

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the)
) DOCKET NO. UT-051291
Request of Sprint Nextel Corporation for an)
Order Declining to Assert Jurisdiction Over)
or, in the Alternative, Application of Sprint) SETTLEMENT AGREEMENT
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. _____)

1 This Agreement (“Agreement”) is entered into between Sprint Nextel Corporation (“Sprint Nextel”), United Telephone Company of the Northwest d/b/a Sprint (“United”), and Sprint Long Distance, Inc. (“SLDI”) (collectively “Sprint”), Staff of the Washington Utilities and Transportation Commission (“Staff”), and the Public Counsel Section of the Washington Attorney General (“Public Counsel”) (collectively “Parties” or individually a “Party”).

A. Background

2 On August 26, 2005, Sprint filed an application requesting that the Commission decline to assert jurisdiction over the proposed separation of Sprint’s local telephone division operations into a new holding company, or alternatively to approve the

separation. The proposed separation transfers control of the corporate entities currently known as United and SLDI to LTD Holding Company, a new parent company.¹

3 Staff and Public Counsel appeared and have participated in the case, raising several issues in connection with the proposed transaction. The Parties now enter voluntarily into this Agreement to resolve the matters in dispute among them and to expedite the orderly disposition of this proceeding.

B. Nature of Agreement

4 This Agreement is a "Full Settlement" within the meaning of WAC 480-07-730(1), and the Parties will present this Agreement to the Commission for its approval to resolve all issues raised by all parties in this docket.

C. Positions Are Not Conceded

5 In reaching this Agreement, each of the Parties maintains the positions espoused throughout the proceeding. No Party necessarily accedes to any argument made by any other Party.

D. Agreement Subject to Commission Approval.

6 The Parties understand and agree that this Agreement in no manner binds the Commission in ruling on the pending proceeding until such a time as the Commission

¹ The company announced on February 1, 2006, that LTD Holding Company will officially be known as Embarq Corp. The parties continue to refer to the parent as "LTD" in this Settlement Agreement. The new local telephone division operations will also do business as Embarq but for ease of reference, the local division serving Washington will at all times be referred to as "United" in this Agreement.

approves the Agreement. This Agreement is expressly subject to Commission approval except for ¶¶ 11 and 12 below. The Parties agree that if the Commission approves the Agreement without material change, this docket will be concluded.

E. Agreed Conditions on Approval of the Separation

7 The conditions are as follows:

1. Directory Sale

- a. The Washington portion of the gain on sale of Sprint's directory publishing operations is **BEGIN HIGHLY CONFIDENTIAL** [REDACTED] **END HIGHLY CONFIDENTIAL**.
- b. \$9,789,750 will be attributed to ratepayers.
- c. The \$9,789,750 will be amortized over ten years resulting in an annual amortization of \$1.451M. This directory gain on sale amortization will begin on January 1, 2008, or on the effective date of any new rates that are developed as a result of a rate case or an earnings investigation, whichever is earlier. At the time the directory gain on sale amortization described in this section begins, the amortization will replace existing directory imputation. The amortization period will continue for ten years, after which time the directory gain on sale amortization will cease.
- d. An additional one-time bill credit of four-hundred-thousand dollars (\$400,000) will be divided between retail residential customers on a per account basis. The bill credit shall be issued to customers as soon as practicable after the Separation, but no later than 60 days after transaction closing. Not later than 120 days after transaction closing, United shall render an accounting and reconciliation report to Commission Staff and Public Counsel of the number and amounts of credits applied with a reconciliation of total bill credits to the \$400,000 target. Within 60 days after filing of the aforementioned report the Parties shall present to the Commission their joint or separate recommendations for the distribution of any bill credit residuary from the \$400,000.

2. Recovery of Separation, Branding & Transition Costs

United will not seek recovery from ratepayers of any Separation, branding or transition costs of the Separation in rates, including, but not limited to, transaction costs (accounting, banker, legal advisor and other fees), dissynergies, severance costs associated with the separation and costs of developing and establishing the new brand.

