**BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION**

**In the Matter of:**

RECEIVED

FEB 16 2006

PUBLIC SERVICE COMMISSION

**Application for Approval of the Transfer of Control of Alltel Kentucky, Inc. and Kentucky Alltel, Inc. and for Authorization To Guarantee Indebtedness**

**CASE NO. 2005-00534**

## PETITION FOR CONFIDENTIAL TREATMENT

Kentucky Alltel, Inc., Alltel Kentucky, Inc., Alltel Communications, Inc., Alltel Holding Corp., Alltel Holding Corporate Services, Inc., and Valor Communications Group (collectively, "Applicants") move the Public Service Commission ("Commission") pursuant to K.R.S. §61.878(1)(c)(1) and 807 KAR 5:001, Section 7 to accord confidential treatment to the 2005 pro forma financial statements contained in Exhibit 1 to Applicants' Financial Testimony proffered by Jeffery Gardner ("Exhibit 1"). The financial testimony including its Exhibits 1, 2, and 3 are attached to this Petition as Attachment A. Exhibit 1 was prepared by Applicants to support the financial testimony being filed in this proceeding. In support of Applicants' request for proprietary treatment of Exhibit 1, Applicants state as follows:

1. In order to support their applications in this proceeding, Applicants prepared financial testimony demonstrating the requisite financial capability required under Kentucky law. As part of that testimony, Applicants rely on data contained in Exhibit 1 that are considered proprietary until such time as the data are publicly released and filed with the Securities and Exchange Commission ("SEC"). Ten redacted copies of Attachment A are being filed herewith and one unredacted copy of is being filed under seal with this Petition.

2. The data contained on Exhibit 1 are treated as proprietary and competitively sensitive until released publicly. Applicants anticipate that the data in Exhibit 1 will be released publicly later this month as they will be included in Applicant's filing with the SEC on Form S-4. Accordingly, Applicants request that Exhibit 1 be treated as proprietary until such time as the data in Exhibit 1 is publicly released.

3. Exhibit 1 contains information that has not been released yet publicly and is disclosed internally within Kentucky Alltel on a need-to-know basis only at this time.

4. K.R.S. §61.878(1)(c)(1) provides in pertinent part:

> The following public records are excluded from the application of ...[the Open Records Act] and shall be subject to inspection only upon order of a court of competent jurisdiction ...
>
> (c)1. ...records confidentially disclosed to an agency or required by an agency to disclosed to it, generally recognized as confidential or proprietary, which if openly disclosed would permit an unfair commercial advantage to competitors of the entity that disclosed the records.

5. Public disclosure of the proprietary data in Exhibit 1 prior to Applicants' SEC filing being finalized presents potential harm to Applicants.

WHEREFORE, Applicants respectfully requests that Exhibit 1 be accorded proprietary treatment and be placed in the confidential files of the Commission until such time as the data on Exhibit 1 are publicly released; that no party to this proceeding including Commission Staff be permitted to duplicate the unredacted Exhibit 1; and that Applicants be accorded all other relief to which they may be entitled.

Dated: February 16, 2006.

Respectfully submitted,

STITES & HARBISON

Mark R. Overstreet
STITES & HARBISON PLLC
421 W. Main Street
P.O. Box 634
Frankfort, KY 40602-0634
(502) 223-3477
moverstreet@stites.com

COUNSEL FOR KENTUCKY ALLTEL, INC., ALLTEL KENTUCKY, INC., ALLTEL COMMUNICATIONS, INC., ALLTEL HOLDING CORP., ALLTEL HOLDING CORPORATE SERVICES, INC.,

## CERTIFICATE OF SERVICE

I hereby certify that a true and accurate copy of the foregoing was served via United States Postal Service, First Class Mail, postage prepaid, upon:

Douglas F. Brent
Stoll Keenon & Ogden, PLLC
2650 Aegon Center
400 West Market Street
Louisville, Kentucky 40202

John Selent
Dinsmore & Shohl
Suite 2000
462 South Fourth Street
Louisville, Kentucky 40202-3466

David Barberie
Department of Law
Lexington-Fayette Urban County Government
200 East Main Street
Lexington, Kentucky 40507

Jonathan Amlung
1000 Republic Building
429 West Muhammad Ali Boulevard
Louisville, Kentucky 40202

Dennis Howard
Office of the Attorney General
Suite 200
1024 Capital Center Drive
Frankfort, Kentucky 40601

on this the 16th day of February, 2006.

Mark R. Overstreet

**BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION**

**Application for Approval of the Transfer of Control of Alltel Kentucky, Inc. and Kentucky Alltel, Inc. and for Authorization To Guarantee Indebtedness**

**CASE NO. 2005-00534**

**INITIAL TESTIMONY OF**

**JEFFERY GARDNER**

ON BEHALF OF KENTUCKY ALLTEL, INC., ALLTEL KENTUCKY, INC., ALLTEL COMMUNICATIONS, INC., ALLTEL HOLDING CORP., ALLTEL HOLDING CORPORATE SERVICES, INC., AND VALOR COMMUNICATIONS GROUP

Filed February 16, 2006

**INITIAL TESTIMONY OF JEFFERY GARDNER**

***Q. Please state your name, business address, employer and position.***

A. My name is Jeffery Gardner. Until recently, I was the Chief Financial Officer of Alltel Corporation, and with the separation of Alltel Corporation's wireless and wireline businesses, I am the Chief Executive Officer of the separated wireline business of Alltel Corporation that will merge with Valor Communications Group, Inc. ("Valor") as described in the application that initiated this proceeding.

***Q. Please describe your educational background and business experience.***

A. As indicated, I was most recently the Chief Financial Officer of Alltel Corporation where I was responsible for the finance and accounting functions for Alltel. My responsibilities included Alltel's capital markets, budgeting and forecasting, strategic planning, accounting, procurement, tax and operational support. I have been in the communications industry since 1986 and joined the Company in 1998 when Alltel and 360° Communications merged. Prior to the merger, I held a variety of senior management positions with 360° Communications including: Senior Vice President of Finance, which included treasury, accounting and capital markets; President of the Mid-Atlantic Region; Vice President and General Manager of Las Vegas; and Director of Finance. I received a bachelor of science degree in finance from Purdue University and master's degree in business administration from William and Mary. I am a certified public accountant.

***Q. What is the purpose of your testimony?***

A. I am presenting testimony on behalf of Alltel Kentucky, Inc. ("Alltel Kentucky") and Kentucky Alltel, Inc. ("Kentucky Alltel") (collectively, "the Regulated Entities") to demonstrate that just as the Regulated Entities currently possess the requisite financial capability to provide service as incumbent local exchange carriers ("ILECs") in Kentucky, they will continue to possess that capability after completion of the separation of the Alltel Corporation wireline and wireless businesses and the merger of the wireline business with Valor (the "New Holding Company"). Specifically, I will show that, upon completion of the change of control of the Regulated Entities due to the separation and merger, these entities will possess the requisite financial capability to serve our present and prospective customers. The Regulated Entities will generate a sufficient level of cash flow to satisfy their existing obligations to their customers, employees and investors.

The separation and subsequent merger of the Alltel and Valor wireline businesses will produce significant benefits to the New Holding Company, which will accrue to all of the operating subsidiaries, including the Regulated Entities and their current and prospective customers. These benefits include a significantly larger wireline holding company when compared to other rural local exchange companies ("RLECs") with the related benefits of increased scale and scope and perhaps most importantly, an improved support level of the centralized services provided to the Regulated Entities by the New Holding Company. The transactions, therefore, will be in accordance with law, for a proper purpose, and consistent with the public interest. Further, the financing of the transaction will be lawful and within the Regulated Entities' corporate purposes, necessary and appropriate for their performance, and reasonably necessary and appropriate for such purpose.

**Status of Federal Approvals**

***Q. What is the status of any necessary federal approvals associated with the transaction?***

A The Federal Communications Commission ("FCC") order granting the "all-or-nothing" waiver request, the last remaining substantive action needed from the FCC in connection with this transaction, was received on January 31, 2006. The grant retains the status quo, enabling the New Holding Company to continue to operate under the existing regulatory regime (*i.e.*, rate of return or price cap) applicable to each of its local exchange companies. To summarize the status of these federal approvals:

- Domestic Section 214 Application was granted by Public Notice January 25, 2006.
- International Section 214 Application was granted automatically on January 26, 2006. Public Notice granted on February 2, 2006.
- Wireless license transfers were granted on February 1, 2006.
- Alltel Corporation and Valor submitted filings required under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 with the Department of Justice ("DOJ") and the Federal Trade Commission ("FTC") on December 21, 2005. The DOJ and FTC granted early termination of the waiting period requirements for these filings on January 3, 2006, thereby completing the DOJ's and FTC's review of the proposed transaction.

**Financial Capability of the Regulated Entities**

***Q. What is the current financial condition of the Regulated Entities?***

A. The annual reports most recently filed with this Commission on behalf of the Regulated Entities include the companies' balance sheets and income statements. The financial statements illustrate the financial condition of the Regulated Entities as of and for the twelve months ending December 31, 2004, the most recent annual period for which data are available. The statements were prepared and presented in accordance with this Commission's applicable reporting requirements and show the historically recorded data from the books and records of the Regulated Entities, which are maintained in accordance with the FCC's Uniform System of Accounts, 47 C.F.R. Part 32 ("Part 32"). These financial statements clearly show that for the twelve months ending December 31, 2004, each Regulated Entity possessed the requisite financial capability. Clearly, the Regulated Entities generated sufficient cash flow to cover all operating expenses, invest in the network and provide high quality service to their customers. Furthermore, they generated sufficient cash to pay a dividend to their shareholder. These results demonstrate that the Regulated Entities possess the requisite financial capability to adequately serve the citizens of the Commonwealth of Kentucky.

