

**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.

APPLICATION OF SPRINT
NEXTEL CORPORATION

**APPLICATION OF SPRINT NEXTEL CORPORATION FOR APPROVAL
OF THE TRANSFER OF CONTROL**

Sprint Nextel Corporation (“Sprint”) respectfully submits this Application requesting that the Washington Utilities and Transportation Commission either decline to assert jurisdiction over the separation of United Telephone Company of the Northwest (“United”) and Sprint Long Distance, Inc. (“LTD Long Distance”) from Sprint to LTD Holding Company or, if it believes it is necessary to review the transaction, approve this Application.¹

¹ The Commission does not require certification of payphone service providers (“PSP”), and accordingly, Sprint has not specifically requested approval to transfer its payphone assets in Washington to LTD Holding Company. If the Commission determines that Sprint must seek approval for that transfer, however, Sprint respectfully requests that the Commission consider this Application to include a request for such approval.

I. INTRODUCTION

1 Sprint plans to separate its wireline local service operation into an independent, stand-alone operation. As part of that transaction, a new holding company has been created and control of the Sprint operating companies which serve local customers will be transferred to that holding company.²

2 In connection with this separation, Sprint requests that the Commission either decline to assert jurisdiction over the transaction or approve it. If the Commission decides that it must approve it, Sprint asks that it approve: (1) the change of control of United from Sprint to LTD Holding Company and (2) the change of control of Sprint Long Distance, Inc.³ from Sprint to LTD Holding Company.

3 The Application describes why the separation transaction is consistent with the public interest. United will continue to have the requisite managerial, technical and financial capability to provide service. Moreover, the separation of Sprint's incumbent local wireline operations from its parent company will be transparent to United's customers and will produce benefits over time.

² In order to effectuate the separation, LTD Holding Company, a Delaware corporation, was created. LTD Holding Company will be the ultimate corporate parent of United and Sprint Long Distance, Inc. The names of United and Sprint Long Distance, Inc. will change as LTD Holding Company separates from Sprint and chooses its new corporate name. Once chosen, any state-required registrations, filings or notifications related to the name change will be provided.

³ Hereinafter, for purposes of this Application, Sprint Long Distance, Inc. will be referred to as "LTD Long Distance". As more fully described *infra*, LTD Long Distance was recently formed for the purpose of providing long distance service to customers of Sprint's ILEC operations, including the customers of United, and it will be the long distance entity affiliated with LTD Holding Company.

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The telecommunications industry is undergoing unprecedented changes. Competitors within the industry are responding to advances in technology, evolving marketplace dynamics and recent regulatory changes with new business strategies. Within Sprint, the strategic focus of Sprint's local wireline companies is beginning to diverge from Sprint's increasingly wireless-centric, national focus. The separation of Sprint's wireline local service operation into an independent, stand-alone corporation will serve to create a company whose primary strategic focus will be building upon its local wireline capabilities by providing a full portfolio of quality services to residential and business customers in its local territory. This independent company will be better able to meet the needs of its customers in Washington and its other local markets.

II. THE PARTIES

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Sprint Nextel Corporation is a publicly-traded Kansas corporation with executive headquarters at 2001 Edmund Halley Drive, Reston, Virginia 20191 and operations headquarters at 6200 Sprint Parkway, Overland Park, Kansas 66251. Sprint is a global communications company providing wireless, long distance, and local communications services. Sprint's incumbent local operating companies (ILECs), including United, provide a full portfolio of communications services, including local, long distance, high-speed data, wireless and video. As

of December 31, 2004, Sprint's ILEC operations served approximately 7.7 million local access lines in 18 states, including approximately 82,000 access lines in Washington.

6 On December 15, 2004, Sprint Corporation and Nextel Communications, Inc. (Nextel) entered into a merger agreement pursuant to which, upon obtaining requisite Sprint and Nextel stockholder approval and satisfaction of the other conditions to the merger, Nextel will merge with and into a wholly owned subsidiary of Sprint. The conditions of the merger agreement have been satisfied and the merger closed on August 12, 2005. The corporation's new name is "Sprint Nextel Corporation." In the merger agreement, Sprint and Nextel agreed to use their reasonable best efforts to separate the ILEC business of Sprint, by means of a tax-free separation, to the then existing stockholders of Sprint Nextel.