With respect to the aforementioned dissynergies, if United files a rate case prior to three years after transaction closing, United will not dispute that dissynergies were estimated by Sprint in this case in Exhibit RGP-11HC in the amount of **BEGIN HIGHLY CONFIDENTIAL** [REDACTED]**END HIGHLY CONFIDENTIAL** on a total Washington basis. United agrees not to dispute any party's right to argue that actual dissynergies may exceed this amount.

3. Service Guarantee

United will offer a service guarantee in its tariff to match the Nevada tariff provisions reflected in Exhibit BAE-4 to the Response Testimony of Betty A. Erdahl in this docket with one exception: the credit will be for fixed amounts rather than be tied to a local monthly service charge which could vary by exchange. Effective January 1, 2007, automatic credits will be provided to customers for each repair commitment missed due to reasons within the Company's control. Effective January 1, 2007, automatic credits will be provided to customers for each installation commitment missed due to reasons within the Company's control. The credit will be a fixed \$15 for residential and \$25 for basic business (i.e. B1) customers. After three years United will re-evaluate and may file to withdraw this offering or offer a different plan.

4. Service Quality

United will continue to comply with the applicable Commission-approved service quality requirements; provided, however, that United shall be allowed to seek changes in or relief from such requirements consistent with provisions of the Revised Code of Washington, Washington Administrative Rules or Commission orders.

5. Customer Notice

United will provide individual written notice to Washington customers regarding the separation, the new company name and any changes to the bill format. The notice shall be provided 30 days in advance of customers being

transferred to SLDI for long distance service. The customer notice associated with the name change for United and other bill format changes will also be provided in advance.

Washington long distance customers of Sprint Communications Company L.P. who are transferred to SLDI as a result of the separation shall not be charged a Primary Interexchange Carrier (PIC) charge when choosing another carrier within ninety (90) days of receiving the thirty (30) day advanced written notice of the transfer pursuant to applicable federal and state rules. The notice to long distance customers shall also include information describing how to change carriers without paying a fee.

United agrees to work with Staff and Public Counsel on the timing, manner and content of any customer notices associated with the separation.

6. Finance Conditions:

- a. At any time when either of the conditions in subsection 6.a.i. or 6.a.ii. exist, United Telephone Company of the Northwest (United) will limit payment of dividends on common equity distributed to LTD (including LTD's affiliates and subsidiaries other than United) in any year to an amount not more than 50% of the net income of United in the prior fiscal year. United will limit payment of dividends on common equity in any quarter to not more than one-fourth of the annual limitation amount.
 - i. The average market value of LTD's common equity is less than 50% of the book value of LTD's net debt. The average market value of LTD's common equity will be calculated using the average stock price and the average number of fully diluted shares outstanding during the preceding 60 calendar days. As used in this section, "net debt" means total long-term debt less cash. This test will be calculated prior to the determination of each declaration of dividend, whether quarterly, special, or other. This test will be calculated at the end of each quarter for purposes of determining whether the requirements in subsection 6.b. and subsection 6.c. apply in the subsequent quarter.
 - ii. Neither LTD nor United (if rated separately) is assigned an investment grade corporate credit rating by two or more of the major credit rating agencies (Moody's, S&P, Fitch).

