

**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-051291

**SUPPLEMENTAL REBUTTAL TESTIMONY OF**

**NANCY L. JUDY**

**ON BEHALF OF  
SPRINT NEXTEL CORPORATION**

**FEBRUARY 6, 2006**

1 **I. INTRODUCTION**

2

3 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND CURRENT**  
4 **POSITION.**

5 A. Nancy Judy, 902 Wasco Street, Hood River, OR 97031. I am employed by Sprint  
6 Nextel Corporation (“Sprint”) as the State Executive for Oregon and Washington.

7

8 **Q. ARE YOU THE SAME NANCY JUDY WHO FILED TESTIMONY IN THIS**  
9 **DOCKET ON AUGUST 26, 2005 AND JANUARY 6, 2006?**

10 A. Yes.

11

12 **II. PURPOSE OF TESTIMONY**

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

14 A. The purpose of my testimony is to provide background information that may be useful  
15 to the Commission should it decide to attribute the gain on the sale of Sprint’s  
16 directory publishing business to United’s Washington ratepayers.

17

18 **III. SUMMARY AND RECOMMENDATION**

19

20 **Q. PLEASE SUMMARIZE SPRINT’S POSITION WITH REGARD TO THE 2003**  
21 **SALE OF THE STOCK OF SPRINT’S DIRECTORY PUBLISHING**  
22 **BUSINESS.**

1 A. Dr. Staihr has explained in his direct testimony why the value of the directory  
2 publishing business was not created by United, and United ratepayers bore no risk or  
3 financial burden that would entitle them to a share of the proceeds. Nevertheless, if  
4 the Commission determines otherwise, Dr. Staihr and Richard Pfeifer are offering in  
5 their supplement testimony an approach the Commission could use to recognize the  
6 gain on the sale for ratemaking purposes. This approach is similar in most respects to  
7 the Commission’s handling of Continental’s sale of its Leland Mast Directory as I will  
8 demonstrate. Additionally, the Commission could deal with this issue in a rate case as  
9 Richard Pfeifer advocates, and consistent with the Commission’s handling of the  
10 Continental directory sale.

11  
12 **IV. CONTINENTAL SALE OF LELAND MAST DIRECTORY**

13  
14 **Q. HOW DID CONTINENTAL TELEPHONE CORPORATION’S SALE OF ITS**  
15 **DIRECTORY BUSINESS COMPARE TO SPRINT’S SALE OF ITS**  
16 **DIRECTORY BUSINESS?**

17 A. Continental Telephone Corporation (“Contel”) owned Continental Telephone of the  
18 Northwest (“CTNW”), Inc. and Leland Mast Publishing (“Mast”); therefore CTNW  
19 and Mast were affiliates.<sup>1</sup> The same organizational structure existed in Sprint’s case.  
20 Sprint Corporation owned Directories America (the predecessor to Sprint Publishing  
21 and Advertising or “SPA”) and United Telephone Company of the Northwest  
22 (“United”), thus United and SPA were affiliates. As noted by Ms. Strain in her direct  
23 testimony (p.12), CTNW never owned or operated its own directory publishing

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<sup>1</sup> Some time subsequent to the Mast sale, Contel merged with GTE, which is now owned by Verizon.

1 business as is the case for UTNW. Mast contracted with Contel to provide directories  
2 for Contel subsidiaries, just as SPA contracted with Sprint for the publication of  
3 directories for Sprint's subsidiaries. CTNW operated as a regulated, public service  
4 company engaged in the business of furnishing telephone service to customers within  
5 the state of Washington, as does United today. Both parents, Contel and Sprint sold  
6 their directory publishing business. In both cases, the directory publisher continued to  
7 provide directories to the Washington telephone company after the sale occurred. (See  
8 Exhibit \_\_NLJ-8, p.47)

9  
10 **Q. DID THE COMMISSION APPROVE THE SALE OF CONTEL'S MAST**  
11 **DIRECTORY BUSINESS?**

12 A. No. According to Ms. Strain, the sale of Mast was not subject to WUTC approval.  
13 The directory publishing sale, which occurred in August 1985, came before the  
14 Commission in 1987 in Docket No. 87-640-T when CTNW filed for a rate increase.  
15 The Commission suspended the rate increase and ordered an investigation by Staff.  
16 The sale was recognized for ratemaking purposes as a test year adjustment to  
17 revenues. (See Exhibit\_\_NLJ-8, p.1).