7 LTD Holding Company, a Delaware corporation, is a newly formed subsidiary of Sprint. Upon the separation, LTD Holding Company will realize control of United and LTD Long Distance, along with Sprint's other ILEC operations. At that time, LTD Holding Company will operate independently from Sprint and will have its own management team and board of directors. It is expected that current Sprint board members, Gerald L. Storch, Vice Chairman of Target Corporation, and current Nextel board member, Stephanie M. Shern, former Vice Chair of Ernst & Young, LLP and former Senior Vice President of

Kurt Salmon Associates, will serve on the board of directors of LTD Holding Company and will resign from the Sprint board of directors at that time. Other board members will be named later. Upon separation from Sprint, LTD Holding Company will be the largest independent local telephone company in the United States, with 2004 annual revenues exceeding \$6 billion. Its corporate headquarters will be in the Kansas City metropolitan area.

8 United is now a direct wholly owned subsidiary of Sprint. United is an Oregon corporation with headquarters at 902 Wasco Street, Hood River, OR 97031. As a result of the transaction, control of United will be transferred from Sprint to LTD Holding Company.

9 LTD Long Distance is a Delaware corporation with an application pending in docket UT-051259 before this Commission to provide resold long distance service. As a result of the transaction, control of LTD Long Distance will be transferred from Sprint to LTD Holding Company.

The designated contacts for questions concerning the Application are:

Gregory J. Kopta
 Davis Wright Tremaine L.L.P.
 2600 Century Square
 1501 Fourth Avenue
 Seattle, WA 98101-1988
 206/628-7692
 206/628-7699 (fax)
gregkopta@dwt.com

Tre Hendricks
 Attorney
 Sprint Corporation
 902 Wasco Street
 Hood River, OR 97031
 541/387-9439
 541/387-9753 (fax)
tre.e.hendricks.iii@sprint.com

Nancy Judy
 State Executive
 Sprint Corporation
 902 Wasco Street
 Hood River, OR 97031
 541/387-9265
 541/387-9753 (fax)
nancy.judy@sprint.com

III. DESCRIPTION OF THE TRANSACTION AND NEW CORPORATE STRUCTURE

11 As a result of the transaction, the local wireline operations will become an independent entity from Sprint. In order to complete the separation, Sprint formed a new holding company, LTD Holding Company. The stock of United (and other Sprint ILECs) and LTD Long Distance will be contributed into LTD Holding Company as well as other assets and liabilities related to the local wireline telecommunications business.

12 United will remain the regulated ILEC in Washington but it will have a new corporate parent. Instead of its current ultimate parent, Sprint, the ultimate

new corporate parent of United will be LTD Holding Company. Likewise, LTD Long Distance will not change or become a new entity, but will have a new corporate parent, LTD Holding Company.⁴ Exhibit 1 shows the corporate structure of Sprint Corporation before its merger with Nextel, the corporate structure of Sprint after the merger of the two companies, and the corporate structure resulting from the creation of the independent LTD Holding Company.

13 As described above, United and LTD Long Distance ultimately will be subsidiaries of a new parent holding company, LTD Holding Company. From an operational perspective, however, little will change. These entities will continue to be the entities operating in Washington, and they will continue to have the requisite technical, financial and managerial ability to provide reliable service as they do today.

14 LTD Holding Company will be managed by capable and experienced executives. Daniel R. Hesse has been named Chief Executive Officer of Sprint's Local Telecommunications division and will be the Chief Executive Officer of the LTD Holding Company. Mr. Hesse has extensive experience in the telecommunications industry, including 23 years at AT&T, where he served as President and Chief Executive Officer of AT&T Wireless Services from 1997-2000.

⁴ As stated, the names of United, LTD Long Distance and SPSI will change as LTD Holding Company separates from Sprint and chooses its new corporate name and brand. Once chosen, any state-required registrations, filings or notifications will be provided.

Most recently, Mr. Hesse was Chairman, President and Chief Executive Officer of Terabeam Corporation, a Seattle-based telecommunications company. Michael B. Fuller has been named the Chief Operating Officer of LTD Holding Company. Mr. Fuller, currently President and Chief Operating Officer of Sprint's Local Telecommunications division, has had responsibility for leading Sprint's local telephone operations since 1996. Gene Betts, formerly Sprint Corporation's Senior Vice President and Treasurer, has been named Chief Financial Officer of LTD Holding Company. Tom Gerke, formerly Executive Vice President-General Counsel and External Affairs of Sprint Corporation, has been named General Counsel for LTD Holding Company. James A. Hansen has been named the senior officer to lead LTD Holding Company's Network and Customer Service Organization. For Mr. Hansen, this represents a continuation of his current responsibilities and focus on the network operations of Sprint's ILECs. Exhibit 2 shows organizational charts of LTD Holding Company, identifying the named senior management team. The senior management team has an average tenure with Sprint or in the telecommunications industry of nearly 18 years, with approximately 170 years of combined Sprint experience.

