailed in 47 C.F.R. § 32.2000(b). Therefore, the proposed reorganization will not impact the ability of Mid-Century to fairly and reasonably allocate its costs and facilities between utility and non-utility activities.

In response to Staff witness Ostrander's proposed conditions (discussed below), Mr. Schrodtt noted that, in Mid-Century's estimation, there is some question about whether a telephone cooperative such as Mid-Century is subject to 83 Ill. Adm. Code 712. Mid-Century, however, is and will remain subject to the similar Federal Communications Commission ("FCC") Part 32 Rules and Mid-Century will comply with the FCC rules, which in turn means that it will be in compliance with the Illinois rule that adopts the FCC rule by reference. Mr. Schrodtt also testified that Mid-Century had no objections to complying with a Staff request to access to all books, accounts, records, and personnel of Mid-Century and all of its utility and non-utility affiliated parent, sister and subsidiary companies, as well as independent auditors' work papers in order to monitor compliance with FCC Part 32. Mid-Century requested that this condition expire two years after the Commission order in this docket. Mr. Schrodtt understands that Mr. Ostrander is willing to accept this two year limitation.

With respect to the requirement of Section 7-204(b)(4) that "the proposed reorganization will not significantly impair the utility's ability to raise necessary capital on reasonable terms or to maintain a reasonable capital structure," Joint Applicants state Section 13-701 also impacts the extent of the Commission's jurisdiction over this element of Section 7-204. Nonetheless, Mid-Century is a financially strong company that has not had to raise capital for many years. As a cooperative, its members are its "shareholders" and elect its Cooperative Board. Mid-Century relies on a prudent level of retained capital and borrowing to meet its operational needs. The proposed reorganization will not significantly impair Mid-Century's ability to maintain its reasonable capital structure.

With respect to the requirements of Section 7-204(b)(5) that "the utility will remain subject to all applicable laws, regulations, rules, decisions and policies governing the regulation of Illinois public utilities," Mid-Century acknowledges and agrees that it is already subject to all applicable laws, regulations, rules, decisions and policies governing the regulation of telephone cooperatives. When Mid-Century acquires the assets of the Yates City Exchange, Mid-Century and the Yates City Exchange operations will continue to be subject to all applicable laws, regulations, rules, decisions and policies governing the regulation of such local exchange carriers.

With respect to the requirements of Section 7-204(b)(6) that "the proposed reorganization is not likely to have a significant adverse impact on competition in those

markets over which the Commission has jurisdiction," Joint Applicants state there is nothing in the proposed reorganization that could result in any adverse impacts on competition in the telecommunications markets that are served by Mid-Century. As the Commission is aware, both Mid-Century and YCTC have entered into several interconnection agreements. Significantly, YCTC has such agreements only with carriers that also have current agreements with Mid-Century. Mid-Century will work with those carriers either to extend its own interconnection agreements to those carriers or to accept an assignment of YCTC's obligations under their agreements. Thus, those agreements will not be negatively affected by this reorganization. Moreover, nothing about this reorganization will affect Mid-Century's willingness to meet its continuing obligations under the Act or TA96.

With respect to the requirement of Section 7-204(b)(7) that "the proposed reorganization is not likely to result in any adverse rate impacts on retail customers," Joint Applicants state Mid-Century has a single local service rate for business and residential service. At \$11.25 per month, it is \$1.25 per month less than YCTC for business customers (who now pay \$12.50), but \$1.25 more per month for residential customers (who now pay \$10.00). That potential increase, however, is offset by an available discount of \$3.05 for customers who pay their bills within twenty days of issuance. Thus, the effective rate for those residential customers is less than they are paying for service today.

Moreover, the potential slight upward impact on the retail service rate for YCTC residential customers will be more than offset for any customer who obtains two or more of the following vertical services: Call Forwarding, Call Waiting, Three-Way Calling, 8 Number Speed Calling, or 30-Number Speed Calling—all of which are now free for Mid-Century customers and each of which is at least \$1.00 per month from YCTC. Mid-Century also has very inexpensive package rates for other local calling features. Finally, Mid-Century also intends to add a free extended area service route between the Yates City Exchange and Maquon Exchange, a service that YCTC customers do not currently have and which they are likely to find valuable. On average, Joint Applicants assert that the proposed reorganization will not result in any significant adverse rate impacts on retail customers in the Yates City Exchange.