***Q. Will there be any material change to the Regulated Entities' financial statements as a result of the separation and merger?***

A. No. The accounting entries with respect to the separation and merger will occur at the New Holding Company level. Ownership of the Regulated Entities' stock will simply transfer from Alltel Corporation's balance sheet to the New Holding Company's balance sheet as a result of the separation and merger. No material changes are expected to occur to the Regulated Entities' financial statements as a result of the separation and merger. Thus, accounting for day-to-day transactions within the Regulated Entities will remain essentially the same. The Regulated Entities will continue to use Part 32 to account for their assets, liabilities, revenues, and expenses in the same manner as they do today.

***Q. Will the Regulated Entities continue to possess the required financial capability after the separation and merger?***

A. Yes, there will be no material change to the financial condition of the Regulated Entities. The Regulated Entities will continue to possess more than adequate financial capability after the separation and merger. Except for a name change from Alltel to a new brand, the Regulated Entities will remain essentially unaffected by the separation and merger. The assets, liabilities, revenues, and expenses of the Regulated Entities will remain essentially the same after the separation and merger, and local operations in Kentucky will continue to be managed and operated as before, except for an improved level of support received from the centralized services from the New Holding Company and singular focus on wireline. Thus, the financial results for the Regulated Entities will not be materially affected.

***Q. Taking all of the above into consideration, what do you conclude about the financial capability of the Regulated Entities after the separation and merger take place?***

A. The 2004 annual reports referenced previously demonstrate that the Regulated Entities, when combined with the support of the New Holding Company, possess the requisite financial capability to provide high quality, reliable telecommunications services to their current and prospective customers in Kentucky. Since the Regulated Entities will not experience any material change in their local Kentucky operations and overall financial condition as a result of the separation and merger, they will continue, along with the support of the New Holding Company, to possess the required financial capability to serve telecommunications consumers of Kentucky.

***Q. How does the positive financial condition of the New Holding Company, in turn, benefit the Regulated Entities?***

A. The financial characteristics of the New Holding Company will provide the financial stability to position itself favorably when compared to its industry peers to pursue necessary strategies for the Regulated Entities to succeed. With the solid financial structure discussed below, the New Holding Company will produce sufficient cash flow to attract capital for investment in its local telephone company operations. These investments will facilitate a focused local strategy, and the local telephone operations (including those of the Regulated Entities) will benefit from the New Holding Company's continuing ability to deliver a full portfolio of services to meet the needs of current and prospective customers.

**<u>Financial Capability of the New Holding Company</u>**

***Q. Will the New Holding Company possess the financial capability to support the Regulated Entities following the separation and merger?***

A. Yes. Attached under seal as Exhibit 1 is a pro forma balance sheet as of December 31, 2005 and income statement for the twelve months ending December 31, 2005, for the New Holding Company. This exhibit demonstrates that the New Holding Company will possess the requisite financial capability to succeed within the competitive telecommunications industry and support the Regulated Entities. Although a pro forma based on 2004 data was attached to the initial application filed in this proceeding, the 2004 pro forma was a preliminary estimate, and we are substituting the attached 2005 pro forma. The 2005 pro forma was prepared by internal accountants but has also been reviewed by Pricewaterhouse Coopers, LLP and will be made public at the time that it is included in Valor's future filing on Form S-4 with the Securities and Exchange Commission.

As indicated in the initial application in this proceeding, after the separation and merger, the New Holding Company will be the largest rural wireline provider in the United States serving approximately 3.4 million customers in 16 states. We expect to generate annual revenues of approximately $3.4 billion and operating income before depreciation and amortization ("OIBDA") of approximately $1.7 billion. Clearly, the New Holding Company will have the financial wherewithal and scale and scope to successfully enhance the network, related products, and services of its wireline subsidiaries, including the Regulated Entities. Additionally, the New Holding Company will generate sufficient cash flows to pay its operating expenses, fund technology investments through capital expenditures, service its debt and distribute an appropriate dividend to its shareholders. The expected level of revenues, OIBDA and cash flow will be more than adequate to properly position the New Holding Company to attract the necessary capital for all of its subsidiaries, including the Regulated Entities.

***Q. Why is the pro forma in Exhibit 3 based on data for twelve months ending December 31, 2005 although the separation and merger have not occurred?***

A. Use of actual historical data for the twelve months ending December 31, 2005, allowed us to examine the estimated prospective financial impact for a full year of operations.

**Q.** ***How will the financial characteristics of the New Holding Company compare to those of existing similarly situated publicly traded RLECs?***

A. The New Holding Company will be favorably comparable to existing similarly situated publicly traded RLECs. Exhibit 2 to my testimony illustrates that the New Holding Company will have significantly more access lines, revenues and OIBDA than the identified industry participants. The actual leverage (the net amount of debt compared to OIBDA) of many similarly situated publicly traded RLECs serving markets comparable to those of the New Holding Company range between 1.4 and 4.7 times. Indeed, most of these RLECs carry net debt comparable to that of the New Holding Company. As described above, the New Holding Company will carry approximately $5.4 billion of net debt which equates to approximately 3.2 times its estimated annual OIBDA. The New Holding Company's capital structure, therefore, will be comparable to similarly situated publicly traded RLECs presently operating successfully. (See Exhibit 3 attached to my testimony.) This comparison demonstrates that the financial condition of the New Holding Company will be comparable to its peer group, and the capital structure will allow the New Holding Company to continue to provide quality products and services, and invest appropriately in the future.

**Q.** ***What level of dividend does the New Holding Company plan to pay?***

A. The New Holding Company plans to set its dividend at $1.00 per share, which is expected to approximate $474 million annually. The New Holding Company, on a pro-forma basis as outlined in Exhibit 1, is expected to produce annual operating income before depreciation and amortization of approximately $1.7 billion. The remaining cash flows are more than sufficient to fund capital expenditures and debt service requirements.

***Q. How does the proposed dividend policy of the New Holding Company compare to existing similarly situated publicly traded RLECs?***

A. The New Holding Company's targeted dividend policy will be comparable to that of existing similarly situated publicly traded RLECs. The New Holding Company expects to distribute between 65% to 70% of its annual free cash flow back to its shareholders. On average, similarly situated publicly traded RLECs distribute approximately 63% of their free cash flow to their shareholders in the form of dividends. Additionally, the planned dividend of the New Holding Company, coupled with the capital structure mentioned above, will make the New Holding Company's stock attractive to investors which will allow us to raise the necessary capital to fund the future investment needs of our subsidiaries.

***Q. Can you explain the "synergy" savings to which the Application refers?***

A. Yes. When Alltel Corporation and Valor analyzed and negotiated the merger, they identified approximately $40 million of possible net savings. While we continue to examine the exact amount and method of accomplishing these savings, all savings are expected to occur at the holding company and service company level, and none are planned at the operating company level in Kentucky. An example of synergy savings is the reduction of duplicate corporate functions. For example, two corporate office locations are not needed. Therefore, if the corporate office currently occupied by Valor is not needed for other purposes, then the elimination of the associated expense becomes a synergy savings. To the extent that synergies result in a net reduction of overall corporate expense, then those savings or cost reductions would flow through to the subsidiaries (including the Regulated Entities) in the form of reduced corporate allocations.

***Q. Has the New Holding Company received independent acknowledgment that its expected financial condition, including its capital structure and planned dividend , are appropriate and financially sound?***

A. Yes. The New Holding Company received commitments from Merrill Lynch and J.P. Morgan ("Lenders"), two of the nation's largest banks, to fund its debt. The New Holding Company obtained commitments from the two banks only after we demonstrated that we would be sufficiently strong financially to service the proposed new debt and meet all of our obligations, including providing high quality service to our customers. These commitments would not have been feasible if the New Holding Company and its subsidiaries, including the Regulated Entities, were not going to possess the financial capability to transact business as they do currently. Additionally, the New Holding Company is in the process of obtaining a solvency opinion from Duff & Phelps, LLC.

***Q. What does the above testimony demonstrate with respect to the overall financial condition of the New Holding Company?***

A. I have demonstrated that the New Holding Company will have solid financial capabilities comparable to other similarly situated publicly traded RLECs within the telecommunications industry. Upon separation and merger, the New Holding Company will generate more than sufficient revenues to pay all expenses and enable its subsidiaries to continue providing high quality service in addition to distributing an attractive dividend to its shareholders. My analysis and testimony illustrate that the New Holding

Company's capital structure (discussed in greater detail below) and planned dividend are reasonable, and it will have the requisite ability to raise capital, service its debt, and make strategic investments. All of this affirms that the New Holding Company will have the required financial capability to support the Regulated Entities as they are presently supported.

**Capital Structure of the New Holding Company and Debt Guarantees**

**Q.** ***What will be the capital structure of the New Holding Company?***

A. The New Holding Company will have total assets of approximately $7.7 billion. Additionally, the New Holding Company will have a total enterprise value of over $11.2 billion, which includes an equity value of $5.7 billion, debt of $5.5 billion, and a debt-to-enterprise value ratio of 49.1%. The New Holding Company debt will be comprised of newly issued debt and assumed debt from the pre-merger Alltel Corporation and Valor and their subsidiaries. The issuance and assumption of the debt is part of the process of establishing an overall capital structure for the New Holding Company, which is intended to balance the cost of capital with the need to maintain ample financial flexibility. The proposed capital structure is reasonable for the New Holding Company and provides adequate resources for debt service, reinvestment, maintaining access to capital markets, and payment of an attractive dividend to investors.

