

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the

Request of Sprint Nextel Corporation for an Order Declining to Assert Jurisdiction Over or, in the Alternative, Application of Sprint Nextel Corporation for Approval of the Transfer of Control of United Telephone Company of the Northwest and Sprint Long Distance, Inc. From Sprint Nextel Corporation to LTD Holding Company.

DOCKET NO. UT _____

DIRECT TESTIMONY OF

NANCY L. JUDY

**ON BEHALF OF
SPRINT NEXTEL CORPORATION**

AUGUST 26, 2005

1 **I. Introduction**

2

3 **Q. PLEASE STATE YOUR NAME AND YOUR BUSINESS ADDRESS.**

4 A. Nancy Judy, 902 Wasco Street, Hood River, OR 97031

5

6 **Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?**

7 A. I am employed by Sprint Nextel Corporation (“Sprint”) as the State Executive for
8 Oregon and Washington.

9

10 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND, WORK
11 EXPERIENCE AND PRESENT RESPONSIBILITIES.**

12 A. I received a Bachelor of Science degree in Business Finance, summa cum laude,
13 from Portland State University in 1995.

14

15 I began working for United Telephone Company of the Northwest (“United”) in
16 1979 in the Purchasing Department, then was promoted into network operations.
17 From 1981 – 1999, I held positions of increasing responsibility in the Revenues
18 and Regulatory department, concluding with the position of Revenues Director.
19 In that capacity, I oversaw all regulatory matters, consumer affairs, and carrier
20 relations, including the interexchange carrier service center. Among the functions
21 of the department were the production of cost studies, prices, tariffs, and capital
22 recovery studies. In 2000 I was named State Executive for Oregon and
23 Washington operations for Sprint. My responsibilities include overseeing all

1 external affairs, including public, regulatory, and legislative affairs on behalf of
2 Sprint and all of its divisions operating in Oregon and Washington.

3

4 **II. PURPOSE OF TESTIMONY**

5 **Q. WHAT TRANSACTION IS SPRINT REQUESTING THE COMMISSION**
6 **TO APPROVE IN THIS PROCEEDING?**

7 A. Sprint is separating its wireline local service operations into an independent stand-
8 alone company. Toward that end, a new holding company, LTD Holding
9 Company, has been created. Sprint is asking the Commission to either decline to
10 assert jurisdiction over the transfer of control of United and Sprint Long Distance
11 Inc. (hereafter referred to as LTD Long Distance), to a new corporate parent, LTD
12 Holding Company, or to approve the transaction. The transaction will occur
13 only at the holding company level. The companies this Commission regulates,
14 United and LTD Long Distance, will continue to operate under their current
15 certificates subject to the same Commission regulatory oversight and control.
16 Other than a change in the company’s name and logo, which will occur with the
17 separation, the transaction will be transparent to customers; they will continue to
18 receive the same high quality service from the people they have dealt with for
19 years Moreover, as is explained in detail later in my testimony, the increased
20 “local focus” of the company will provide additional opportunities to provide an
21 even better customer experience in the future.

22

23

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

2 A. The purpose of my testimony is to sponsor the Application. I will describe the
3 separation of Sprint’s local telecommunications business from Sprint and how it
4 results in the transfer of control to the LTD Holding Company. My testimony
5 will demonstrate that United will continue to have the technical and managerial
6 capabilities to provide quality service after the separation. I also will show that
7 the separation will be transparent to (other than the change in the company name
8 and logo), and ultimately beneficial to the local customers of United.

9
10 **Q. COULD YOU PLEASE DESCRIBE THE TESTIMONY OF SPRINT’S**
11 **OTHER WITNESSES IN THIS PROCEEDING?**

12 A. Richard Pfeifer (Exhibit RGP-1T) describes the financial capability of United and
13 the LTD Holding Company and demonstrates that LTD Holding Company, with
14 its subsidiaries, including United, is financially capable of continuing to deliver
15 quality service following the separation. Glenn Daniel (Exhibit GRD-1T) of
16 Houlihan Lokey presents the results of his firm’s analysis regarding the enterprise
17 value of LTD Holding Company and demonstrates that the financial structure and
18 capabilities of the Holding Company and its subsidiaries are consistent with the
19 companies’ current and future needs to invest in networks, systems and
20 employees to ensure they can continue to provide high quality service. Although
21 the testimony of all the witnesses, including mine, ultimately supports a finding
22 that the separation is in the public interest, Dr. John Mayo (Exhibit JWM-1T)
23 provides an independent evaluation of the proposed transaction and supports his

1 findings that it is in the public interest and it is natural and expected for
2 corporations to seek to organize themselves in an efficient and strategically
3 focused manner.