Joint Applicants also addressed the requirements of Section 7-204(c) of the Act. Although Joint Applicants believe there may be synergies in the future due to the reorganization, the timing and actual amount of any such savings is currently speculative. Additionally, any such savings would likely be offset (at least in the first year or two following the reorganization) by expenses incurred to achieve them. With respect to the second aspect of Section 7-204(c), Joint Applicants commit not to seek in this proceeding or any other proceeding to recover any costs Mid-Century may incur in accomplishing the proposed reorganization.

B. Staff Position

Staff witness McClerren provided testimony regarding Section 7-204(b)(1). Mr. McClerren's testimony looked to the current level of service quality provided by YCTC

and Mid-Century, information to which Mr. McClerren has access for both companies on the Commission's web site per 83 Ill. Adm. Code Part 730. Mr. McClerren testified that in the last year, YCTC has had very good service quality, with no failures reported in any month. YCTC operator answer times are roughly twice as quick as required, and their business and repair office answer times are roughly four times quicker than required. YCTC reports no misses on installation or out of service, and has a trouble report rate that is half the maximum allowed. Similarly, in the last year, Mid-Century has had excellent service quality, with no failures reported in any month. Mid-Century's operator answer times are also roughly twice as quick as required, while their business and repair office answer times are roughly six times quicker than required. Mid-Century reports no misses on installation or out of service. Mid-Century has a trouble report rate that is one sixth the maximum allowed, which is exemplary. Therefore, Mr. McClerren stated that he finds no evidence to support a conclusion that this proposed reorganization will diminish the ability or willingness of Mid-Century to provide exemplary service quality throughout its entire service territory, including YCTC. He concludes that customers of YCTC should continue to receive adequate, reliable, efficient, safe, and least-cost service.

Staff witness Ostrander addressed subsections (b)(2) and (b)(3) of Section 7-204. He acknowledged Joint Applicants' statement that no unjustified subsidization would occur and that Mid-Century indicated that it did comply with Part 32 of the FCC Rules (47 C.F.R. § 32.2000(b)), which has been incorporated by reference into 83 Ill. Adm. Code 712. Mr. Ostrander nonetheless expressed some reservations, stemming from the fact that Mid-Century, as a telephone cooperative, would not be subject to the same reporting requirements as a privately owned local exchange carrier. To address his concerns, he recommended that the Commission impose the following two conditions:

- 1) Mid-Century should continue to comply with 83 Ill. Adm. Code 712.
- 2) For a period of two years from the date of an order in this matter, Staff should be granted access to all books, accounts, records, and personnel of the Joint Applicants and all of their utility and non-utility affiliated parent, sister and subsidiary companies, as well as independent auditors' work papers in order to monitor compliance with 83 Ill. Adm. Code 712.

Staff witness McNally provided testimony in which he presented his evaluation of the financial implications of the proposed reorganization of YCTC, with respect to Section 7-204(b)(4) of the Act. In Mr. McNally's opinion, the proposed reorganization would not significantly impair the successor utility's ability to raise necessary capital on reasonable terms or to maintain a reasonable capital structure. He explained in testimony that YCTC is currently a wholly-owned subsidiary of FairPoint, which currently has a non-investment grade Standard & Poor's issuer credit rating of BB-. After the proposed transaction, the Yates City Exchange would become a part of Mid-Century, which appears to be financially healthy. Over that past four years, Mid-Century has maintained a reasonable capital structure of approximately 48% debt and 52% common equity and has attained consistent positive net income. In fact, Mid-Century's financial

strength has enabled it to operate without having had to raise external capital for many years. Moreover, as Mr. Schrodtt indicates, Mid-Century is a cooperative composed of shareholders who, via the Cooperative Board, maintain control over their rates (pursuant to Section 13-701) and, thus, control over Mid-Century's financial health. Converting from a subsidiary of a non-investment grade parent to become part of a financially healthy cooperative should improve the Yates City Exchange's ability to access capital and maintain reasonable capital structure. Therefore, Mr. McNally recommends that this Commission find that the proposed reorganization will not significantly impair YCTC's ability to raise necessary capital on reasonable terms or to maintain a reasonable capital structure.