- b. For any year in which the conditions in 6.a.i or 6.a.ii are triggered, United will provide a report to Staff and Public Counsel at the end of United's fiscal year. The report shall contain United's operating expenses and identify: (1) any expense in which there has been a percentage increase of more than five percent from the prior year ("expense increase") and (2) any new operating expenses not previously paid by United in the last five years ("new expense"). If United reports an expense increase or a new expense, United shall explain the expense increase or new expense. Staff or Public Counsel may request that United perform a value study for the particular expense or expenses at issue. This requirement exceeds United's current reporting obligations; however, United agrees to continue to comply with the applicable Commission rules.
- c. For any fiscal quarter when the conditions in 6.a.i or 6.a.ii are triggered, United will provide a report that reconciles the cash management activities performed on a centralized basis by LTD on behalf of United. The reconciliation will demonstrate that intercompany receivable and payable accounts in the United financials properly recognize the sources and uses of cash that are attributable to United along with the effect of the dividend restrictions as described in 6.a.
- d. United will limit payment of dividends on common equity in any year to an amount not more than 100% of the net income of United in the prior fiscal year. The parties agree that this provision does not require United to pay its entire net income as a dividend and does not constitute support by any party or the Commission of a practice of routinely paying all net income as dividends.
- e. The conditions in sections 6.a, 6.b, 6.c and 6.d. shall be in effect for not less than four years after the close of the separation transaction unless United is classified as a competitive telecommunications company in Washington under RCW 80.36.320. After expiration of the four-year period or upon classification as a competitive telecommunications company, United may petition the UTC to remove or modify the conditions in these sections. In any such petition, United must demonstrate that the conditions are not necessary to maintain the financial integrity of United and not necessary to protect the customers of United. If neither condition 6.a.i. nor condition 6.a.ii., existed at any time during the four years prior to the petition, the burden of demonstrating the continuing need for the conditions will be on Staff and Public Counsel.

- f. Neither LTD nor United will pledge the assets of United to secure any borrowing undertaken by LTD (including its affiliates and subsidiaries other than United) unless explicitly approved by the WUTC.
- g. United will not advocate in any general rate case proceeding for a higher cost of capital as compared to what United's cost of capital would have been, using Commission standards, absent the transfer of ownership of United to LTD.

7. Affiliated Interest Agreements

- a. If United is a signing party to any contracts negotiated with Sprint Nextel prior to the completion of the separation, United will acknowledge that it is an affiliated interest of Sprint Nextel, as that term is used in Chapter 80.16 RCW, for as long as any contract negotiated prior to separation is in effect.
- b. If United is a signing party to a contract with Sprint Nextel, negotiated prior to the completion of the separation and which continues in effect, Sprint Nextel and/or United agrees to provide cost data in any proceeding in which United's regulated revenue or expenses relating to these contracts is at issue, so that the Commission is able to calculate a) the lower of cost or market standard for affiliated interest transactions with compensation from United to Sprint Nextel and b) the higher of cost or market standard for affiliated interest transactions with compensation from Sprint Nextel to United (or at tariffed rates if available) for use in the proceeding.

8. Broadband Deployment

United agrees to provide information to Staff or Public Counsel upon request concerning how, when, and where it has deployed broadband services.

F. Effective Date

8 The effective date of the Agreement is the date the Agreement is approved, without material change, by Commission order, or the date on which the Separation closes, whichever date is later. Notwithstanding the effective date of the Agreement as a whole, paragraphs 11 and 12 below, which require the Parties to support the

Agreement before the Commission and govern publicity regarding the Agreement, are effective on the execution date of the Agreement. The execution date of the Agreement is the date of the latest signature.

G. Filing of the Agreement

9 The Parties agree to use the following procedures to seek Commission approval of the Agreement. Within one business day of the date of execution of the Narrative that accompanies this Agreement, Staff will file this Agreement and the Narrative with the Commission on behalf of the Parties. The transmittal letter will recommend that the Commission accept the settlement as the resolution of all issues in the case.

H. Agreement Approval Procedures

10 The Parties understand the Commission has discretion, consistent with applicable law, to determine the appropriate procedures for determining whether it will approve this Agreement. Pursuant to WAC 480-07-740(1), the Parties urge the Commission to approve the settlement no later than March 31, 2006.

I. Support of the Agreement

11 All Parties agree to use their best efforts to support the Agreement as a settlement of all contested issues in the pending proceeding. At a minimum, the Parties will provide supporting witnesses to sponsor the Agreement at a Commission hearing and recommend that the Commission issue an order adopting this Agreement as the

resolution of this proceeding and to provide such other evidence or briefing that the Commission may require pursuant to WAC 480-07-740(2). No Party to this Agreement or their agents, employees, consultants or attorneys will engage in any advocacy contrary to the Commission's prompt consideration of this Agreement. Nothing in this Agreement, however, requires any Party to support a material modification to this Agreement, if one is made by the Commission. See ¶ 13 below.