4

5 **Q. WHAT COMPANIES ARE YOU TESTIFYING ON BEHALF OF IN THIS**
6 **PROCEEDING?**

7 A. My testimony is provided principally on behalf of the companies in Washington
8 that will experience a change in control from Sprint to LTD Holding Company
9 effective upon completion of the separation: United and LTD Long Distance.
10 United provides local exchange services. LTD Long Distance is a company that
11 was recently created to provide long distance services to Sprint's local customers
12 who today are served by Sprint Communications Company L.P. As is explained
13 in detail below, after the separation those customers will be transferred to LTD
14 Long Distance. I also am testifying on behalf of the LTD Holding Company,
15 which will be the parent company for United and LTD Long Distance after
16 completion of the separation.

17

18 **Q. IF THE COMMISSION CONCLUDES THAT SPRINT, LTD HOLDING**
19 **COMPANY, AND LTD LONG DISTANCE ARE PUBLIC SERVICE**
20 **COMPANIES SUBJECT TO COMMISSION JURISDICTION, WHAT**
21 **STANDARD OF REVIEW IS APPLICABLE TO THE COMMISSION'S**
22 **REVIEW AND APPROVAL OF THE SEPARATION OF SPRINT'S**
23 **INCUMBENT LOCAL WIRELINE OPERATIONS?**

1 A. WAC 480-143-170 requires changes in control must be consistent with the public
2 interest. Additionally, in Docket UE-981627 the Commission decided that
3 “consistent with the public interest” means to “cause no harm.” The transfer of
4 control of the operating entities in Washington from Sprint to LTD Holding
5 Company satisfies this criteria in that it will have the technical, managerial, and
6 financial capability to continue providing quality telecommunications services,
7 and is in the public interest.

8

9 **III. COMPANY OVERVIEW AND DESCRIPTION OF THE SEPARATION**

10 **Q. PLEASE DESCRIBE UNITED’S OPERATIONS IN WASHINGTON.**

11 A. Today, Sprint continues its 105-year tradition of providing quality services to its
12 local customers in Washington through the operations of its incumbent local
13 exchange carrier – United. United serves approximately 82,000 access lines in 31
14 communities in the state and provides a full portfolio of communications services
15 to its customers, including local, long distance, wireless, high-speed internet, and
16 video.

17

18 **Q. PLEASE DESCRIBE SPRINT’S CURRENT ORGANIZATIONAL**
19 **STRUCTURE AS IT RELATES TO THE COMPANIES FOR WHICH**
20 **SPRINT IS SEEKING TRANSFER OF CONTROL.**

21 A. United and LTD Long Distance operate as direct subsidiaries of Sprint and
22 collectively with Sprint’s ILEC properties in 17 other states make up the Local
23 Telecommunications Division (LTD) of Sprint. LTD Long Distance was recently

1 formed for the purpose of providing long distance service to customers of Sprint's
2 ILEC operations, including the customers of United. The ultimate parent
3 company of United and LTD Long Distance is currently Sprint.

4

5 **Q. FROM AN ORGANIZATIONAL PERSPECTIVE, WHAT IMPACT DOES**
6 **THE SEPARATION HAVE ON UNITED AND LTD LONG DISTANCE IN**
7 **WASHINGTON?**

8 A. The separation of LTD from Sprint will have little if any impact on United and
9 LTD Long Distance in Washington. The operating entities in the state will
10 remain the same. United and LTD Long Distance will continue to exist as
11 separate companies and, as is explained later in my testimony, will continue to
12 serve their local customers in a way that will ensure transparency to those
13 customers.