Staff witness Hoagg provided an evaluation of the proposed reorganization's consistency with the requirements set forth in subsections (b)(5) through (b)(7). With regard to subsection (b)(5), Mr. Hoagg noted that Mr. Schrodtt testified that all the applicable laws, regulations, rules, decisions, and policies currently governing Mid-Century (as a telephone cooperative) will continue to govern the Yates City Exchange operations subsequent to the proposed reorganization. However, Mr. Hoagg pointed out Mr. Schrodtt's focus on the laws, regulations, rules, decisions and policies currently governing Mid-Century as a telephone cooperative did not answer the question of whether the statute's requirement that the "utility remain subject to all applicable laws, regulations, rules, decisions and policies governing the regulation of Illinois public utilities" mandates that the Commission find the utility (here YCTC) will remain subject to the same body of laws and regulations to which it is now subject. Mr. Hoagg instead focused his analysis on YCTC utility itself to determine whether all applicable laws, regulations, rules, decisions and policies currently governing that utility will continue to govern following the proposed reorganization. Mr. Hoagg determined that the proposed reorganization is consistent with these requirements. He explained that currently the Yates City Exchange is subject to Commission oversight applicable to local exchange telecommunications carriers with no more than 35,000 subscriber access lines. Subsequent to the proposed transaction, Commission oversight of the Yates City Exchange would change to that applicable to telephone cooperatives. The most significant impact of this change is the application of the above-referenced Section 13-701 of the Act. Section 13-701 exempts telephone cooperatives from Commission oversight of local service rates and telephone cooperatives financing.

If the Commission approves the proposed reorganization, the degree and nature of Commission oversight in the Yates City Exchange will be limited by the Section 13-701 exemption. Despite this change, Mr. Hoagg believes that the proposed transaction remains consistent with Section 7-204(b)(5) requirements. In Mr. Hoagg's opinion, the current YCTC utility operations will remain subject to all applicable laws, regulations, rules, decisions, and policies. If the proposed reorganization is approved, the applicable laws, regulations, rules, decisions and policies would be those governing telephone cooperatives.

Mr. Hoagg testified that in addition to being subject to the applicable laws, regulations, rules, decisions and policies that govern a telephone cooperative, the YCTC entity and its customers also would become subject to the same policy considerations

that he believes underlie the Section 13-701 exemption. Among these are a presumption that, owing to its structure, a telephone cooperative has inherent consumer protections related to its rates and finances. As Mr. Schrodt testifies, each YCTC customer will be offered the opportunity to become a cooperative member following reorganization, and each YCTC customer will have the same voting privileges as the existing Mid-Century members. That vote can be cast at Mid-Century's annual meeting on any topic that comes before the membership, including a vote for an area representative who will sit on the Cooperative Board.

With regard to subsection (b)(6) of Section 7-204, Mr. Hoagg noted that with respect to YCTC's current interconnection agreements with other carriers, Mr. Schrodt testified that Mid-Century will either extend its own interconnection agreements to those carriers, or accept assignment of YCTC's current interconnection obligations to Mid-Century. In Mr. Hoagg's opinion, in light of Mid-Century's commitment to, if necessary, accept assignment of YCTC's existing interconnection obligations, he is aware of nothing in the proposed transaction that would adversely impact competition in the pertinent telecommunications markets.

As for subsection (b)(7), Mr. Hoagg notes that the majority of YCTC retail customers would experience rate reductions subsequent to the reorganization. A minority (residence customers who do not pay monthly bills within 20 days of issuance) would experience a rate increase. Mr. Hoagg, however, agrees with Mr. Schrodt that the enhancements to the service provided would offset the increase experienced by a relatively small minority of residence customers who do not take advantage of the incentive to pay their bills within 20 days of issuance. Rates and rate impacts can not be evaluated in isolation from the service provided. As a general matter and all else equal, enhancements to service provided, such as the provision of vertical services, result in a lower effective rate. Mr. Hoagg testified that while not amenable to precise quantitative analysis, he believes that the service enhancements all YCTC customers would experience from the proposed reorganization are sufficient for the Commission to conclude the transaction would not result in adverse rate impacts to retail customers.