18  
19 **Q. HOW DID THE PARTIES RESOLVE THE ISSUE OF THE SALE OF MAST**  
20 **IN THE GENERAL RATE CASE?**

21 A. Mr. Lott, of the Commission Staff, asserted that the selling price of Mast should have  
22 reflected the future life and earnings stream, which included the contracts and dealings  
23 of Mast with CTNW and other subsidiaries of Contel. In past cases, the Commission

1 had attributed a share of Mast’s “excess earnings” to CTNW in the form of a revenue  
 2 credit or imputation.<sup>2</sup> Since the imputation would be going away, Mr. Lott proposed  
 3 substituting an amortization of the gain on the sale of Mast in place of what would  
 4 have been an annual revenue imputation. (See Exhibit\_\_NLJ-8, p. 10-11). The parties  
 5 ultimately entered into a settlement agreement in the general rate case proceeding. (*id.*,  
 6 p. 17-24). The test year included the directory adjustment, along with various other  
 7 adjustments, that netted to a \$689,030 rate increase. The test year spreadsheet was  
 8 attached to the settlement agreement as Exhibit A (*id.* p. 25-29). The agreement  
 9 stated that “Said Exhibit A is attached for informational purposes only; and it is  
 10 understood that the stipulation of the parties to an overall revenue requirement level  
 11 does not imply agreement with any individual rate-making adjustment or calculation.”  
 12 The settlement was approved by the Commission. (*id.* p. 36-43).

13  
 14 **Q. HOW WAS THE WASHINGTON SHARE OF THE GAIN CALCULATED**  
 15 **FOR TEST YEAR PURPOSES?**

16 A. Based on Commission Staff notes (Exhibit\_\_ NLJ-8, p. 4) it appears Mr. Thomas  
 17 Spinks, of the Commission Staff, started with the pre-tax gain on the sale of \$105.6M.  
 18 Mast produced directories for other companies that were not affiliates, therefore the  
 19 gain was allocated between affiliates and non-affiliates. Mr. Spinks attributed 63.46%  
 20 of the gain to affiliated operations on the basis of the relationship between affiliate

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<sup>2</sup> See U-82-41 Second Supplemental Order and U-84-18 Second Supplemental Order. Directory imputation was a test year adjustment that was contested between CTNW and Staff in both cases. In both instances, the Commission adopted Staff’s “cost plus fair return” method of imputing directory revenue, although in the 1984 order it noted “Although the Commission does not necessarily agree that the “cost plus fair return” theory is the best approach to use for purposes of evaluating the reasonableness of the agreement between CTNW and Mast, the results of applying the theory are the best of those included in this record.”

1 revenues to total revenues. The result was an assignment of \$67.01M to affiliates. Of  
2 that amount, only a portion was attributable to CTNW, so using a revenue relationship  
3 again of CTNW revenue to total affiliate revenue, Mr. Spinks allocated 3.52% of the  
4 \$67.01M affiliate gain to get \$2.35M of gain attributable to CTNW. CTNW operated  
5 in more than one state, so Mr. Spinks made one last calculation to allocate the \$2.35M  
6 gain to Washington operations on the basis of CTNW Washington directory expenses  
7 to total CTNW Directory expenses, which was 74.45% for a final pre-tax gain figure  
8 of \$1.76M attributable to CTNW Washington operations.<sup>3</sup>  
9

10 **Q. HOW WAS THE CTNW WASHINGTON \$1.76M GAIN AMORTIZED AND**  
11 **WHAT DISCOUNT RATE WAS USED?**

12 A. Mr. Spinks did not use a discount rate, but simply divided the \$1.76M pre-tax gain by  
13 5 to get \$351K per year. This figure was reduced by \$14K (4.12%) to arrive at \$337K  
14 for the test year adjustment. (See Exhibit\_\_\_NLJ-8, p. 26). There is no  
15 documentation explaining this adjustment, but Ms. Strain states that “Staff believes  
16 this adjustment was made to exclude the Washington interstate portion of the gain.”  
17 (*id.*, 2).  
18

19 **Q. WHAT WAS THE AMORTIZATION PERIOD?**

20 A. The amortization was a five year period commencing on January 1, 1986 ( a year  
21 before the order date) and ending December 31, 1990. (See Exhibit\_\_\_NLJ-8, p. 4).  
22

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<sup>3</sup> There is no explanation documented for why Mr. Spinks used expenses as the basis for allocation n in this case instead of revenues. It is possible that CTNW could not separately identify directory revenues by state.