15 Sprint Communications Company L.P. has been the long distance provider for United's customers who selected Sprint as their long distance provider. Sprint Communications Company L.P. will remain a subsidiary of

Sprint. LTD Long Distance was recently formed for the purpose of providing long distance service to customers of Sprint's ILEC operations, including the customers of United, and it will be the long distance entity affiliated with LTD Holding Company.

16 LTD Long Distance is qualified to do business in the State of Washington, and it recently completed the necessary filings with the Washington Utilities and Transportation Commission to obtain regulatory authority to operate as a long distance reseller in Washington. After receiving regulatory approval to operate, newly connected local customers of United who choose Sprint for long distance service will receive their long distance service from LTD Long Distance. Upon completion of the separation, long distance customers of Sprint Communications Company L.P. in United's franchise area will be served by LTD Long Distance, subject to applicable FCC and state approvals and after required customer notices. Customers who have selected United as their preferred carrier for intraLATA long distance service will continue to receive their intraLATA long distance service from United as they do today.

17 LTD Long Distance and Sprint Communications Company L.P. are both interexchange carrier subsidiaries of Sprint. Upon separation, Sprint Communications Company L.P. will remain a subsidiary of Sprint. LTD Long Distance is a reseller of long distance services. LTD Long Distance will purchase

wholesale long distance services from Sprint Communications Company L.P. After separation, LTD Long Distance will continue to provide resold long distance services to customers of United as more fully described in the testimony of Nancy Judy. (Exhibit NLJ-1T) As previously noted, the name of LTD Long Distance will change as LTD Holding Company separates from Sprint and chooses its new corporate name. Sprint Communications Company L.P. will continue to provide retail and wholesale services to customers throughout the nation, including in Washington.

18 To summarize, United will remain intact as a corporation organized under Oregon law. It will continue to provide telecommunications as a public service company in Washington. No assets of United will be sold or divested during the transfer to the LTD Holding Company. Therefore, the only transfer that will occur is a transfer of United's stock from one parent, Sprint, to another, LTD Holding Company.

IV. THE COMMISSION MAY DEEM IT UNNECESSARY TO ASSERT JURISDICTION TO APPROVE OR REJECT THIS APPLICATION BECAUSE THE TRANSACTION DOES NOT APPEAR TO FALL SQUARELY WITHIN THE COMMISSION'S JURISDICTION, UNDER CHAPTER 80.12 RCW.

19 In prior cases, the Commission has found that telecommunications holding companies are subject to its jurisdiction, even when the holding

company is not a public service company regulated by the Commission. In *GTE-Bell Atlantic Merger*,⁵ the Commission relied on RCW 80.12.020 to assert jurisdiction over a merger between GTE and Bell Atlantic. Because RCW 80.12.020 does not explicitly grant the Commission jurisdiction over telecommunications holding companies that are not public service companies, the Commission in the *GTE-Bell Atlantic Merger* found that the statute created implied jurisdiction over the merger.⁶ Sprint believes that the Commission has the authority to revisit the rationale it used to find jurisdiction in these cases.

20 While the Commission has found implied authority to review holding company transactions under chapter 80.12 RCW in the past, Sprint believes there is reason not to do so in this case. Had the legislature wanted to create Commission jurisdiction over transactions that do not result in the divestiture of “franchises, properties, or facilities” from a utility, it could have easily done so explicitly, as it did in the Commission’s affiliated interest statutes.

21 The legislature, in RCW 80.16.010, defined “affiliated interest” broadly for purposes of affiliate transactions with public service companies to include holding companies. The statute provides that an affiliate interest means, “Every corporation and person owning or holding directly or indirectly five percent or

⁵ *In the Matter of GTE and Bell Atlantic Corp.*, Fourth Supplemental Order, Docket Nos. 981367, 990672, and 991164 (December 1999)

⁶ *Id.*, at p. 15-20.

more of the voting securities of any public service company engaged in any intrastate business in this state . . .” Had the legislature wanted to apply the transfer of asset statutes to holding companies in similar fashion, it would have included the same or similar language in chapter 80.12 RCW.⁷ Therefore, it appears that the Commission is not bound by the statutes or its prior decisions to assert jurisdiction in this case and Sprint respectfully requests that the Commission decline to do so.