Mr. Ostrander also evaluated the proposed reorganization's compliance with Section 7-204(c). He notes that Joint Applicants believe that the timing and amount of any savings from the proposed reorganization is currently speculative and that any such savings would likely be offset by expenses incurred to achieve them, and further state that they will not seek in this proceeding, nor in any future proceedings, to recover any costs incurred in accomplishing the proposed reorganization. He therefore recommends that the Commission rule that:

- 1) The allocation of any savings resulting from the proposed reorganization would offset expenses incurred to achieve such savings, if any.
- 2) The Joint Applicants will not be allowed to recover any costs incurred in accomplishing the proposed reorganization in future proceedings.

C. Commission Conclusion

Based upon review of the Joint Application, the testimony of Mr. Schrodtt and Mr. Morse, and the testimony of Staff and the imposition of the two conditions as agreed between Mid-Century and Staff, the Commission concludes that the proposed reorganization satisfies the requirements of Sections 7-204(b) and 7-204(c) of the Act, and that the proposed reorganization should be approved. The Commission agrees with Joint Applicants that the Commission should be considering Section 7-204 in regard to Mid-Century, which will be the only operating entity following the closing on the proposed transaction. The approval should also be granted pursuant to Section 7-203. The Commission finds that the proposed reorganization will not adversely affect Mid-Century's ability to perform its duties under the Act (7-204(b)), and that the proposed reorganization will not diminish Mid-Century's ability to provide adequate, reliable, efficient, safe, and least-cost public utility service (7-204(b)(1)). Subject to the conditions agreed between Mid-Century and Staff, the Commission also finds that the proposed reorganization will not result in the unjustified subsidization of non-carrier activities by Mid-Century or its customers (7-204(b)(2)), and that costs and facilities will be fairly and reasonably allocated between carrier and non-carrier activities in such a manner that the Commission may identify those costs and facilities which are properly included by Mid-Century for ratemaking purposes (7-204(b)(3)). Further, the Commission finds that the proposed reorganization will not significantly impair Mid-Century's ability to raise necessary capital on reasonable terms or to maintain a reasonable capital structure (7-204(b)(4)); that Mid-Century will remain subject to all applicable laws, regulations, rules, decisions, and policies governing the regulation of Illinois public utilities (as applicable to local exchange telecommunications carriers) (7-204(b)(5)); that the proposed reorganization is not likely to have a significant adverse effect on competition in those markets over which the Commission has jurisdiction (7-204(b)(6)); and that the proposed reorganization is not likely to result in any adverse rate impacts on retail customers (7-204(b)(7)).

With respect to the requirements of Section 7-204(c), the record shows that any savings Mid-Century attains from the proposed reorganization will flow through to the costs associated with the regulated intrastate operations. Moreover, the allocation of any savings resulting from the proposed reorganization would offset expenses incurred to achieve such savings, if any, and Joint Applicants will not be allowed to recover any costs incurred in accomplishing the proposed reorganization in future rate proceedings. Mid-Century does not object to these findings.

The Commission also finds that conditions proposed by Joint Applicants (and supported by Staff) and as described in Section III of this Order are reasonable and should be adopted and included in this Order. These conditions will help to ensure that the requirements of Sections 7-204(b)(1) through (7) will be met in connection with and as a result of the reorganization.

IV. MID-CENTURY'S COMPLIANCE WITH SECTION 13-405 OF THE ACT

A. Joint Applicants Position

Like virtually every other ILEC in Illinois, Mid-Century has certificate authority to provide local exchange services only within its specified list of local exchanges. Consequently, unlike a competitive local exchange carrier, which commonly has authority to operate anywhere in the state, Mid-Century does not have authority to provide local exchange service in the Yates City Exchange. Therefore, Mid-Century is seeking authority to provide local exchange service in the Yates City Exchange.

According to Section 13-405 of the Act:

The Commission shall approve an application for a Certificate of Exchange Service Authority only upon a showing by the applicant, and a finding by the Commission, after notice and hearing, that the applicant possesses sufficient technical, financial, and managerial resources and abilities to provide local exchange telecommunications service.