14

15 From a corporate structure perspective, the only change to these entities will be
16 that the ultimate owner of these companies will be LTD Holding Company rather
17 than Sprint. Exhibit NLJ-2 to my testimony shows the corporate structure of
18 Sprint Corporation before its merger with Nextel, the corporate structure of Sprint
19 after the merger of the two companies, and the corporate structure related to the
20 creation of the LTD Holding Company. These charts illustrate that at the
21 completion of the separation United and LTD Long Distance are unchanged and
22 simply are owned by a new parent company, the LTD Holding Company.

23

1 **Q. WILL THERE BE A CORPORATE NAME CHANGE THAT RESULTS**
2 **FROM THE SEPARATION?**

3 A. Yes. A new corporate name and logo are being developed and will be introduced
4 on or near the effective date of the separation. Any state-required registrations,
5 filings or notifications for the name changes will be completed at that time.

6

7 **IV. THE TRANSACTION WILL BE TRANSPARENT TO CUSTOMERS**

8 **Q. HOW WILL THE TRANSACTION AFFECT THE CUSTOMER'S**
9 **EXPERIENCE?**

10 A. The transaction will result in continuous service, and with the exception of the
11 new company name and logo, the separation will be transparent to customers. On
12 the day after the separation, United will offer the full range of products and
13 services that it offered the day prior to separation, at the same prices, and subject
14 to the same rules, regulations and applicable tariffs. United will continue to meet
15 the needs of customers who want a “one stop shop” for voice and data
16 communications needs through bundled service offerings. The separation will
17 have no adverse effect on service quality, or on the ability of the company to meet
18 all of its obligations. Customers will continue to be able to call existing numbers
19 to obtain new services, report service problems and address billing or other
20 customer care issues.

21

22 **Q. WILL EXISTING RULES, REGULATIONS AND TARIFFS CONTINUE**
23 **TO APPLY TO UNITED AND LTD LONG DISTANCE?**

1 A. Yes. The separation will not affect or change the certificated entities, and they
2 will continue to provide local exchange service and long distance service subject
3 to existing rules, regulations and applicable tariffs. United will remain subject to
4 rate of return regulation, service quality obligations, and tariff requirements. Any
5 future end user rate changes will continue to be subject to the same rules and
6 procedures as today. Likewise, the terms and prices for existing wholesale
7 services under United's access tariffs will be unchanged as a result of this
8 transaction. Moreover, the transaction will have no impact on the terms of any
9 interconnection agreements or United's obligations under state and federal laws
10 regarding interconnection.

11

12 **V. TECHNICAL AND MANAGERIAL CAPABILITIES OF UNITED AND**
13 **LTD LONG DISTANCE TO CONTINUE PROVIDING QUALITY**
14 **SERVICE**

15

16 **Q. WILL UNITED AND LTD LONG DISTANCE CONTINUE TO POSSESS**
17 **THE TECHNICAL AND MANAGERIAL ABILITY TO PROVIDE**
18 **QUALITY SERVICE UPON COMPLETION OF THE SEPARATION?**

19 A. Absolutely. As I previously described, the certificated entities in Washington that
20 provide service to our customers today will continue to provide the same services.
21 Moreover, United and LTD Long Distance will have the assets, agreements,
22 technical capabilities, managerial expertise, employees and other resources
23 needed to continue to provide quality services to our customers.

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Q. HOW WILL THE COMPANY ENSURE THAT THE NECESSARY ASSETS ARE IN PLACE TO ENSURE SERVICES CAN BE PROVIDED AS THEY ARE TODAY?

A. All equipment, buildings, systems, software licenses and other assets owned by United will remain assets of United. There will be no transfers or assignments of assets owned by United as a result of the separation. Assets owned by other Sprint entities that currently serve the needs of multiple Sprint operations are being reviewed to determine which entity has the predominant use of the shared asset today and will continue to have a need for that asset in the future. Through a structured review process described in greater detail in the testimony of Richard Pfeifer, (Exhibit RGP-1T) a determination will be made regarding the future owner of each of the shared assets. For any shared assets that will remain with Sprint, LTD Holding Company or its subsidiary, will decide whether to purchase or lease similar assets or contract for comparable services from a third party to best meet its future needs. In the interim, Transition Services Agreements between Sprint and LTD Holding Company will provide access to needed assets to ensure the continuity of services as the separation is completed. As a result, LTD Holding Company, together with United and LTD Long Distance, will have all of the necessary network assets, and ordering, provisioning, billing and customer care capabilities required to continue to provide high quality retail and wholesale services seamlessly after the separation.