V. IF THE SEPARATION WILL CAUSE NO HARM, THE COMMISSION IS REQUIRED TO FIND THAT THE TRANSACTION IS CONSISTENT WITH THE PUBLIC INTEREST AND GRANT APPROVAL

22 If the Commission concludes that Sprint and LTD Holding Company are public service companies subject to Commission jurisdiction in this case, and that it therefore has the authority to review and approve the separation, Sprint asks that the Commission grant approval expeditiously. Under RCW 80.12.040, the Commission must approve the transfer of the securities of a public service company.

⁷ It should also be noted that both chapter 80.12 and 80.16 were enacted and amended in the same timeframes, which indicates that the legislature intentionally omitted from chapter 80.12 RCW the language granting Commission authority over holding transactions.

In this case, Sprint is transferring the securities of United and LTD Long Distance to LTD Holding Company.⁸ The standard for approval of the proposed transaction is whether it is consistent with the public interest. The transaction need not specifically benefit the public, but must simply cause no harm.⁹ The proposed separation of United and LTD Long Distance clearly satisfies this standard. United will continue to have the technical, managerial, and financial capability to provide quality telecommunications services, and the transfer is in the public interest for the reasons set forth in this Application and the testimony presented with it.

A. United and LTD Long Distance Will Continue to Possess the Requisite Technical and Managerial Capability

1. The Separation will Not Affect the United's and LTD Long Distance's Technical Capability

The certificated entities will continue to have the same technical capabilities after the separation that they possess today. All equipment,

⁸ If the Commission decides to treat Sprint and LTD Holding Company as public service companies in this case, it is not clear whether the provisions of RCW 80.12.020 and/or 80.12.040 would create jurisdiction over the separation. Section 80.12.020 appears to be the less applicable statute because United will retain its "franchises, properties or facilities . . . which are necessary or useful in the performance of its duties to the public." Section 80.12.040, on the other hand, appears to be the better fit, because what is really occurring in the transaction is a transfer of the securities of United from Sprint directly to LTD Holding Company.

⁹ See *In the Matter of the Application of PacifiCorp and Scottish Power*, Docket No. UE-981627, Third Supplemental Order on Prehearing Conference at 2 (Apr. 2, 1999).

buildings, systems, software licenses and other assets owned by United will remain assets of United.

25 Assets held by another Sprint entity and jointly used by United and one or more other Sprint entities are being reviewed to determine which Sprint entity has the predominant use of this shared asset today and will continue to have a need for that asset in the future.¹⁰ As a result of this process, some of these shared assets will be transferred to LTD Holding Company or one of its subsidiaries. Others will stay with Sprint and its subsidiaries, and in that instance, LTD Holding Company, or its subsidiary, will decide whether to purchase or lease similar assets that best meet its future needs. The testimony of Richard Pfeifer (Exhibit RPG-1T) describes the process in greater detail but, generally, the decisions will be based on: a review of which business is the primary user of the asset; which entity maintains the asset and has the asset as part of its network; and the physical location of the asset. For example, pursuant to this process, the Signaling System Seven (SS7) platform (used to provide Local Number Portability (LNP) call routing information and capabilities) will move to LTD Holding Company.

¹⁰ These assets are generally grouped into network assets, information technology (IT) assets, and real estate. Due to the number of shared assets and deliberateness of the review, the process is expected to be completed during the 4th quarter 2005.

During the period that these shared assets are being reviewed and the necessary steps are being taken to implement the decisions, execute contracts, and make purchases, LTD Holding Company and its subsidiaries will continue to receive certain services from Sprint and its subsidiaries pursuant to Transition Services Agreements.¹¹ 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.

Current agreements are being inventoried and reviewed to ensure that the agreements are appropriately transferred to LTD Holding Company.¹² In addition, LTD Long Distance is entering into a wholesale agreement with Sprint Communications Company L.P. to enable it to provide long distance services. This agreement will facilitate United's offer of bundled local and long distance services to customers as it does today. LTD Long Distance also will enter into an arrangement with Sprint for the provision of wireless services to the customers of United, enabling the continued offering of wireless services.