Mid-Century states that it has sufficient technical, financial, and managerial resources and abilities to provide local exchange telecommunications service in the Yates City Exchange. Mid-Century employs four managers and nine technicians as part of its staff of 32 employees. Those managers and technicians are a fully capable staff and fully capable of adding the Yates City Exchange to their duties. As is evident from the service that Mid-Century provides within its current 13 exchanges and to its 4,600 access lines, Mid-Century has the managerial and technical resources and abilities to provide local exchange service. The 470 additional lines in the Yates City Exchange will not unduly tax or stretch its managerial and technical capabilities. As indicated by Mid-Century's 2006 RUS Form 479, Mid-Century is sound financially and readily able to provide service to the Yates City Exchange.

Upon completion of the sale of assets to Mid-Century, YCTC will no longer provide local exchange services within the Yates City Exchange or anywhere else within Illinois. YCTC requests that its Section 13-405 Certificate of Exchange Service Authority be canceled effective upon the closing of the proposed transaction.

B. Staff Position

Staff witness Hoagg testifies that if the Commission approves the proposed reorganization, upon closure of the transaction, the Commission should cancel YCTC's current Section 13-405 certificate. He further recommends that if the Commission approves the proposed reorganization, Mid-Century's request for authority to provide local exchange service in the Yates City Exchange be granted. In coming to this conclusion, Mr. Hoagg indicates that he evaluated Mid-Century's representations regarding extension of its existing technical, financial and managerial resources and abilities to the Yates City Exchange, and Mid-Century's assertion that the extension is

fully within its technical capabilities. Mr. Hoagg notes that Mid-Century submits that its 32 employees, who currently provide service to 13 exchanges and 4,600 access lines, are fully capable of adding the Yates City Exchange's 470 access lines to their duties. *Mr. Hoagg believes that Mid-Century's submission is sufficient to support the grant of a Certificate of Exchange Service Authority to Mid-Century for the Yates City Exchange.*

C. Commission Conclusion

Based on the evidence presented in this docket and Mid-Century's history of service to its 13 current exchanges, the Commission concludes that Mid-Century possesses sufficient technical, financial, and managerial resources and abilities to extend its local exchange telecommunications service to the Yates City Exchange. The Commission further concludes that, upon the closing of the proposed transaction, YCTC will no longer be providing local exchange service in Illinois and its certificate should be cancelled at that time.

V. AUTHORITY FOR YCTC TO WITHDRAW FROM NON-COMPETITIVE SERVICE

A. Joint Applicants Position

Upon the receipt of all necessary regulatory approvals and the closing of the proposed transaction, YCTC will no longer be providing non-competitive telecommunications services in the Yates City Exchange. YCTC seeks the authority, in accordance with Section 13-406 of the Act, to discontinue the provision of telecommunications services, including the provision of non-competitive telecommunications services in the Yates City Exchange upon the closing of the proposed transaction. Section 13-406 provides:

No telecommunications carrier offering or providing noncompetitive telecommunications service pursuant to a valid Certificate of Service Authority or certificate of public convenience and necessity shall discontinue or abandon such service once initiated until and unless it shall demonstrate, and the Commission finds, after notice and hearing, that such discontinuance or abandonment will not deprive customers of any necessary or essential telecommunications service or access thereto and is not otherwise contrary to the public interest. No telecommunications carrier offering or providing competitive telecommunications service shall discontinue or abandon such service once initiated except upon 30 days notice to the Commission and affected customers. The Commission may, upon its own motion or upon complaint, investigate the proposed discontinuance or abandonment of a competitive telecommunications service and may, after notice and hearing, prohibit such proposed discontinuance or abandonment if the Commission finds that it would be contrary to the public interest.

Following the closing of the proposed transaction, Mid-Century will continue to provide the same services that are presently available to customers residing within the Yates City Exchange. As a result, YCTC's discontinuance of the provision of those services will not deprive customers of any necessary or essential telecommunications service, or access thereto, and is not otherwise contrary to the public interest. Mid-Century has provided appropriate notification on behalf of YCTC to all customers of YCTC regarding the discontinuance of the provision of non-competitive telecommunications services upon the closing of the proposed transaction.