1 **Q. WHAT STEPS ARE BEING TAKEN TO ENSURE THAT AFTER THE**
2 **SEPARATION UNITED WILL HAVE THE CAPABILITY TO PROVIDE**
3 **CUSTOMERS WITH THE SAME TYPES OF SERVICES (LOCAL, LONG**
4 **DISTANCE, WIRELESS, HIGH-SPEED INTERNET AND VIDEO) THEY**
5 **PROVIDE TODAY?**

6 A. United will continue to provide a complete portfolio of services to its customers
7 in Washington through a combination of self-provisioning and commercial
8 agreements. United's provision of local service and high-speed internet services
9 will be unaffected by the separation transaction. United will continue to offer the
10 same services, and at the same rates, terms and conditions that it does today.

11
12 United's customers who currently have Sprint Communications Company L.P. as
13 their long distance carrier and have the benefit of one-stop shopping will have the
14 ability to continue purchasing bundled services. Through a commercial
15 agreement between LTD Long Distance and Sprint Communications Company
16 L.P., United will have the capability to seamlessly provide long distance services
17 to customers under the same rates, terms and conditions that the customers
18 currently receive from Sprint Communications Company L.P. When the
19 separation is complete, the consumer long distance customers of Sprint
20 Communications Company L.P. within the service territory of United will become
21 customers of LTD Long Distance. Business customers subscribed to Sprint
22 Communications Company L.P. with their headquarters located in the service
23 territory of United will also become customers of LTD Long Distance. The

1 transfer of the consumer and business customers from Sprint Communications
2 Company L.P. to LTD Long Distance will be completed in accordance with FCC
3 and state rules and after required customer notices, which will include an
4 opportunity for customers to choose another long distance carrier if they do not
5 desire service from LTD Long Distance. The commercial agreement that enables
6 United's customers to continue to receive long distance services as they do today
7 is described in greater detail in the testimony of Richard Pfeifer. (Exhibit RGP-
8 1T)

9
10 LTD Long Distance also will enter into a commercial agreement with Sprint for
11 the provision of wireless services to the customers of United. This commercial
12 agreement will provide United the continued ability to offer a wireless component
13 for customers desiring integrated service offerings. The wireless commercial
14 agreement with Sprint is described in greater detail in the testimony of Richard
15 Pfeifer. (Exhibit RGP-1T)

16
17 United currently offers customers the opportunity to purchase satellite video
18 services as a component of an integrated service bundle through a sales agency
19 agreement with EchoStar. Sprint is taking steps to ensure this arrangement with
20 EchoStar remains in place after the separation to enable customers to continue to
21 purchase video services as part of their bundled service offering from United.

22

1 Through these long distance, wireless and video arrangements, United and LTD
2 Long Distance will continue to offer customers the opportunity to subscribe to
3 bundles of local, long distance, wireless, high-speed internet and video services as
4 they do today.

5

6 **Q. HOW WILL THE MANAGEMENT STRUCTURE AND STAFFING**
7 **ENSURE THE COMPANY'S CONTINUED ABILITY TO PROVIDE**
8 **QUALITY SERVICE?**

9 A. The customer service, network and operations functions that are critical to the
10 company's success today will continue when the separation is complete and the
11 company will be staffed to ensure that continuity. Customers will continue to
12 interact with the local employees who serve them today in their local
13 communities.

14

15 United and LTD Long Distance will continue to receive certain management
16 services from the corporate level, including human resources services, finance
17 services, tax services, communications services, legal services, planning services,
18 general support services, and information services. Although the services will be
19 the same as those provided today, and staffed by many of the same experienced
20 and knowledgeable people currently providing those services, the entity that
21 provides it will be a new management company subsidiary of LTD Holding
22 Company. By continuing to maintain these centralized functions, the individual

1 operating companies, including United will benefit from the efficiencies of
2 centralized support services.