¹¹ Transition Services Agreements will ensure continuity of services as LTD Holding Company separates from Sprint. At or prior to the end of the transition period, LTD Holding Company will arrange for necessary assets through purchase, lease or other arrangements.

¹² For example, United currently offers customers the opportunity to purchase a bundle of services, including satellite video services through a sales agency agreement with EchoStar. A review of the agreement is underway to ensure that appropriate steps are undertaken to enable the continued sale of satellite video services.

2. *The United and LTD Long Distance will Continue to Possess the Requisite Managerial Capability*

28 United will continue to employ personnel experienced and dedicated to the provision of service in Washington. The customer service, network and operations functions that are critical to the company's success today will continue when the separation is complete, and the company will be staffed to ensure that continuity. The local operations of United will continue to be managed by employees with established ties to the community and extensive knowledge of the local telephone business.

29 United and LTD Long Distance will continue to receive certain management services, but from a new management company subsidiary of LTD Holding Company,¹³ staffed by many of the same experienced and knowledgeable persons currently providing these services. In the past, these centralized management functions included human resource services, finance services, tax services, communications services, legal services, planning services, general support services, and information services.¹⁴ After the separation, United and LTD Long Distance will continue to receive similar management services

¹³ In order to provide the management services post-separation, LTD Management Company, a Delaware corporation, was created. LTD Management Company is currently a subsidiary of Sprint. Post-separation it will be a subsidiary of LTD Holding Company.

¹⁴ For the transition period, United and LTD Long Distance may continue to receive some of these centralized functions from Sprint as the new management company builds these capabilities. These Transition Services Agreements will ensure continuity of services as LTD Holding Company separates from Sprint.

from LTD Management Company, thereby continuing to enjoy efficiencies from centralized support services and the benefits of an experienced staff. These new affiliate arrangements will comply with appropriate federal and state affiliate pricing and filing requirements.

B. United and LTD Long Distance Will Continue to Possess the Required Financial Capability

30 Upon completion of the separation, United will continue to be financially capable of fulfilling all of the requirements of a public utility in Washington. This capability will be unaffected by the change in its ultimate corporate parent. See Testimony of Richard Pfeifer. Exhibit RGP-2 to Richard Pfeifer's testimony contains a statement of operations for United for the twelve months ended December 31, 2004 based on a total company, ARMIS basis. Exhibit RGP-3 to the testimony contains the December 31, 2004 balance sheet for United based on a total company, ARMIS basis. Exhibit RGP-4 to the testimony contains a statement of cash flows for United for the twelve months ended December 31, 2004 based on total company, ARMIS results.

31 Historically the ILEC operations of Sprint have operated with significant independence from the operations of the other Sprint divisions. The Sprint ILEC operations have always maintained separate financial records for regulatory purposes as well as separate property records for assets used in the provision of

service. Consequently, the financial changes associated with the separation of LTD Holding Company are limited to the parent company and common services provided by the management company, and will have minimal effect on United.

32 In addition, LTD Holding Company, which will among other things raise capital for United, will possess the financial capability to assist United to provide quality service to its customers in Washington. Upon completion of the separation, LTD Holding Company will be a financially secure Fortune 500 company.¹⁵ Its stock is expected to be traded on the New York Stock Exchange.¹⁶ LTD Holding Company will be the largest independent local exchange carrier in the nation, with 2004 annual revenues exceeding \$6 billion. It will have the ability to raise capital and invest in network, employees and systems to continue providing high quality service. Based upon its financial attributes, LTD Holding Company anticipates having financial characteristics consistent with those of companies that have been rated “investment grade” by major ratings agencies. In pursuit of that objective, Sprint has obtained indicative ratings for LTD Holding Company from major ratings agencies. Based upon the proven record

¹⁵ Had it operated on a standalone basis in 2004, the revenues of LTD Holding Company would place it at approximately 335 on the Fortune 500 List.

¹⁶ The New York Stock Exchange (NYSE) rules require compliance with various financial metrics to obtain listing on the exchange and also to maintain that listing. The CEO of a NYSE listed company must annually certify compliance with the broad corporate governance rules adopted by the NYSE. Those rules, among other things, require a majority of independent directors, audit committee composition and governance standards, and adoption and disclosure of corporate governance guidelines and a code of business conduct and ethics.

of financial performance of Sprint's ILEC operations, it is expected that LTD Holding Company will both generate ample cash flow and pay a dividend that is attractive to investors. All of these characteristics help to ensure that LTD Holding Company will have the fiscal stability to position itself and pursue strategies necessary to assist United to succeed in a competitive environment.