B. Staff Position

Mr. Hoagg testified regarding his understanding that YCTC seeks authority, under Section 13-406, and upon approval and closure of the proposed transaction, to discontinue providing both non-competitive and competitive telecommunications services in Illinois. He recommended that if the Commission approves the proposed transaction, it grant YCTC's request to discontinue provision of service to customers in the Yates City Exchange. Upon approval and closure of the proposed reorganization, Mid-Century would provide non-competitive telecommunications services to customers in the Yates City Exchange. Therefore, Mr. Hoagg believes that all Section 13-406 requirements regarding non-competitive services would be satisfied, and granting YCTC's request pursuant to Section 13-406 would not be contrary to the public interest. Moreover, he stated that YCTC has adequately demonstrated commitment to provide the necessary notifications as required by Section 13-406 prior to discontinuance of competitive telecommunications services to customers in the Yates City Exchange.

C. Commission Conclusion

YCTC (through the notice sent out by Mid-Century) has provided adequate notice to the Commission and its customers of its intent to withdraw from the provision of non-competitive service in the Yates City Exchange. After the proposed transaction closes, Mid-Century will provide telecommunications services to subscribers in the Yates City Exchange. Accordingly, subscribers will not be deprived of any necessary or essential telecommunications service or access thereto. For that reason, it is not contrary to the public interest to grant YCTC permission, pursuant to Section 13-406 of the Act, to discontinue providing non-competitive services in the Yates City Exchange that Mid-Century will acquire at the closing of the proposed transaction.

VI. GRANT OF ELIGIBLE TELECOMMUNICATIONS CARRIER STATUS TO MID-CENTURY FOR THE YATES CITY EXCHANGE AND CANCELLATION OF YCTC'S STATUS ON CLOSING OF THE TRANSACTION

A. Joint Applicants Position

YCTC is currently the ETC for the Yates City Exchange. The Commission granted YCTC ETC status in Docket No. 97-0418. If, as requested, this Commission grants the request of YCTC to withdraw from service in the Yates City Exchange, YCTC

will no longer be able to fulfill the role of ETC. Conversely, upon closing of the proposed transaction, Mid-Century will acquire the operating assets in the Yates City Exchange, giving to Mid-Century the capacity to fulfill the ETC role. Mid-Century is therefore requesting that the Commission designate Mid-Century as an ETC upon the closing of the proposed transaction while YCTC is requesting that the Commission terminate its ETC status at the same time. The Commission previously designated Mid-Century as an ETC for its service area consisting of the Altona, Bishop Hill, Ellisville, Fairview, Gilson, LaFayette, Maquon, Marietta, Smithfield, Summum, Table Grove, Victoria, and Williamsfield exchanges in Docket No. 97-0435. The Yates City Exchange is contiguous with Mid-Century's current ETC service area.

Mid-Century is and will remain a "rural telephone company" within the definition set forth in 47 U.S.C. Section 153(47). The Yates City Exchange will constitute part of its study area and, therefore, its "service area" within the meaning of Section 214(e)(2) of the TA96 and Section 55.201(b) of the FCC's Rules. Mid-Century provides and will provide universal service as set forth in the FCC Rules in the Yates City Exchange, including each of the following services as the FCC defines them throughout its service area:

- 1) Voice grade access to the public switched network;
- 2) Local usage;
- 3) Dual tone multi-frequency (touch tone) or its functional equivalent;
- 4) Single-party service or its functional equivalent;
- 5) Access to emergency services;
- 6) Access to operator services;
- 7) Access to interexchange services;
- 8) Access to directory assistance; and
- 9) Toll limitation for qualifying low-income consumers.

Mid-Century will be providing these services in the Yates City Exchange utilizing the same assets YCTC currently utilizes.

As Mid-Century does now for its own exchanges, it will comply with the rules for advertising the availability of services designated for support and the charges therefore as required under 83 Ill. Adm. Code 757. Mid-Century will also comply with any rules adopted by the Commission related to universal service support for low income consumers. Mid-Century will not disconnect Lifeline Service for non-payment of toll charges and will not require a service deposit in order to initiate Lifeline Service if the low income consumer voluntarily elects toll blocking where toll blocking is available.

B. Staff Position

Staff witness Hoagg recommends that if the Commission approves the proposed reorganization, YCTC be permitted to withdraw its current designation as an ETC for the Yates City Exchange serving area (upon closure of the transaction). He further recommends that if approved, the Commission expand Mid-Century's ETC service area by designating Mid-Century as a rural incumbent ETC for the Yates City Exchange serving area. Such action could be taken pursuant to the Commission's authority under Section 214(e) of the TA96, and would be consistent with provisions of Section 54.305 of FCC Rules pertaining to Universal Service Support for High Cost Areas.