1 **Q. WAS CTNW REQUIRED TO MAKE A ONE-TIME CUSTOMER BILL**  
2 **CREDIT?**

3 A. No.

4

5 **Q. WHAT WAS THE PRACTICAL EFFECT OF THE AMORTIZATION OF**  
6 **THE GAIN?**

7 A. The annual amount of the amortization was treated as a revenue credit against the test  
8 year, which effectively reduced the company's revenue requirement for rate making  
9 purposes. Presumably, the same amount would have applied to subsequent test years  
10 until the amortization ran out in 1990. In other words, if the company were to file a  
11 rate case for rates that would be in effect in 1991 or a later, no imputation of  
12 amortization for directory would have been included as an adjustment.<sup>4</sup>

13

14 **Q. HOW DOES THE RESOLUTION OF THE CTNW DIRECTORY SALE**  
15 **COMPARE TO THE RESOLUTION OF THE QWEST DIRECTORY SALE?**

16 A. While the circumstances of the sales were different<sup>5</sup>, both cases were ultimately  
17 resolved through a settlement agreement that was approved by the Commission. In  
18 both cases the parties agreed that the annual amortization figure would come into play  
19 as a test year revenue credit for ratemaking purposes and would substitute for  
20 directory revenue imputation. In both cases, the parties agreed to allocate the

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<sup>4</sup> Note however that the settlement agreement stated that "all parties specifically reserve the right in any future proceeding to contest any specific adjustment, methodology or approach used by the staff to arrive at the stipulated increase of approximately \$689,030."

<sup>5</sup> At one time PNB, Qwest's predecessor, owned a directory publishing business which it transferred to an affiliate. The Commission never recognized the permanent transfer for ratemaking purposes. See UT-980948. CTNW never owned or operated a directory publishing business.

1 Washington portion of the gain based upon revenues. One of the differences in how  
2 the gain was treated was that a discount rate was not used in the amortization of the  
3 CTNW Washington gain whereas a discount rate was used in the Qwest Washington  
4 gain amortization. Another difference is that Qwest stipulated to a one-time customer  
5 bill credit, whereas CTNW did not.

6  
7 **Q. HOW DOES THE COMPANY'S PROPOSED METHOD OF CALCULATING**  
8 **THE GAIN COMPARE TO THE METHOD USED IN CTNW'S**  
9 **SETTLEMENT AGREEMENT?**

10 A. Both methods use revenues as a basis for allocating a share of the gain to the local  
11 phone company subsidiary. Neither includes a one-time customer bill credit or other  
12 immediate rate impact. Both methods calculate an amortization amount that would  
13 substitute for an annual revenue imputation for test year purposes. Both models begin  
14 the amortization period at the time of the sale, though Sprint is proposing that the  
15 existing imputation would apply up until the separation occurs, at which point the  
16 amortization amounts would change. In the CTNW model, a greater percent of the  
17 gain goes to ratepayers as a revenue credit for rate making purposes, whereas in  
18 Sprint's proposal, 50% of the gain is shared with ratepayers as a revenue credit for rate  
19 making. In the CTNW model, no discount rate is used, whereas a 7.88% discount rate  
20 is used in Sprint's model. Additionally, the term is longer in Sprint's proposal (ten  
21 years rather than five).



1 **Q. WHY IS THE COMPANY PROPOSING A RATE PAYER SHARE THAT IS**  
2 **DIFFERENT THAN WHAT WAS USED IN THE CTNW CASE?**

3 A. Sprint's rationale is provided in the supplemental rebuttal testimony of Dr. Staihr.

4

5 **V. CONCLUSION**

6 **Q. PLEASE SUMMARIZE YOUR CONCLUSIONS.**

7 A. If the Commission decides it must resolve the issue of Sprint's sale of its directory  
8 publishing business in this proceeding, then it should use the approach advanced by  
9 Dr. Staihr and Mr. Pfeifer. Mr. Pfeifer's approach and proposed treatment is similar to  
10 the way the Commission resolved the Contel sale of its Mast Directory business.  
11 United's relationship to SPA is analogous to CTNW's relationship to Mast.

12

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

14 A. Yes.