33 Richard Pfeifer explains in testimony (Exhibit RGP-1T) that LTD Holding Company will have solid financial capabilities upon its creation as an independent entity apart from Sprint. Exhibit RGP-5 to the testimony contains an adjusted historical consolidated statement of operations for LTD Holding Company and its subsidiaries for the twelve-months ended December 31, 2004, including adjustments presented as if the separation occurred on January 1, 2004. Exhibit RGP-6 to Richard Pfeifer's testimony contains a December 31, 2004 adjusted historical condensed consolidated balance sheet for LTD Holding Company and its subsidiaries, including adjustments presented as if the separation occurred on January 1, 2004. Exhibit RGP-7 to Richard Pfeifer's testimony contains an adjusted historical consolidated statement of cash flows for LTD Holding Company and its subsidiaries including adjustments presented as if the separation occurred on January 1, 2004.

34 An ideal capital structure for LTD Holding Company is a mix of debt and equity that balances financial risk with business risk while maintaining an

appropriate cost of capital, thereby maximizing the value of the firm. The right mix of debt and equity should contain sufficient leverage to produce specific benefits for the company: lowering the company's overall cost of capital and providing tax benefits that have a positive impact on the company's cash flow. Insufficient leverage precludes a company from enjoying these benefits, just as excessive amounts of equity capital can burden a company in terms of dividend obligations. The capital structure and proposed dividend policy for LTD Holding Company are reasonable relative to the individual characteristics of LTD Holding Company, including its size, markets served, industry position, operating income and cash flow. The level of debt and equity is such that LTD Holding Company will exhibit the characteristics of other companies that obtain investment grade debt ratings.

35 The testimony of Glenn Daniel (Exhibit GRD-1T) demonstrates that LTD Holding Company, with its capital structure and dividend policy, will have the financial capability to invest in the networks, systems, and employees needed to provide services. The financial analysis of Houlihan Lokey estimates a market value on the assets of LTD Holding Company relative to the valuations of companies in its peer group, thereby supporting the conclusion that the intended capital structure of LTD Holding Company is reasonable relative to the individual characteristics of LTD Holding Company. The testimony also

concludes that the intended capital structure will ensure the company's ability to attract investor capital and future financing.

VI. THE ESTABLISHMENT OF SPRINT'S WIRELINE LOCAL SERVICE OPERATIONS AS AN INDEPENDENT BUSINESS IS CONSISTENT WITH THE PUBLIC INTEREST

36 United and LTD Long Distance operate in an industry that has been and continues to be subject to technological advances, evolving consumer preferences, and dynamic change. These factors, combined with recent regulatory developments, result in a market environment in which it is likely that the interest of Sprint's local wireline operations will begin to diverge from Sprint's increasingly wireless-centric focus. The establishment of Sprint's wireline local service operations as an independent, stand-alone corporation will serve the public interest *by creating a company whose primary strategic focus will be building upon its local wireline capabilities by providing a full portfolio of quality services to residential and business customers in its local franchised territory.* This separation establishes a heightened level of clarity in terms of the company's vision and purpose; a level of clarity that has the beneficial effect of better aligning the interests of the company with the interests of its customers. The company's focus will allow a stronger local emphasis and permit it to provide

services tailored to the needs of its local customers. Simply put, the separation produces:

- **Clarity of Vision:** The company seeks to be the preferred hometown communications company. The company's single-minded focus will be on its local markets, first and foremost—not as a communications carrier that is part of a national wireless or national long distance carrier.
- **Clarity of Purpose:** The company will emphasize meeting local customer needs and meeting local market demands. Success as the preferred hometown communications carrier requires a single-minded emphasis on meeting the needs of the local customer: delivering a full portfolio of services that meet the targeted customers' needs. Local market responsiveness is essential for success.
- **Clear Alignment of Interests:** Both customers and the company benefit from the single-minded focus on the local market and enhanced competition fostered by the separation. Customers benefit from the increased focus on their needs and the company benefits from retaining and attracting those customers whose needs are satisfied by the company's offerings, service quality, and customer care.
- **Transparency to Customers:** The separation transition will be virtually transparent to the customer's experience. The company will ensure that service quality and the customer experience remain high priorities. The customers in LTD Holding Company's local operations will experience business as usual, only better, as the company's clarity of vision and purpose enhances service delivery, product development, and customer interaction.