**Q.** ***Can you describe the form of the debt of the New Holding Company?***

A. Yes. Attached as an exhibit to the amended application is a schedule of the proposed debt. This exhibit details both the secured and unsecured obligations that will be either issued or assumed by the New Holding Company.

**Q.** ***Has the New Holding Company debt been rated by any public rating agency, and what rating is the debt likely to receive?***

A. Because the New Holding Company has not yet begun its operation and the proposed debt has not yet been issued, the proposed debt has not been rated by a rating agency. While I cannot know for certain what the rating agencies will determine subsequent to their review of the New Holding Company debt and the rating it will receive, I can share comparisons of rated debt issued by other RLECs, although they have different credit profiles than the New Holding Company will have. In a recent report issued by Stifel Nicolaus (formerly known as Legg Mason) dated February 6, 2006, titled "Telecom Services Weekly Valuation Update", three RLECs received a BB- debt rating from S&P; these three RLECs had a higher net debt/EBITDA ratio (earnings before interest, taxes, depreciation and amortization) than the expected debt/EBITDA ratio of 3.2 times of the New Holding Company. (The New Holding Company's expected debt/EBITDA is supported in the attached 2005 pro forma financials.) One RLEC with a higher net debt/EBITDA ratio than the expected debt/EBITDA ratio of the New Holding Company received a B+ debt rating from S&P. Another RLEC with a slightly lower net debt/EBITDA ratio than the expected debt/EBITDA ratio of the New Holding Company received a BB+ debt rating from S&P. While there are many other factors that are used to determine a debt rating, these comparisons suggest that the New Holding Company debt is likely to receive a debt rating somewhere between BB- and BB+, or slightly below investment grade.

**Q.** ***Will the subsidiary operating companies of the New Holding Company (including the Regulated Entities) be financially responsible for this new debt?***

A. No. The debt will be issued or assumed by the New Holding Company. The subsidiary operating companies will not be responsible for servicing the debt. However, as described in the amended application, all of the subsidiaries of the New Holding Company are required to guarantee the debt and grant liens on their assets in favor of the lenders.

**Q.** ***Why will the subsidiary operating companies be guaranteeing the debt of the New Holding Company and granting liens?***

A. The guarantees and liens of the operating companies enhance the credit profile of the New Holding Company and allow it to obtain a more affordable interest rate which, in turn, optimizes the capital structure. The guarantees allow the New Holding Company to incur debt on a consolidated basis at the New Holding Company level and provide substantial cost savings through the reduction of interest payments than would otherwise be charged by lenders if the debt was not secured.

***Q.*** ***Will the terms of the guarantees be just and reasonable and in line with prevailing terms of similar obligations?***

A. Yes. The guarantees will be on standard industry terms and conditions that are quite common in domestic and international commerce.

**Q.** ***Do guarantees provide the Lenders with any recourse or remedy they would not otherwise have, either in the ordinary course of business or otherwise?***

A. Not in any meaningful way. Whether or not guarantees were required, the Lenders would have likely required a pledge of the New Holding Company's stock in the operating subsidiaries. Theoretically, as a result of a stock pledge, in the extreme circumstances of a default (which, it must be noted, Alltel has never experienced), the Lenders would have the legal right to seek control of the operating subsidiaries, subject to this Commission's change-of-control jurisdiction. This result is not materially different from the ultimate resolution under the guarantees. However, if the guarantees were not in place and the debt were secured by a pledge of the stock, the annual cost of servicing the New Holding Company debt would be significantly higher, thereby reducing the remaining cash flow available for network investment and support services.

**Q.** ***Will the giving of a guarantee circumvent the jurisdiction of this Commission in the event of a default by the New Holding Company?***

A. No. The function of the liens is to preclude any other lender or creditor from obtaining a higher ranking of security over the Lenders for this new debt. However, neither the approval of the liens by this Commission, as requested in this proceeding, nor the presence of the liens would circumvent the jurisdiction of this Commission under KRS §278.020(5) in the unlikely event of a default by the New Holding Company and an attempt by the Lenders to collect on the guarantees and liens. In the extreme and unlikely event of default and collection action by the Lenders, the Lenders would still have to come before this Commission for permission to act on the liens. Such action would clearly be considered a change of control or transfer of ownership that would require approval by this Commission for the Lenders to foreclose, and the Lenders would have to meet the same tests as any acquirer in order to obtain control or ownership. Therefore, by approving our requests in the application, the Commission is in no way foregoing its rights to protect the public interest in the unlikely event of a future default.

**Q.** ***What "events of default" would trigger the obligations of the guarantees?***

A. The debt instruments secured by the guarantees will contain provisions identifying the specific events of default, and they will be customary for debt arrangements of this type. The events of default are likely to include, for example, non-payment of principal and/or interest; bankruptcy or insolvency of the New Holding Company and its material subsidiaries, and other customary default provisions.

**Q.** ***Has Alltel ever experienced such an "event of default" and how likely is it that the New Holding Company would experience such?***

A. No. Alltel has never experienced an event of default, and in my opinion, it is very unlikely that such an event will occur in the future.

**Q.** ***Will the guarantees assist the Regulated Entities in meeting their obligations to provide service?***

A. Yes. While nothing will change in the ordinary course of business, capital will be generated by a singer issuer (*i.e.*, New Holding Company) at lower interest rates. The debt will be serviced by the New Holding Company, and the cash flow generated by the operating companies will not be materially changed.

**Q.** ***The amended application describes savings in interest expense of the New Holding Company that are associated with the requirement for guarantees. Please explain.***

A. As I alluded to above, by providing the guarantees and liens with respect to the New Holding Company debt, the related interest rate will be reduced by 100 to 200 basis points. This interest rate reduction translates to an annual estimated savings of approximately $25.0 to $50.0 million. This savings can be used for a number of initiatives including network investment, the hiring of additional support staff, debt reduction, and funding for acquisitions to increase the scale and scope of operations, to name a few.

## Centralized Services and Shared Assets

**Q.** ***Will the existence of the guarantees discussed above affect the relationship between the New Holding Company and the operating subsidiaries relating to centralized services, cash management or similar matters?***

A. No, this relationship will not change at all.

**Q.** ***The Commitment Letter attached to the amended application identified a Secured Cash Management Agreement and a Secured Hedge Fund Agreement. Please describe these arrangements and the involvement, if any, of the operating subsidiaries in them.***

A. A cash management agreement is an arrangement between a company and a bank that enables the company to utilize the services of the bank in the day-to-day management of its influx and outflow of cash. For example, various payments in the form of personal checks from customers and carriers are processed through an account at the bank providing the cash management. Since the majority of those payments are remitted by checks that do not immediately "clear" to the bank, the cash management agreement provides the means for addressing recourse of the check to the company if some of the checks do not ultimately clear, due to insufficient funds of the payor. The cash management bank advances funds to the company instead of waiting for each individual check to "clear" and the cash management agreement provides protection to the bank, for example, in the form of liens or rights to the cash of the company. In order to obtain cash management services on more favorable terms, the New Holding Company may decide to enter into a secured cash management agreement that would allow the cash management bank to be secured or protected on the same basis as other secured lenders. To the extent a secured cash management agreement is utilized, the Regulated Entities are required to guarantee such because they are also guaranteeing the New Holding Company debt.

The Secured Hedge Agreement is a means whereby the New Holding Company can obtain protection from the risk of rising interest rates on variable rate portions of the New Holding Company debt. The New Holding Company should not have any significant obligations under the Secured Hedge Agreement unless interest rates fall, in which case the New Holding Company should receive a corresponding benefit through a reduction in the amount of interest that it must pay on its variable rate debt. Again, the Regulated Entities are required to guarantee such potential obligations because they are also guaranteeing the debt with respect to which the interest rates in the Secured Hedge Agreement is protecting. Just as with respect to the guarantee of the New Holding Company debt, the Regulated Entities' guarantee or responsibility on the Secured Cash Management Agreement and the Secured Hedge Agreement are secondary. The New Holding Company will be the party responsible for performance under these agreements, and the Regulated Entities are involved only in the very unlikely event of default by the New Holding Company.

***Q. Will the distribution of any Alltel Corporation assets that provide service to both wireline and wireless business and related transactions impact the financial condition of the New Holding Company?***

A. No. As explained in the application, upon separation of the wireline and wireless businesses, some of the shared Alltel Corporation assets will be transferred to the New Holding Company, and some will remain with Alltel Corporation and its affiliates. These asset transfers and related transactions are not expected to have any substantial or long-term financial impact on the New Holding Company.

***Q. Please describe the separation of these shared assets.***

A. The Regulated Entities' operations are currently supported principally by employees who reside in their service areas and by assets owned and operated by the Regulated Entities. However, they also have access via lease and other similar arrangements to certain out-of-area assets that provide service to other operating companies and Alltel Corporation businesses, which the Regulated Entities do not own or operate. These shared assets are predominately owned and operated by other Alltel Corporation subsidiaries. For example, the Signaling System Seven ("SS7") platform which provides local number portability ("LNP") call routing information and related capabilities for the Regulated Entities was owned by another Alltel Corporation subsidiary, but is being transferred to the New Holding Company. The SS7 platform provides LNP capabilities not only to the individual operating telephone companies but also to facilities-based long distance and wireless affiliates.