C. Commission Conclusion

The Commission finds that, upon closing of the proposed transaction, Mid-Century will be qualified to be the ETC for the Yates City Exchange and should be designated as such. Upon that closing, Mid-Century will become, for the Yates City Exchange, a certificated facilities-based incumbent local exchange telecommunications service provider and a common carrier subject to the jurisdiction of this Commission. Also, Mid-Century's certificate and the relevant exchange area boundary maps will be on file with the Commission. Furthermore, Mid-Century is and will remain a "rural telephone company" within the definition set forth in 47 U.S.C. Section 153(47). The Yates City Exchange will constitute part of its study area and, therefore, its "service area" within the meaning of Section 214(e)(2) of the Act and Section 55.201(b) of the FCC's Rules. The Commission also agrees that at the closing of the transaction, YCTC's status as an ETC should be terminated.

VII. FINDINGS AND ORDERING PARAGRAPHS

The Commission, having considered the entire record herein and being fully advised in the premises, is of the opinion and finds that:

- (1) Mid-Century is a telecommunications carrier as defined in Section 13-202 of the Act and a telephone cooperative as defined in Section 13-212 of the Act, and is providing telecommunications services as defined in Sections 13-203 and 13-204 of the Act;
- (2) the Commission has jurisdiction over the parties hereto and the subject matter hereof;
- (3) the recitals of fact and conclusions reached in the prefatory portion of this Order are supported by the record and are hereby adopted as findings of fact;

- (4) for the reasons set forth in the prefatory portion of this Order, the proposed reorganization will not adversely affect Mid-Century's ability to perform its duties under the Act and the proposed reorganization meets the criteria as set forth in Section 7-204 of the Act in that:
- (a) the proposed reorganization will not diminish Mid-Century's ability to provide adequate, reliable, efficient, safe, and least-cost public utility service;
 - (b) the proposed reorganization will not result in the unjustified subsidization of non-utility activities by Mid-Century or its respective customers;
 - (c) costs and facilities are fairly and reasonably allocated between utility and non-utility activities in such a manner that the Commission may identify those costs and facilities, which are properly included by the respective utilities for rate making purposes;
 - (d) the proposed reorganization will not significantly impair Mid-Century's ability to raise necessary capital on reasonable terms or to maintain a reasonable capital structure;
 - (e) Mid-Century will remain subject to all applicable laws, regulations, rules, decisions and policies governing the regulation of Illinois public utilities;
 - (f) the proposed reorganization is not likely to have a significant adverse effect on competition in those markets served by Mid-Century over which the Commission has jurisdiction; and
 - (g) the proposed reorganization is not likely to result in any adverse rate impacts on retail customers of Mid-Century;
- (5) the following conditions should be imposed in connection with the reorganization:
- (a) Mid-Century shall continue to comply with Part 32 of the FCC rules, which have been adopted by reference into 83 Ill. Adm. Code 712.
 - (b) If requested at any time during the two years following the date of this Order, Staff should be granted access to all books, accounts, records, and personnel of Mid-Century and all of its utility and non-utility affiliated parent, sister and subsidiary companies, as well as independent auditors' work papers in order to monitor compliance with Part 32 of the FCC rules, which have been adopted by reference into 83 Ill. Adm. Code 712.