A. Clarity of Vision: Being the Preferred Hometown Communications Company

37 At the end of the first quarter, 2005, Sprint served nearly three times as many wireless customers, directly and through affiliates, as it did local wireline customers. With the completion of the merger, Sprint now serves five times as many wireless customers as wireline customers. Given the predominance of

wireless customers, Sprint will naturally place greater emphasis on its nationwide business built around wireless services and its nationwide fiber optic and global IP network. The separation of Sprint's ILEC operations will allow its local customers to be served by a company whose primary strategic interests are the specific local franchised areas in which it operates as the local telecommunications company. The result: a company that seeks to be the preferred hometown communications company with a single-minded focus on its local markets.

38 Sprint has a rich history of providing telecommunications services to local communities that dates back over a hundred years. Establishing the ILEC operations as a separate company will provide United the opportunity to strengthen further its local community roots and build on that foundation as it continues to meet the communications needs of customers. United's primary role will be as a communications provider anchored by wireline service in its existing territory, rather than as a subset of a nationwide, predominantly wireless, company. The impact of this locally focused strategy is significant, and will be visible on many levels, as more fully explained in the attached testimonies of Nancy Judy, State Executive, (Exhibit NLJ-1T) and Dr. John Mayo. (Exhibit JWM-1T)

B. Clarity of Purpose: Delivering a Full Portfolio of Services that Meet the Local Customer Needs.

39 Success as the preferred hometown communications carrier requires a single-minded emphasis on delivering a full portfolio of services that meet the demands of United's customers. With this more targeted local focus, it can enhance its local presence to be more responsive in service delivery, product development and customer interaction than a national wireless company¹⁷ that targets broader and different markets would be. In this new role, it will be better positioned to respond to its customers' needs, and to serve those needs by tailoring products specifically to its local customer base. For example, in recent years, many of Sprint's wireline and wireless business and residential offerings have concentrated on product bundles that target national urban markets. Since many of LTD Holding Company's local customers live in more rural regions, their needs are sometimes different from the needs of Sprint's nationwide customer base. By establishing LTD Holding Company's operations as a separate, stand-alone entity, this new company will have more options to create a variety of products designed to better reflect the preferences of United's local customers. For example, LTD Holding Company is considering offering wireless plans with fewer minutes that complement wireline service rather than

¹⁷ Sprint will be the leading independent wireless carrier with a nationwide fiber optic and global IP network that will offer nationwide broadband wireless and integrated communications services to customers—a focus much different from the more targeted local focus of United.

replace it as an offering that may be more attractive to its customers. LTD Holding Company will have the ability and incentive to address this need.

C. Clear Alignment of Customer and Company Interests: Enhancing the Competitive Environment

40 Establishing Sprint's ILEC operations as a stand-alone corporation provides the company with greater opportunity to compete effectively to retain and grow its customer base, a complete independence the company would not have as part of a larger corporation with a predominantly wireless and national focus. As a result, customers benefit. They benefit from the company's single-minded focus on the local market and its local customers' communications requirements, and the company benefits from retaining and attracting customers whose needs are satisfied by the company's offerings, service quality, and customer care.

41 The separation will allow LTD Holding Company to be a more effective competitor in three distinct ways. First, the separation of the ILEC business will eliminate any emerging tension between Sprint's anticipated national wireless strategy and LTD Holding Company's local wireline strategy. Sprint has stated publicly that it expects to pursue an aggressive strategy of serving as a wireless alternative to wireline service and to advance competition by, for example, enabling cable companies' voice offerings or using other technologies. Simply stated, Sprint's evolving goal of replacing existing local wireline service is

inconsistent with LTD Holding Company's goal of building on its local wireline capabilities. Second, the separation will increase the speed of decision-making and will allow for greater flexibility in creating bundles and expanding the product portfolio in specific markets to defend against competitive erosion. As a focused company with fewer competing demands in product development, LTD Holding Company will be able to bring new products to market more rapidly, and to quickly respond to new offerings from alternate providers. For example, responsibility for responding to the needs of business customers is being shifted from an organization with a national focus to an organization targeted to the businesses located in the ILEC's service territory. This will enable the company to meet the local business customers' needs better than it could through a nationally focused, larger-scale organization. Third, as described above, operating independently will allow the company to focus on the development of products targeted to its customers in its local serving area. As the testimony of Nancy Judy describes, geographically focused, cross-functional teams will be formed to better respond to local market demands.

