

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE
April 5, 2007

IN RE:)	
)	
PETITION OF MCLEODUSA TELECOMMUNICATIONS)	DOCKET NO.
SERVICES, INC. FOR APPROVAL TO PARTICIPATE IN)	06-00254
CERTAIN FINANCING ARRANGEMENTS)	

ORDER APPROVING FINANCING TRANSACTION

This matter came before Chairman Sara Kyle, Director Eddie Roberson and Director Pat Miller of the Tennessee Regulatory Authority (the "Authority" or "TRA"), the voting panel assigned to this docket, at a regularly scheduled Authority Conference held on December 4, 2006 for consideration of the *Petition* filed by McLeodUSA Telecommunications Services, Inc. ("MTSI" or "Petitioner") for approval to participate in certain financing arrangements.

The Petition

MTSI is an Iowa corporation with principal offices in Hiawatha, Iowa. MTSI is a wholly-owned subsidiary of McLeodUSA Holding, Inc. which, in turn, is wholly-owned by McLeodUSA Incorporated ("Parent"). MTSI was granted authorization to provide operator services and resold telecommunications services in Docket No. 96-01632 on March 27, 1997 and later was granted authorization to provide facilities-based local exchange service and interexchange services in Docket No. 00-00906 on January 24, 2001.

On October 2, 2006, MTSI filed its *Petition* requesting permission to participate in certain financing arrangements whereby MTSI would pledge all of its existing and future acquired assets as

security for a financial transaction of its Parent. MTSI does not currently have physical assets in Tennessee that are used to provide regulated services.

On September 28, 2006, Parent issued via private offering \$120,000,000 in 10.5% Senior Second Secured Notes due 2011 ("Notes"). Parent subsequently agreed to exchange the Notes for similar notes registered under federal securities law ("Exchange Notes"). Each subsidiary of Parent, other than MTSI, pledged all their assets as guarantee for the Notes and Exchange Notes. The indenture governing the Notes and Exchange Notes allows Parent and its subsidiaries to incur additional debt ("Permitted Indebtedness") and grant additional liens ("Permitted Liens"). The Tennessee certificated affiliate, MTSI, specifically requests to pledge its assets as security for its guarantees, the Notes, the Exchange Note and Permitted Indebtedness. Parent also requests permission to grant Permitted Liens, which may create obligations on MTSI.

According to the *Petition*, the proceeds from the issuance of the Notes have been used to pay off all outstanding amounts under the exit financing for the Petitioner's Chapter 11 bankruptcy proceeding. The TRA approved the exit financing in Docket No. 05-00292. The proceeds of the sale have also been used to collateralize existing letters of credit held by Parent and subsidiaries including MTSI. The remaining proceeds will be used for general corporate purposes, consistent with normal business activities. MTSI maintains that approval of the financing transaction is in the public interest, because it will strengthen the competitive position of the firm by allowing MTSI access to greater financial resources thus providing further competition within the Tennessee marketplace.

December 4, 2006 Authority Conference

Tenn. Code Ann. § 65-4-109 (2004) provides:

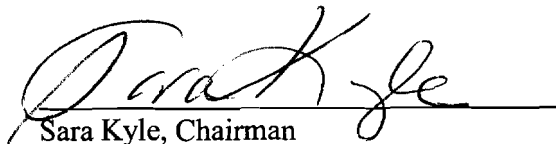
No public utility shall issue any stocks, stock certificates, bonds, debentures, or other evidences of indebtedness payable in more than one (1) year from the date thereof, until it shall have first obtained authority from the authority for such proposed issue. It shall be the duty of the authority after hearing to approve any such proposed issue maturing more than one (1) year from the date thereof upon being satisfied that the proposed issue, sale and delivery is to be made in accordance with law and the purpose of such be approved by the authority.

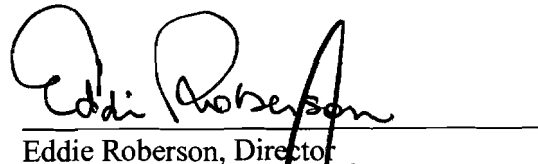
At a regularly scheduled Authority Conference held on December 4, 2006, the panel voted unanimously to approve the *Petition* and made the following findings:

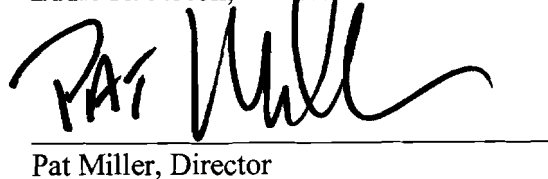
1. The proposed financing transaction is subject to Authority approval pursuant to Tenn. Code Ann. § 65-4-109 (2004);
2. The transaction is being made in accordance with laws enforceable by the Authority; and
3. The purpose of this transaction is in the public interest because it will enhance the ability of the Petitioners to grow and compete in the highly competitive markets for telecommunications services in Tennessee and nationwide.

IT IS THEREFORE ORDERED THAT:

1. McLeodUSA Telecommunications Services, Inc. is authorized to enter into the financing transaction as described in the *Petition* and discussed herein.
2. The authorization and approval given hereby shall not be used by any party, for the purpose of inferring an analysis or assessment of the risks involved. This authorization is not intended to create any liability on the part of the Tennessee Regulatory Authority, the State of Tennessee or any political subdivision thereof.


Sara Kyle, Chairman


Eddie Roberson, Director


Pat Miller, Director