**Q.** ***Will there be any impact to the Regulated Entities financial statements as a result of changes in the centralized services provided to the Regulated Entities by the New Holding Company?***

A. No, there will be no material impact to the Regulated Entities financial statements as a result of the changes in the centralized services provided by the New Holding Company as a result of the separation and merger. The Regulated Entities currently receive certain centralized services from Alltel Corporation and other affiliates. These services include human resource management, finance, tax, corporate communications, legal, planning, general support, and information services. After the separation and merger, the Regulated Entities will continue to receive these and other services from the New Holding Company and other affiliates. Any changes in the costs of these support services as a result of the transition from Alltel Corporation to the New Holding Company are expected to be minimal. In fact, the effectiveness of the centralized services received from the New Holding Company is expected to improve for two reasons. First, while the Regulated Entities have received the financial benefits that accrue from a converged holding company (wireless and wireline), these benefits have been tempered by the constant need to balance the focus of the various corporate support groups between the two robust businesses they support. Subsequent to the separation, the sole focus of the corporate support services provided by the New Holding Company will be the wireline marketplace. I expect this concentration of effort to yield significant benefits in the development of strategies and execution of tactics designed to better serve and retain our customers. Second, the merger of the New Holding Company with Valor significantly improves the economics for the corporate support services through increased scale and scope.

**Q.** ***How will the New Holding Company ensure that its telephone company subsidiaries have adequate access to necessary shared assets and services?***

A. The New Holding Company will acquire the necessary capabilities from Alltel Corporation. The reverse is also the case for assets transferring to the New Holding Company at separation, which Alltel Corporation will need to use for a transitional period of time. These arrangements for the continued use of shared assets will be transacted through Transition Service Agreements executed between the New Holding Company and Alltel Corporation. The transitional services subject to these agreements will be priced accordingly and will not increase the corporate shared service expenses. These agreements will be in place for approximately one year to allow sufficient time for the New Holding Company and Alltel Corporation to develop and implement their respective stand-alone capabilities. At the end of the transitional period, the New Holding Company and Alltel Corporation will discontinue the transitional operations and associated agreements and begin utilizing their own respective operating platforms and assets or if in their best interest, negotiate agreements for continued receipt and provision of any services which both parties determine should be continued.

**Q.** ***Will the allocation of assets and provision of transitional services result in changes to the Regulated Entities' current financial condition?***

A. No. Since the transfer of shared assets and the provision of transition services are being conducted at the holding company level, the financial statements of the Regulated Entities are not directly affected. While the costs associated with these assets and services ultimately are allocated to the subsidiaries which they benefit, the Regulated Entities are not appreciably affected through allocations, because the allocations will not appreciably change. The use of shared assets and centralized services are already reflected on the books of the Regulated Entities because the costs are allocated today. Therefore, there is no additional expense allocation expected to occur to the Regulated Entities. In other words, the financial impact of the Regulated Entities using the shared assets is already reflected in the Regulated Entities' 2004 financials previously filed with this Commission. The operating costs (including depreciation expense) of these shared assets have historically been allocated to the individual local telephone companies each month. Additionally, the use of Transition Service Agreements described above will result in cost-based billing between the New Holding Company and Alltel Corporation for approximately one year after separation. These billings will ensure that the net book value, relative to the transfer of shared assets to the New Holding Company, is reduced to reflect Alltel Corporation's use of the assets during the transitional period following separation. Thus, the existing expense impacts already reflected on the Regulated Entities' annual reports are a reasonable representation of the expense impacts that will occur subsequent to the expiration of the transition period when the New Holding Company assumes ownership of the assets.

**Conclusions**

***Q. Based on the above, what do you conclude with respect to the overall financial condition of the New Holding Company and the Regulated Entities?***

A. The New Holding Company will have solid financial capabilities similar to that currently possessed by Alltel Corporation and favorably comparable to other similarly situated publicly traded RLECs. Additionally, the Regulated Entities will continue to possess the same financial capabilities that they possess today. Upon separation and merger, the New Holding Company will generate more than sufficient revenues to pay all expenses; develop its networks and retain employees to enable its subsidiaries (including the Regulated Entities) to continue providing high quality service. The New Holding Company's capital structure and planned dividend are reasonable, as is the debt guarantee by the Regulated Entities. The New Holding Company will have the requisite ability to raise capital, service its debt, and make strategic investments. Undoubtedly, the New Holding Company will possess the requisite financial capability to support the Regulated Entities as they are presently supported, and the transactions will be in accordance with law, for a proper purpose, and consistent with the public interest. As demonstrated throughout my testimony, the financing of the transaction will be lawful and within the Regulated Entities' corporate purposes, necessary and appropriate for their performance, and reasonably necessary and appropriate for such purpose.

***Q. Does this conclude your testimony?***

A. Yes, at this time.

**AFFIDAVIT**

STATE OF ARKANSAS )
) SS:
COUNTY OF PULASKI )

Jeffery Gardner, being duly sworn according to law, deposes and says that he is Chief Executive Officer, and that in this capacity he is authorized to and does make this Affidavit on behalf of Applicants and that the statements set forth in the foregoing Testimony are true and correct to the best of his knowledge, information and belief.

Jeffy R. [signature]

Sworn and Subscribed to before me this 14th day of February, 2006.

(SEAL) ANSJE P. DEAN
Pulaski County
My Commission Expires
March 15, 2011

Ansje P. Dean
Notary Public

My Commission Expires:
3-15-11

## CERTIFICATE OF SERVICE

I hereby certify that a true and accurate copy of the foregoing was served via United States Postal Service, First Class Mail, postage prepaid, upon:

Douglas F. Brent
Stoll Keenon & Ogden, PLLC
2650 Aegon Center
400 West Market Street
Louisville, Kentucky 40202

John Selent
Dinsmore & Shohl
Suite 2000
462 South Fourth Street
Louisville, Kentucky 40202-3466

David Barberie
Department of Law
Lexington-Fayette Urban County Government
200 East Main Street
Lexington, Kentucky 40507

Jonathan Amlung
1000 Republic Building
429 West Muhammad Ali Boulevard
Louisville, Kentucky 40202

Dennis Howard
Office of the Attorney General
Suite 200
1024 Capital Center Drive
Frankfort, Kentucky 40601

on this the 16th day of February, 2006.

Mark R. Overstreet

# EXHIBIT 1

CONFIDENTIAL

CONFIDENTIAL

**Valor Communications Group Inc.**
**Unaudited Pro Forma Combined Condensed Balance Sheet**
**As of December 31, 2005**

| (Millions) | ALLTEL Holding, as reported | Additional Transfers of Assets and Liabilities from Alltel | Issuance of Debt Securities | Payment of Dividends to Alltel | ALLTEL Holding, as adjusted | Valor as Reported | Pro Forma Add (Deduct) Adjustments | Combined |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash and short-term investments | | | | | | | | |
| Other current assets | | | | | | | | |
| Total current assets | | | | | | | | |
| Investments | | | | | | | | |
| Goodwill | | | | | | | | |
| Other intangibles | | | | | | | | |
| Property, plant and equipment, net | | | | | | | | |
| Other assets | | | | | | | | |
| Total assets | | | | | | | | |
| **Liabilities and Shareholders' Equity** | | | | | | | | |
| Current liabilities | | | | | | | | |
| Long-term debt | | | | | | | | |
| Deferred income taxes | | | | | | | | |
| Other liabilities | | | | | | | | |
| Common stock | | | | | | | | |
| Additional paid-in capital | | | | | | | | |
| Treasury stock | | | | | | | | |
| Parent company investment | | | | | | | | |
| Accumulated other comprehensive income | | | | | | | | |
| Deferred equity compensation | | | | | | | | |
| Retained earnings (deficit) | | | | | | | | |
| Total liabilities and shareholders' equity | | | | | | | | |

The accompanying notes are an integral part of these unaudited pro forma combined condensed financial statements.

CONFIDENTIAL

CONFIDENTIAL

CONFIDENTIAL

**Valor Communications Group Inc.**
**Unaudited Pro Forma Combined Condensed Statement of Income**
**For the Year Ended December 31, 2005**

| (Millions, except per share amounts) | ALLTEL Holding, as reported | Valor as Reported | Pro Forma Add (Deduct) Adjustments | Combined |
|---|---|---|---|---|
| **Revenues and sales** | | | | |
| **Costs and expenses:** | | | | |
| Cost of services | | | | |
| Cost of products sold | | | | |
| Selling, general, administrative and other | | | | |
| Depreciation and amortization | | | | |
| Royalty expense to Parent | | | | |
| Restructuring and other charges | | | | |
| **Operating income** | | | | |
| Other income (expense), net | | | | |
| Intercompany interest income | | | | |
| Interest expense | | | | |
| Income before income taxes | | | | |
| Income taxes | | | | |
| Income before cumulative effect of accounting change | | | | |
| **Earnings per share:** | | | | |
| Basic | | | | |
| Diluted | | | | |
| **Average common shares outstanding:** | | | | |
| Basic | | | | |
| Diluted | | | | |

The accompanying notes are an integral part of these unaudited pro forma combined condensed financial statements.