3
4 At the senior management level, LTD Holding Company will be managed by
5 capable and experienced executives who will provide continuity and consistency
6 of operations after the separation is completed. Daniel R. Hesse has been named
7 Chief Executive Officer of the LTD Holding Company. Mr. Hesse has extensive
8 experience in the telecommunications industry, including 23 years at AT&T.
9 Michael B. Fuller has been named the Chief Operating Officer of the LTD
10 Holding Company. Mr. Fuller, currently President and Chief Operating Officer of
11 Sprint's Local Telecommunications Division, has had responsibility for leading
12 Sprint's local telephone operations since 1996. Gene Betts, formerly Sprint
13 Corporation's Senior Vice President and Treasurer, has been named Chief
14 Financial Officer of the LTD Holding Company. Tom Gerke, formerly Executive
15 Vice President-General Counsel and External Affairs of Sprint Corporation, has
16 been named General Counsel for the LTD Holding Company. James A. Hansen
17 has been named the senior officer to lead the LTD Holding Company's Network
18 and Customer Service Organization. For Mr. Hansen, this represents a
19 continuation of his current responsibilities and focus on the network operations of
20 Sprint's ILECs. Exhibit NLJ-3 to my testimony shows organizational charts of
21 the LTD Holding Company with the named senior management team identified.
22 The senior management team has an average tenure with Sprint of nearly 18
23 years, with approximately 170 years of combined Sprint experience.

1

2 **VI. BENEFITS OF THE SEPARATION**

3 **Q. WHY IS SPRINT PURSUING THIS SEPARATION OF ITS ILEC**
4 **OPERATIONS?**

5 A. United and LTD Long Distance operate in an industry that has been and continues
6 to be subject to technological advances, evolving consumer preferences, and
7 dynamic change. These factors, combined with recent federal regulatory
8 developments that favor intermodal competition, result in a market environment
9 where the interests of Sprint's local wireline operations will begin to diverge from
10 Sprint's increasingly wireless-centric focus. Establishing Sprint's wireline local
11 service operations as an independent, stand-alone corporation creates a company
12 with a strategic focus on building upon its local wireline capabilities to provide a
13 full portfolio of quality services to residential and business customers in its local
14 territory. The separation establishes a more focused company vision and purpose
15 and better alignment between the company and the interests of its local telephone
16 customers.

17

18 **Q. HOW WILL THE SEPARATION RESULT IN A MORE FOCUSED**
19 **VISION AND PURPOSE?**

20 A. The separation of Sprint's ILEC operations will allow its local customers to be
21 served by a company with a local focus. Until the merger of Sprint and Nextel,
22 Sprint served nearly three times as many wireless customers as local wireline
23 customers. With the completion of the merger, Sprint now serves five times as

1 many wireless customers as wireline customers. Given the predominance of
2 wireless customers, Sprint will naturally focus on its nationwide business built
3 around wireless services and its nationwide fiber optic and global IP network.

4
5 This separation of Sprint's ILEC operations will allow United's local customers
6 to be served by a company whose primary strategic interest is the specific local
7 franchised areas it serves in Washington and other states. The result is a
8 company that seeks to be the preferred hometown communications company with
9 a single-minded focus on its local markets.

10

11 **Q. HOW WILL CUSTOMERS BENEFIT FROM THE COMPANY'S MORE**
12 **FOCUSED VISION AND PURPOSE?**

13 A. The company's success will be directly dependent upon its ability to meet the
14 needs of its local customers. The separation allows the company to focus on
15 serving the interests of its customers in the local community.

16

17 With a more targeted local focus, United can enhance its local presence to be
18 more responsive in service delivery, product portfolio and customer interaction.
19 It will be better positioned to respond to its customers' needs by tailoring products
20 specifically to its local customer base. Although comprehensive plans for specific
21 programs are still in the development stage, examples of areas where this local
22 focus concept would be manifested include:

- 1 • Many of Sprint’s wireline and wireless business and residential offerings
2 have concentrated on product offerings that target national urban markets.
3 Since United’s local customers live in more rural areas, their needs are
4 often different from the needs of Sprint’s nationwide customer base. LTD
5 Holding Company will have the freedom to create product offerings that
6 better reflect the preferences of its current local customers. As an
7 example, the company is considering offering wireless plans with fewer
8 minutes, designed to complement wireline service rather than replace it, as
9 an offering that may be more attractive to its local customers.
- 10 • Local cross-functional teams with representatives from customer-facing
11 organizations, including operations, consumer and business marketing and
12 public affairs, will be formed and charged with greater accountability for
13 overall performance in specific geographic areas. These local teams will
14 be responsible for understanding customers’ needs in specific geographic
15 markets and developing market-specific recommendations to address
16 those needs.
- 17 • Responsibility for responding to the needs of business customers in the
18 local territory of United is being shifted from an organization with a
19 national focus to an organization that will focus exclusively on the
20 business customers in LTD Holding Company territory. Local emphasis
21 will be enhanced by physically locating employee resources dedicated to
22 the local business customers in or near the local markets. Business
23 customers will benefit from a business sales and service organization

1 whose focus will be on understanding and meeting their specific
2 communications needs in United's local territory.

3

4 **Q. YOU INDICATED THAT THE SEPARATION AND RESULTING LOCAL**
5 **FOCUS WILL ALLOW FOR A BETTER ALIGNMENT OF THE**
6 **INTERESTS OF THE COMPANY WITH THE INTERESTS OF ITS**
7 **CUSTOMERS. CAN YOU EXPLAIN?**

8 A. The separation provides a greater opportunity for United to compete effectively to
9 retain and grow its customer base with a level of independence the company
10 would not have as part of a larger corporation with a predominantly wireless and
11 national focus. Customers benefit from the increased focus on their needs and the
12 company benefits from retaining and attracting those customers whose needs are
13 satisfied by the company's offerings, service quality, and customer care.

14

15 The separation will allow Sprint to compete more effectively in three important
16 ways. First, separating the ILEC business from Sprint eliminates any emerging
17 tensions between Sprint's anticipated national wireless strategy and LTD Holding
18 Company's local wireline strategy. For example, Sprint has announced that it will
19 focus on serving as a wireless alternative to wireline service and to advance
20 competition by, for example, enabling cable companies' voice offerings or using
21 other technologies. Sprint's goal of replacing existing local wireline service is
22 inconsistent with LTD Holding Company's goal of building on its local wireline
23 capabilities. Second, the separation will allow decisions to be made more quickly

1 and will allow flexibility for creating bundles and product portfolios in specific
2 markets. Among other things, LTD Holding Company will be able to offer new
3 products more rapidly, and to respond to new offerings from alternate providers
4 quickly in the local market. Third, as described above, the separation will allow
5 the company to focus on developing products targeted to local customers.

6

7 **Q. HOW WILL THIS ENHANCED FOCUS BE REFLECTED IN THE**
8 **COMPANY'S OPERATIONS IN THE LOCAL COMMUNITIES IT**
9 **SERVES?**

10 A. The company will strengthen its local emphasis and build on its foundation of
11 local services as it continues to meet the telecommunications needs of customers.
12 Local affairs will continue to be managed by employees with established local
13 connections. United will continue to be an active participant in local activities
14 and to provide opportunities for employees to do so as well.

15

16 **VII. SUMMARY**

17 **Q. COULD YOU PLEASE SUMMARIZE YOUR TESTIMONY?**

18 A. The transfer of control of United and LTD Long Distance Inc. from Sprint to the
19 LTD Holding Company will be transparent to customers. It will not affect the
20 companies' technical and managerial capability to provide quality
21 communications services. The testimony of Richard Pfeifer (Exhibit RGP-1T)
22 and Glenn Daniel (Exhibit GRD-1T) from Houlihan Lokey demonstrate the
23 financial capabilities of United and LTD Holding Company. The separation

1 results in a company whose primary strategic focus will be to build upon its local
2 wireline capabilities in providing quality services to residential and business
3 customers in its local territory. This separation allows the company to focus its
4 vision and purpose; this focus will have the beneficial effect of better aligning the
5 interests of the company with the interests of its customers. Because the
6 separation of the local operations is in the public interest, the Commission should
7 therefore approve the change of control of United and LTD Long Distance to
8 LTD Holding Company.

9

10 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

11 A. Yes.