J. Publicity

12 All Parties agree: (1) to provide all other Parties the right to review in advance of publication any and all announcements or news releases that any other Party intends to make about the Agreement (with the right of review to include a reasonable opportunity to request changes to the text of such announcements) and (2) to include in any news release or announcement a statement that the Staff's recommendation to approve the settlement is not binding on the Commission itself.

K. Procedure if the Commission Provides Less Than Full Approval

13 In the event the Commission rejects this Agreement, the provisions of WAC 480-07-750(2) (a) shall apply. In the event the Commission accepts the Agreement upon conditions not proposed herein, each Party reserves its right, upon written notice to the Commission and the parties within five (5) days of the Commission's Order, to state its rejection of the conditions and withdrawal from the Agreement. In such event, the Parties immediately will request the prompt convening of a prehearing conference for

purposes of establishing a procedural schedule for the completion of the case pursuant to WAC 480-07-750(2)(a). The Parties agree to cooperate in the development of a schedule that concludes the proceeding at the earliest possible date taking into account the needs of the Parties.

L. The Agreement as Precedent

14 The Parties have entered into this Agreement to avoid further expense, inconvenience, uncertainty and delay. Nothing in this Agreement (or any testimony, presentation or briefing supporting the Agreement) shall be, 1) cited or construed as precedent or as indicative of a Party's position on a resolved issue, or 2) asserted or deemed to mean that a Party agreed with or adopted another Party's legal or factual assertions in this proceeding. The limitations in this paragraph shall not apply to any proceeding to enforce the terms of this Agreement or any Commission order adopting this Agreement in full.

15 Because this Agreement represents a compromise position of the Parties, no conduct, statements or documents disclosed in the negotiation of the Agreement shall be admissible as evidence in this or any other proceeding. This paragraph does not apply to non-privileged, publicly available documents.

M. Entire Agreement

16 The Parties acknowledge that this Agreement is the product of negotiations and compromise and shall not be construed against any Party on the basis that it was the

drafter of any or all portions of this Agreement. This Agreement constitutes the Parties' entire agreement on all matters set forth herein, and it supersedes any and all prior oral and written understandings or agreements, on such matters that previously existed or occurred in this proceeding, and no such prior understanding or agreement or related representations shall be relied upon by the Parties.

N. Integrated Agreement

17 The Parties recommend that the Commission approve this Agreement with no material changes. The Parties have agreed to this Agreement as an integrated document.

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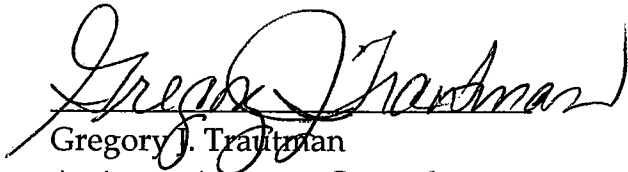
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O. Manner of Execution

18 This Agreement is considered executed when all Parties sign the Agreement. A designated and authorized representative may sign the Agreement on a Party's behalf. The Parties may execute this Agreement in counterparts. If the Agreement is executed in counterparts, all counterparts shall constitute one agreement. A faxed signature page containing the signature of a Party is acceptable as an original signature page signed by that Party. Each Party shall indicate the date of its signature on the Agreement.

DATED this 2nd day of March, 2006

ROB MCKENNA
Attorney General



Gregory J. Trautman
Assistant Attorney General
Counsel for WUTC Staff

Judith Krebs
Assistant Attorney General
Public Counsel Section

SPRINT NEXTEL CORPORATION

William E. Hendricks, III
Attorney for Sprint

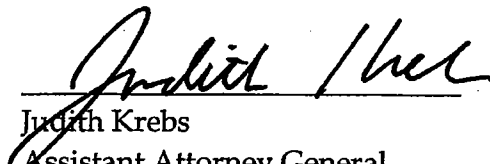
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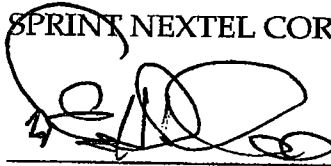
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