CONFIDENTIAL

CONFIDENTIAL

Merged Wireline Business
Statement of Cash Flows
For the year ended December 31, 2005

(in millions)
Cash Provided from Operations:
Net income
Adjustments to reconcile net income to net cash
provided from operations:
Depreciation and amortization
Other, net
Changes in operating assets and liabilities, net
Net cash provided from operations

Cash Flows from Investing Operations:
Additions to property, plant and equipment
Proceeds from sale of investments
Net cash used in investing activities

Cash Flows from Financing Activities:
Dividends on common stock
Change in intercompany balance with Alltel
Net cash used in financing activities

Decrease in cash and short-term investments
Cash and Short-Term Investments:
Beginning of year
End of year

CONFIDENTIAL

CONFIDENTIAL

Unaudited Pro Forma Combined Condensed Financial Information

CONFIDENTIAL

CONFIDENTIAL

CONFIDENTIAL

## NOTES TO UNAUDITED PRO FORMA COMBINED CONDENSED FINANCIAL STATEMENTS

a.

b.

c.

d.

e.

f.

CONFIDENTIAL

CONFIDENTIAL

CONFIDENTIAL

CONFIDENTIAL

g.

h.

i.

CONFIDENTIAL

CONFIDENTIAL

CONFIDENTIAL

CONFIDENTIAL

j.

k.

CONFIDENTIAL

CONFIDENTIAL

CONFIDENTIAL

CONFIDENTIAL

l.

m.

n.

o.

p.

q.

CONFIDENTIAL

CONFIDENTIAL

CONFIDENTIAL

CONFIDENTIAL

r.

CONFIDENTIAL

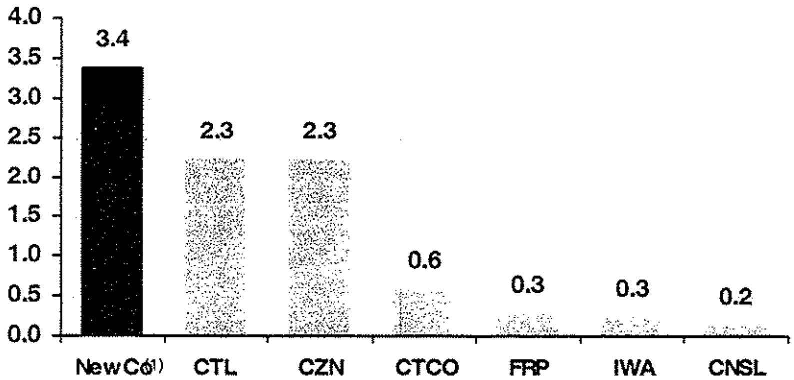
CONFIDENTIAL

# EXHIBIT 2

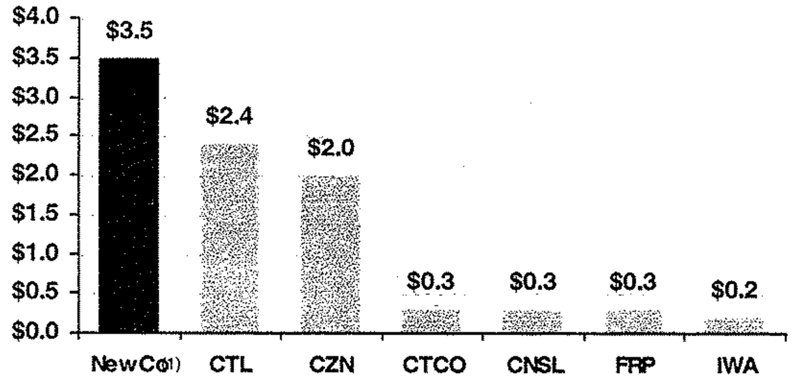
# Premier Rural Wireline Company

## *Significant Scale and Profitability*

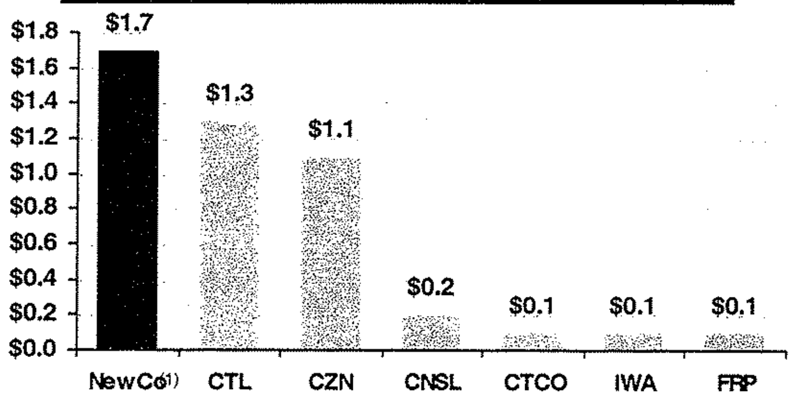
### Q3'05 Access Lines (M)