- (6) any savings Mid-Century attains from the proposed reorganization will flow through to the costs associated with the regulated intrastate operations;
- (7) the Joint Applicants should not be allowed to recover any costs incurred in accomplishing the proposed reorganization in future rate proceedings;
- (8) the proposed reorganization and proposed transfer of control of Mid-Century is reasonable, subject to the conditions set forth in the prefatory portion of this Order;
- (9) the relief requested under Sections 7-203 and 7-204 of the Act should be granted as hereinafter set forth;
- (10) Mid-Century possesses sufficient technical, financial, and managerial resources and abilities to provide local exchange telecommunications service within the Yates City Exchange.
- (11) upon the closing of the proposed transaction, YCTC will no longer provide local exchange service in Illinois and its certificate should be cancelled at the time of the closing;
- (12) YCTC has provided reasonable notice to the Commission of its intention to cease providing non-competitive services in the Yates City Exchange and, as a result of Mid-Century's agreement to acquire and operate the assets of YCTC, the Commission finds, after notice and hearing, that such discontinuance or abandonment will not deprive customers of any necessary or essential telecommunications service or access thereto and is not otherwise contrary to the public interest; therefore YCTC will be allowed to withdraw from provision of service;
- (13) upon the closing of the proposed transaction, Mid-Century will meet the requirements to be an ETC in the Yates City Exchange and will provide each of the supported services and therefore, upon closing of the proposed transaction, Mid-Century shall be designated as an ETC eligible under 47 C.F.R. Section 54.201(d) to receive federal universal service fund support for the Yates City Exchange from the date of closing forward;
- (14) within 60 days of the effective date of this Order, the Commission will file with the FCC the certification required under 47 C.F.R. Section 54.314(d)(6);
- (15) upon the closing of the proposed transaction, YCTC will no longer be capable of providing the supported services and therefore its ETC status will be terminated; and
- (16) the prayers of the Joint Application may reasonably be granted and the public will be inconvenienced thereby.

IT IS THEREFORE ORDERED by the Illinois Commerce Commission that consent and approval are granted to Mid-Century Telephone Cooperative, Inc. and Yates City Telephone Company d/b/a FairPoint Communications/Yates City Telephone Company to carry out all actions necessary to implement the Asset Purchase Agreement between them dated February 14, 2007, and to effectuate the acquisition by Mid-Century Telephone Cooperative, Inc. from Yates City Telephone Company of substantially all the assets necessary to provide local exchange service in the Yates City Exchange.

IT IS FURTHER ORDERED that the Mid-Century Telephone Cooperative, Inc. shall comply with the two conditions referenced in Finding (5) and set forth in the prefatory portion of this Order.

IT IS FURTHER ORDERED that Mid-Century Telephone Cooperative, Inc. is hereby granted a Certificate of Exchange Service Authority pursuant to Section 13-405 of the Public Utilities Act for the provision of facilities-based local exchange service; said certificate shall read as follows:

CERTIFICATE OF EXCHANGE SERVICE AUTHORITY

IT IS HEREBY CERTIFIED that Mid-Century Telephone Cooperative, Inc. is authorized, pursuant to Section 13-405 of the Public Utilities Act, to provide facilities-based local exchange telecommunications services within the Yates City Exchange.

IT IS FURTHER ORDERED that, upon closing of the Asset Purchase Agreement between Mid-Century Telephone Cooperative, Inc. and Yates City Telephone Company dated February 14, 2007, the Section 13-405 authority of Yates City Telephone Company will be, without further action of this Commission, cancelled.

IT IS FURTHER ORDERED that, upon closing of the Asset Purchase Agreement between Mid-Century Telephone Cooperative, Inc. and Yates City Telephone Company dated February 14, 2007, Yates City Telephone Company shall be allowed to cease offering telecommunications service since a discontinuance or abandonment of service by Yates City Telephone Company will not deprive customers of any necessary or essential telecommunications service or access thereto and is not otherwise contrary to the public interest.

IT IS FURTHER ORDERED that, upon closing of the Asset Purchase Agreement between Mid-Century Telephone Cooperative, Inc. and Yates City Telephone Company dated February 14, 2007, Mid-Century Telephone Cooperative, Inc. shall be designated as the Eligible Telecommunications Carrier for the Yates City Exchange under 47 C.F.R. Section 54.201(d), and the Commission shall so notify the Federal Communications Commission so as to cause Mid-Century Telephone Cooperative, Inc. to receive federal universal service fund support from the date of closing forward.

IT IS FURTHER ORDERED that, upon closing of the Asset Purchase Agreement between Mid-Century Telephone Cooperative, Inc. and Yates City Telephone Company dated February 14, 2007, the Eligible Telecommunications Carrier status of Yates City Telephone Company shall be withdrawn.

IT IS FURTHER ORDERED that subject to the provisions of Section 10-113 of the Public Utilities Act and 83 Ill. Adm. Code 200.880, this Order is final; it is not subject to Administrative Review Law.

By order of the Commission this 27th day of June, 2007.

(SIGNED) CHARLES E. BOX

Chairman