42 Separation of Sprint's ILEC operations will also allow the parent company, Sprint, to compete more vigorously in the local market as an alternative full-service provider. Sprint will benefit from increased freedom and flexibility to pursue bundling and partnership opportunities that use its wireless

and nationwide fiber optic and global IP networks, offering an alternative to the incumbent LEC. This opportunity to increase competition in the wireline market (including RBOC markets) is critical in light of recent regulatory rulings that have led to an increased emphasis on intermodal and facilities-based competition, rather than competition reliant upon the use of the incumbent's network.¹⁸

D. Transparency to Customers

43 Ensuring the continuation of high quality service and customer experience during the transition to an independent company is vitally important. United understands that continuing to meet the customers' needs is its top priority. To that end, on the day after the separation, United will offer the same full range of products and services that it offered the day prior to separation, at the same prices, and under the same terms and conditions. Currently, United offers bundles of local calling and custom calling features combined with high-speed data capabilities, long distance service, wireless services, or satellite video services via sales of its own services or its own services combined with the services of another provider sold via a sales agency arrangement. These bundled offerings were designed to meet the customer demand for a true "one stop shop"

¹⁸ See, e.g., *In the Matter of Unbundled Access to Network Elements; Review of the Section 251 Unbundling Obligation of Incumbent Local Exchange Carriers*, WC Docket No. 04-313 and CC Docket No. 01-338, *Order on Remand*, FCC 04-290 (released February 4, 2005).

for communications needs. As described above, United and LTD Long Distance will enter into the necessary long distance and wireless arrangements to allow them to facilitate United's continued offering of these bundled services.

44 Equally important, the customer interface will not change. As the testimony of Nancy Judy (Exhibit NLJ-1T) discusses, customers will continue to call existing numbers to obtain new services, to report service problems, and to address billing or other customer care issues. Employees of Sprint's ILEC operations will continue to be focused on the local operations of the stand-alone entity (and without the distractions from a nationally-focused wireless parent) and local affairs will continue to be managed by employees with established local connections and extensive knowledge of the local telephone business. United's ongoing role in the local community will continue to be important. Furthermore, the senior executive team of LTD Holding Company and United is made up of many of the same executives that have guided Sprint's local operations in the past. Their experience and expertise, combined with new flexibility to pursue strategic goals, ensures that service quality and standards will remain at the highest levels.

45 United will continue to provide local exchange service, and to offer long distance service, subject to the same rules, regulations and applicable tariffs.

United will remain subject to its existing service quality obligations, and tariffs¹⁹, as modified by any future Commission decisions. Future end user rate changes will continue to be governed by the same rules and procedures as today, again, as modified by future Commission decisions. Likewise, the terms and prices for existing wholesale services under United's access tariffs will be unchanged as a result of this transaction. Moreover, this transaction will have no impact on the terms of any existing interconnection agreements or United's obligations under state and federal laws regarding interconnection.²⁰

46 The public interest will therefore be served by the separation, allowing increased focus and attention to customers in Washington.

The transfer of control of the United and Sprint Long Distance, Inc. to LTD Holding Company meets the requirements in the Commission's statutes and rules that govern transfers of control and is in the public interest. United and Sprint Long Distance, Inc. will continue to have the technical, managerial, and financial capability to provide quality communications services. Consequently, Sprint requests that the Commission either decline to review the Application or approve the transaction as described above including: (1) the change of control of United from Sprint to Local Holding Company; (2) the change of control of

¹⁹ As the name of the company changes, a filing will be made to change the name on the tariff.

²⁰In fact, United continues to offer UNE-P replacement contracts to CLECs for the continued availability of a UNE-P-type offering at market based rates.

Sprint Long Distance, Inc. from Sprint to Local Holding Company; and (3) any other approvals or relief required by Washington law.

Respectfully submitted this 26th day of August, 2005,

By: _____

Gregory J. Kopta
WSBA No. 20519
Davis Wright Tremaine L.L.P.
2600 Century Square
1501 Fourth Avenue
Seattle, WA 98101-1988
206/628-7692
206/628-7699 (fax)
gregkopta@dwt.com

Tre Hendricks
WSBA No. 29786
Sprint Corporation
902 Wasco Street
Hood River, OR 97031
541/387-9439
541/387-9753 (fax)
tre.e.hendricks.iii@sprint.com

ATTORNEYS FOR SPRINT.