### 2004 Revenue ($B)




### 2004 OIBDA ($B)

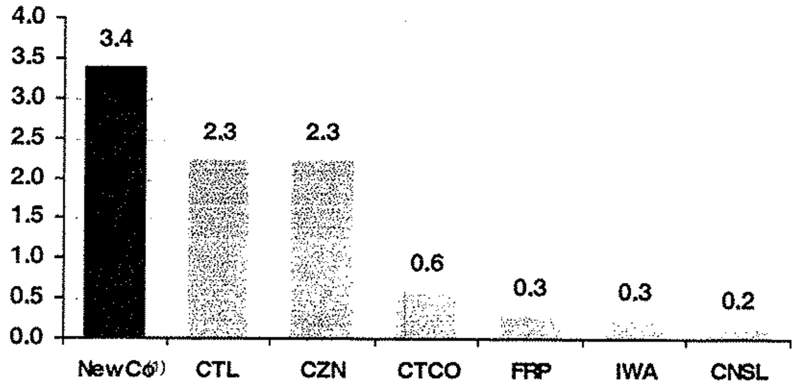



*(1) Pro forma for Alltel/VALOR merger .*

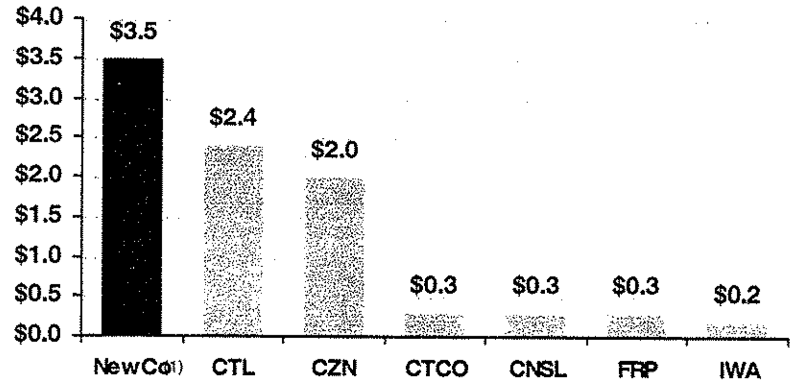
# Premier Rural Wireline Company

## *Significant Scale and Profitability*

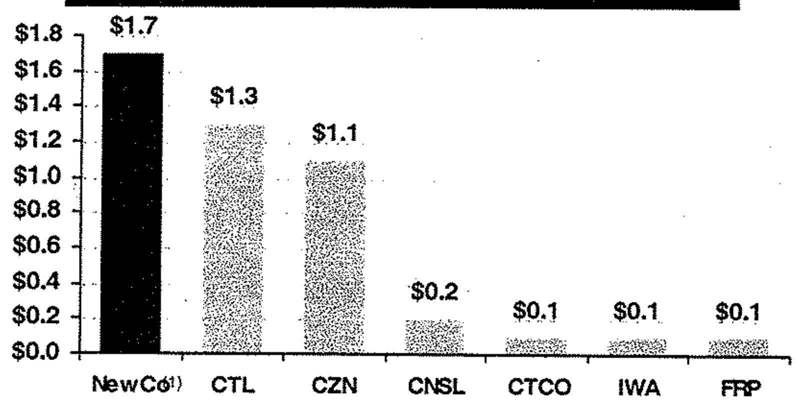
**Q3'05 Access Lines (M)**




**2004 Revenue ($B)**




**2004 OIBDA ($B)**

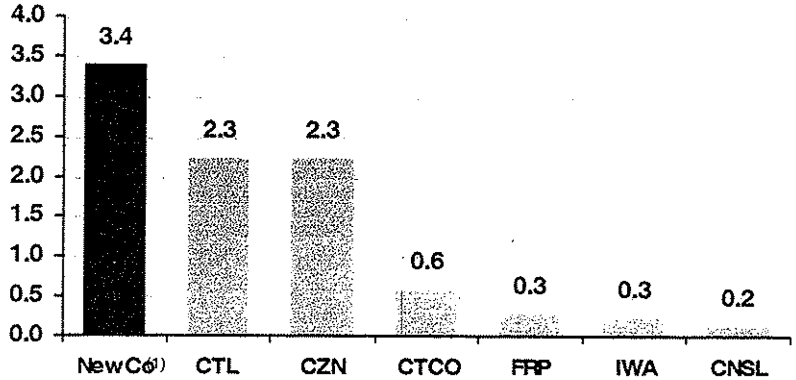



*(1) Pro forma for Alltel/VALOR merger .*

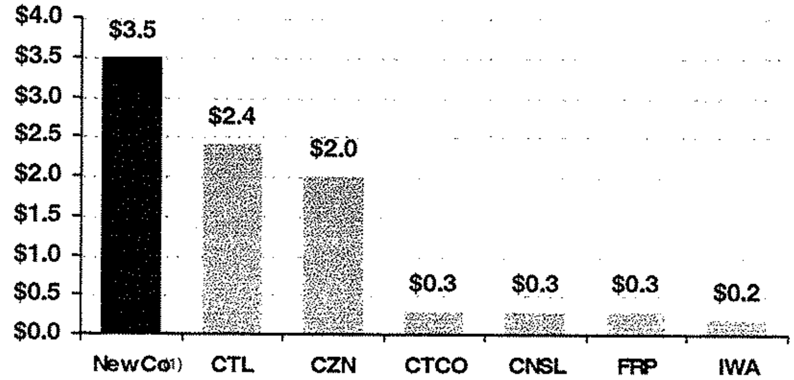
# Premier Rural Wireline Company

## *Significant Scale and Profitability*

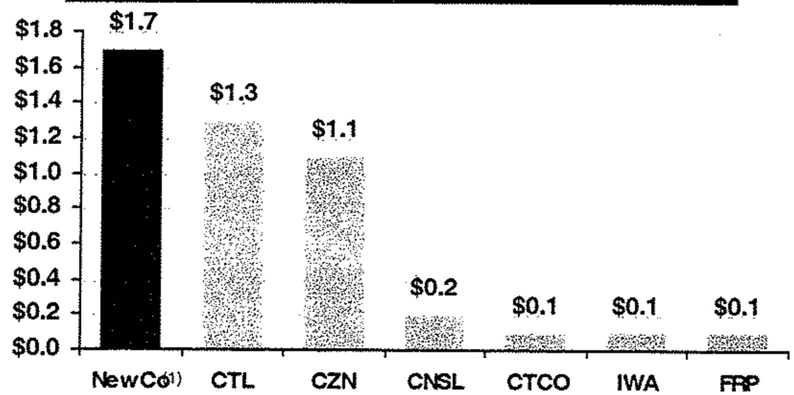
### Q3'05 Access Lines (M)




### 2004 Revenue ($B)



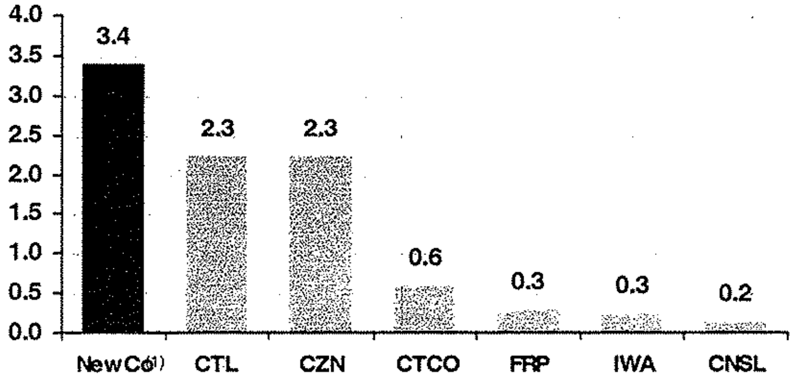

### 2004 OIBDA ($B)



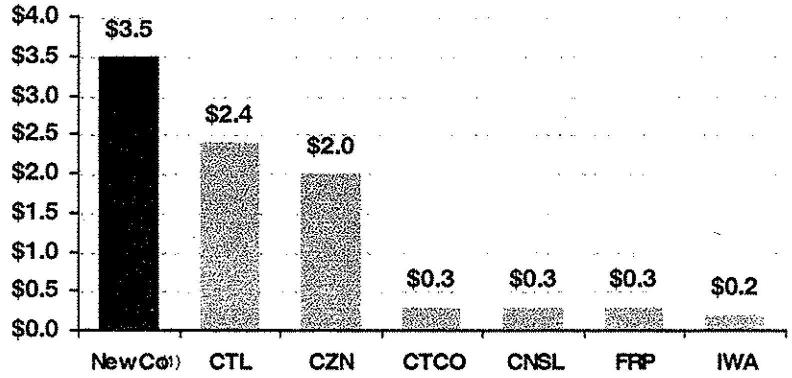

(1) Pro forma for Alltel/VALOR merger.

# Premier Rural Wireline Company
## *Significant Scale and Profitability*

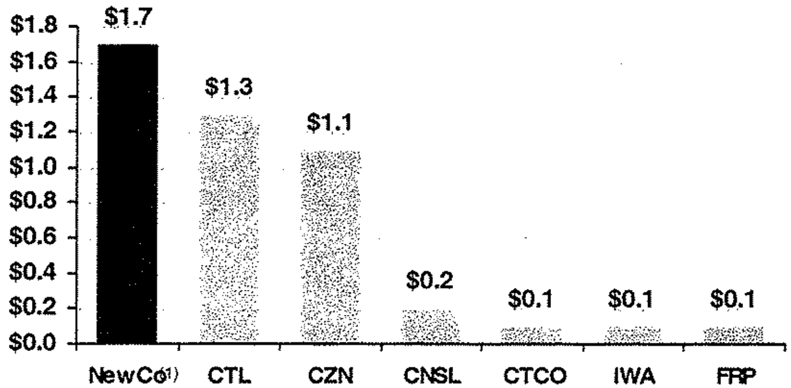
### Q3'05 Access Lines (M)




### 2004 Revenue ($B)




### 2004 OIBDA ($B)

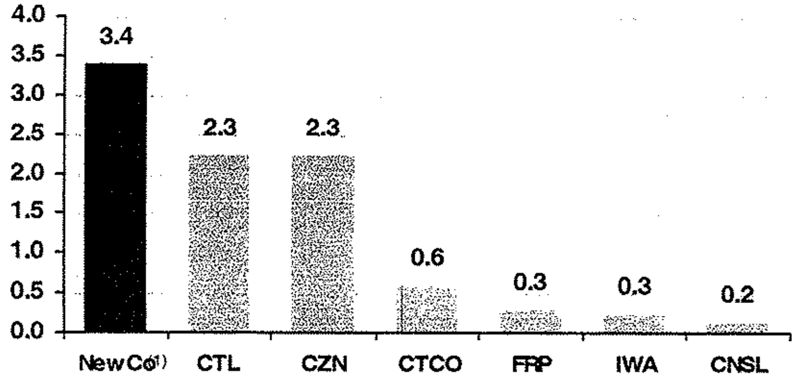



(1) Pro forma for Alltel/VALOR merger.

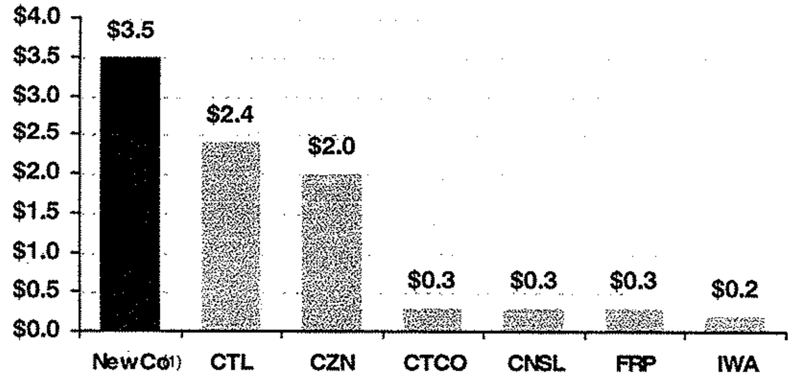
# Premier Rural Wireline Company

*Significant Scale and Profitability*

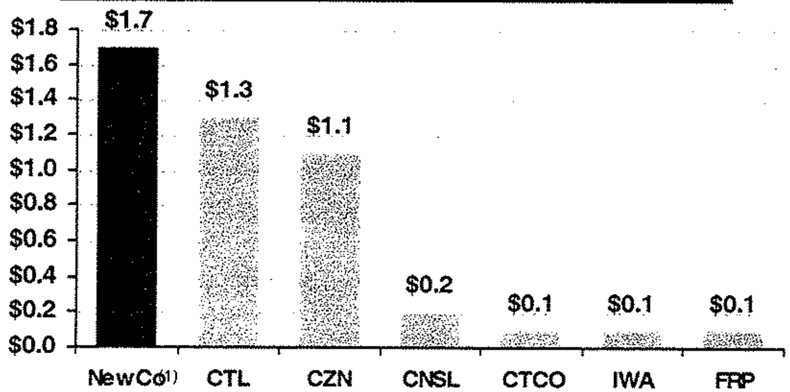
### Q3'05 Access Lines (M)




### 2004 Revenue ($B)




### 2004 OIBDA ($B)

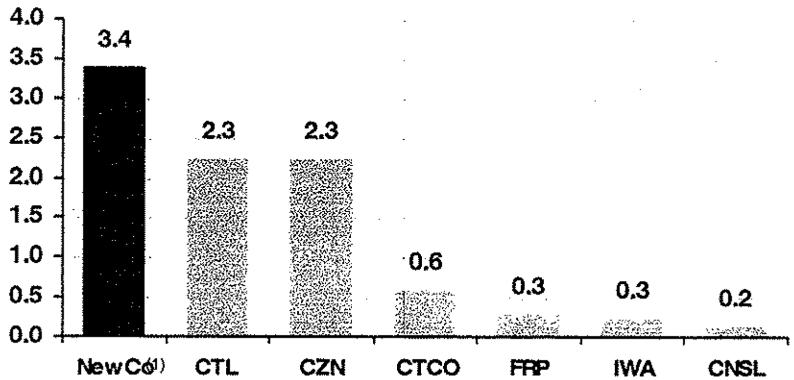



(1) Pro forma for Alltel/VALOR merger .

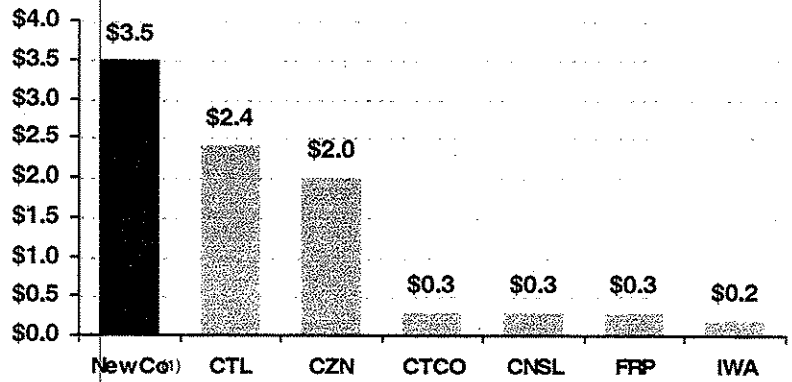
# Premier Rural Wireline Company

## *Significant Scale and Profitability*

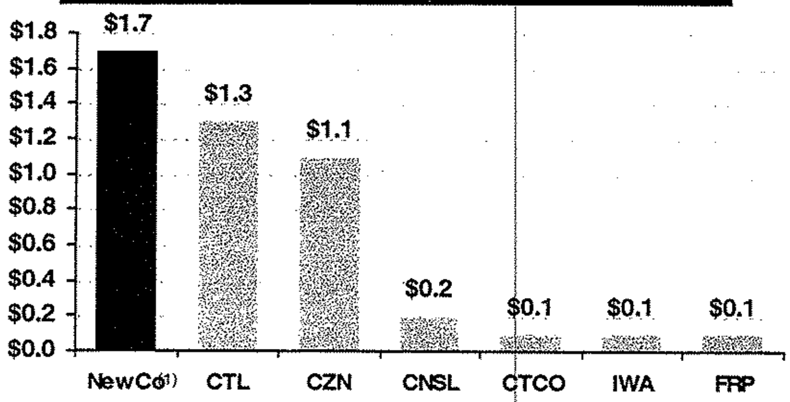
### Q3'05 Access Lines (M)




### 2004 Revenue ($B)



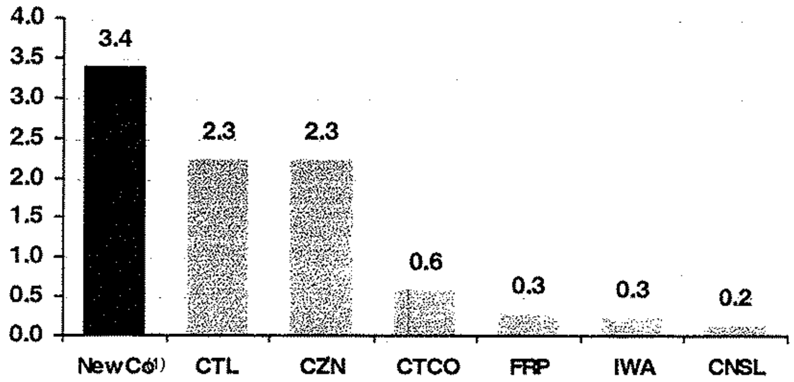

### 2004 OIBDA ($B)



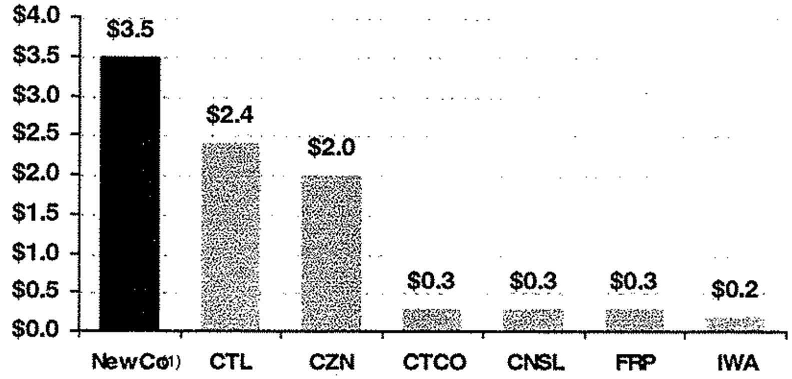

*(1) Pro forma for Alltel/VALOR merger .*

# Premier Rural Wireline Company
## *Significant Scale and Profitability*

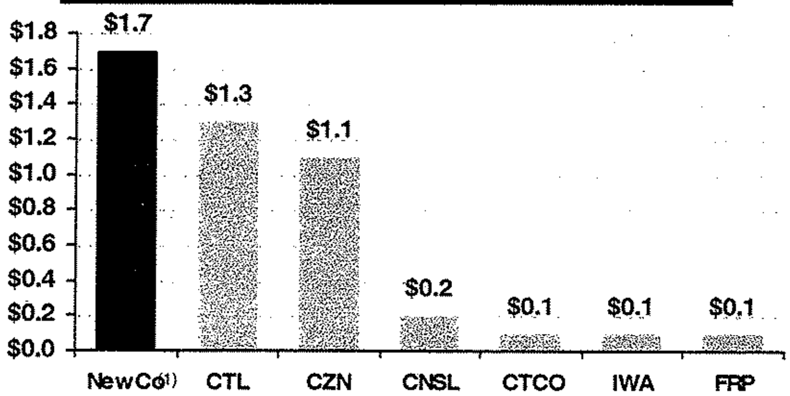
### Q3'05 Access Lines (M)




### 2004 Revenue ($B)




### 2004 OIBDA ($B)

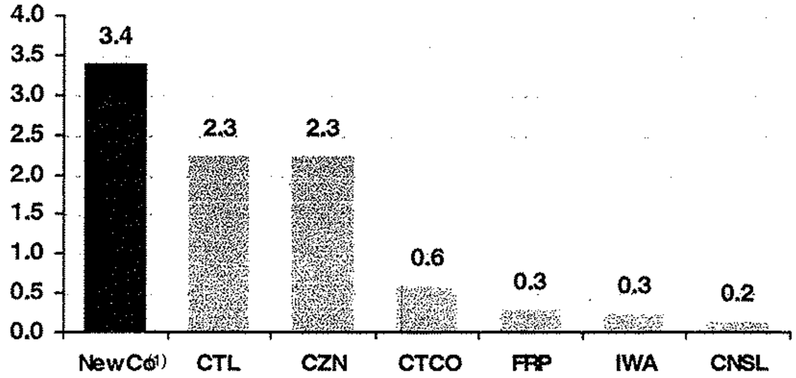



(1) Pro forma for Alltel/VALOR merger .

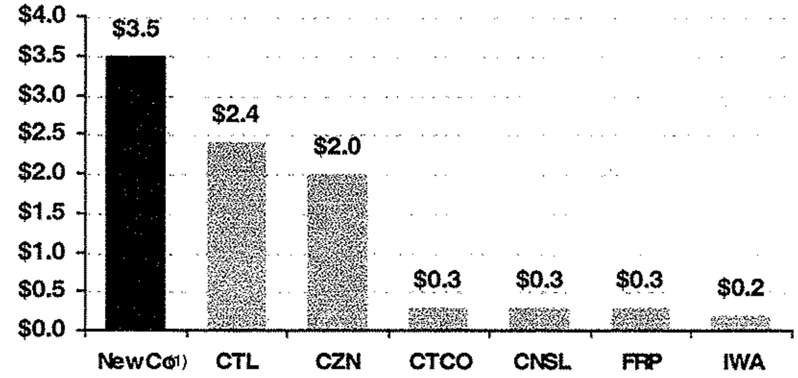
# Premier Rural Wireline Company

*Significant Scale and Profitability*

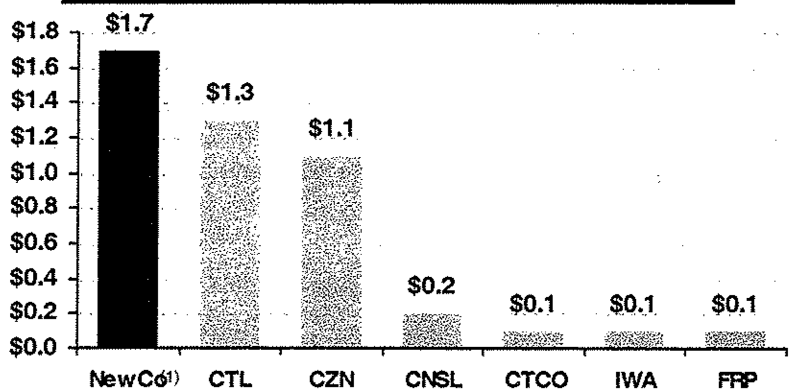
### Q3'05 Access Lines (M)




### 2004 Revenue ($B)




### 2004 OIBDA ($B)

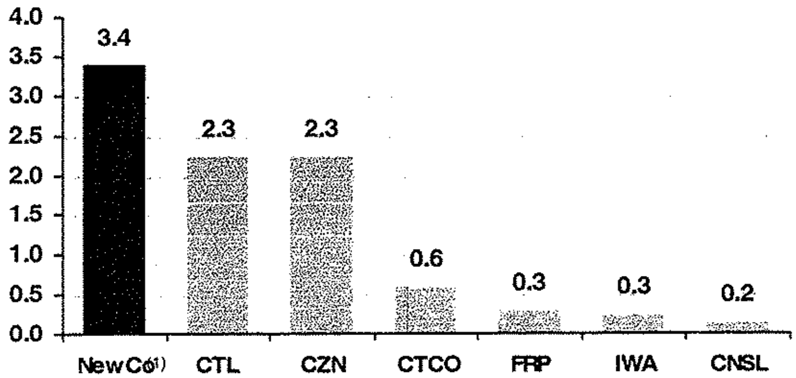



(1) Pro forma for Alltel/VALOR merger .

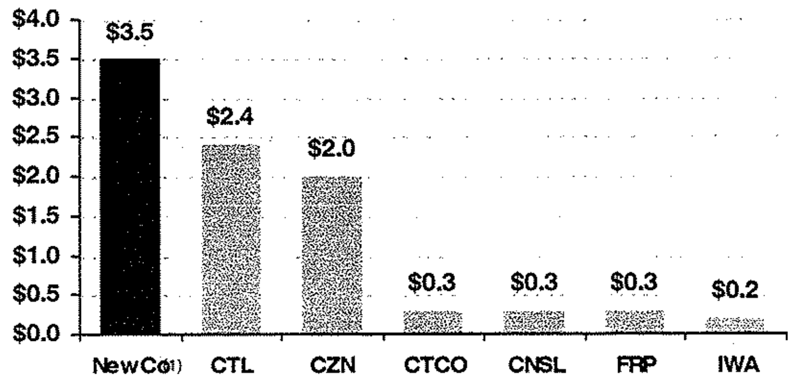
# Premier Rural Wireline Company

## *Significant Scale and Profitability*

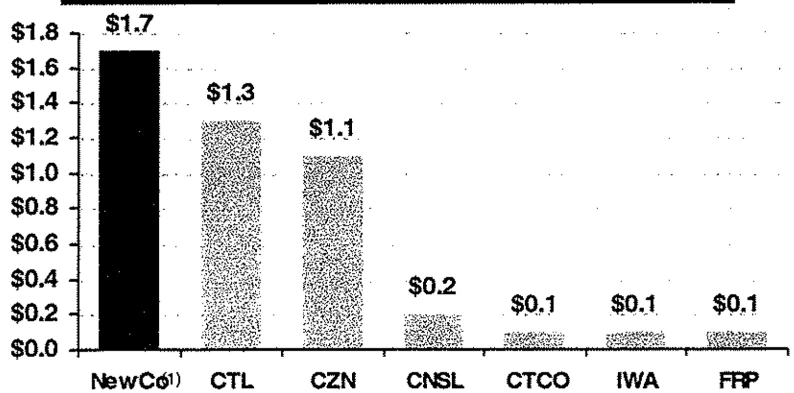
### Q3'05 Access Lines (M)




### 2004 Revenue ($B)




### 2004 OIBDA ($B)

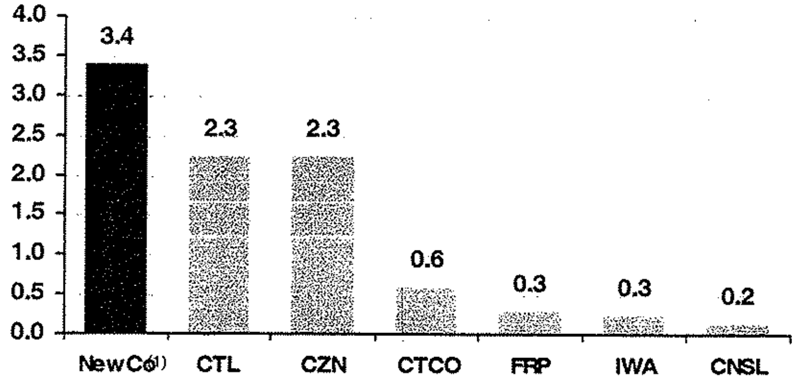



*(1) Pro forma for Alltel/VALOR merger .*

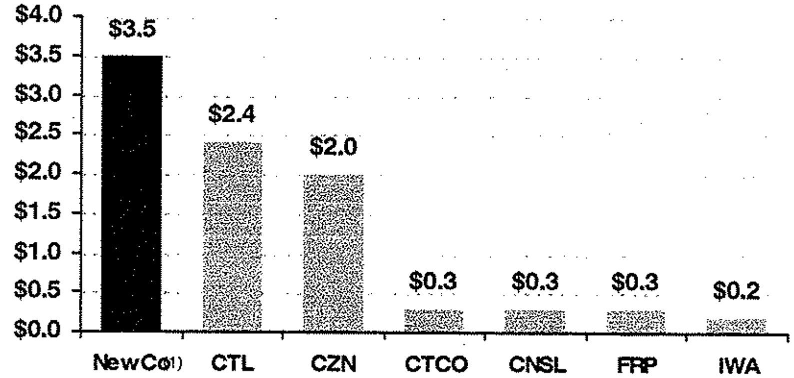
# Premier Rural Wireline Company

## *Significant Scale and Profitability*

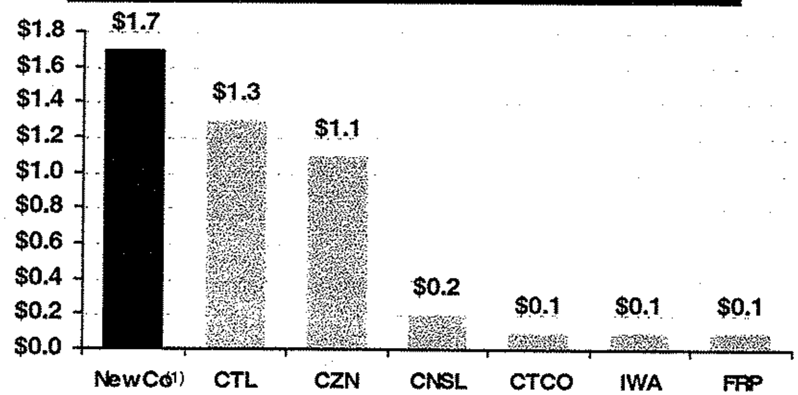
### Q3'05 Access Lines (M)




### 2004 Revenue ($B)




### 2004 OIBDA ($B)

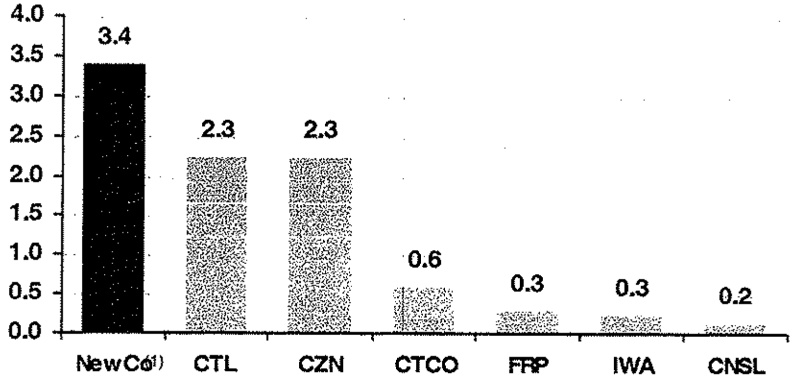



(1) Pro forma for Alltel/VALOR merger.

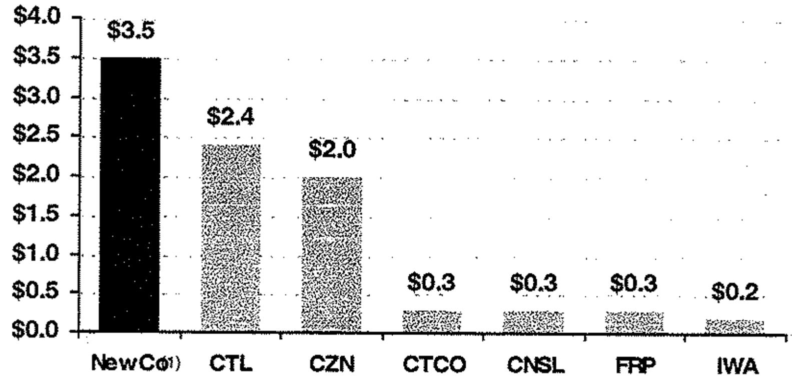
# Premier Rural Wireline Company

*Significant Scale and Profitability*

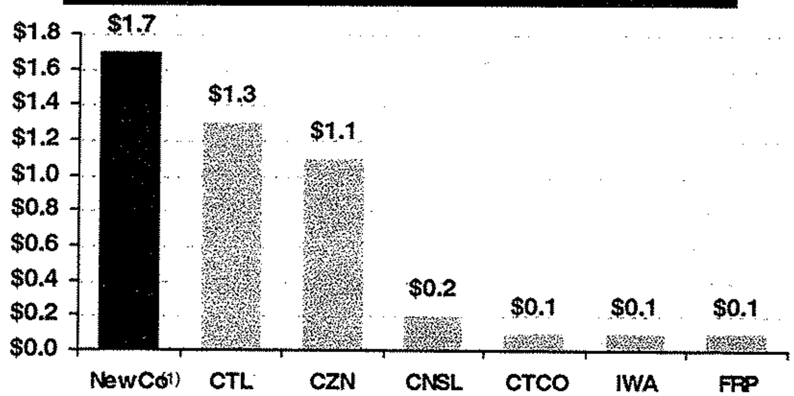
## Q3'05 Access Lines (M)




## 2004 Revenue ($B)




## 2004 OIBDA ($B)

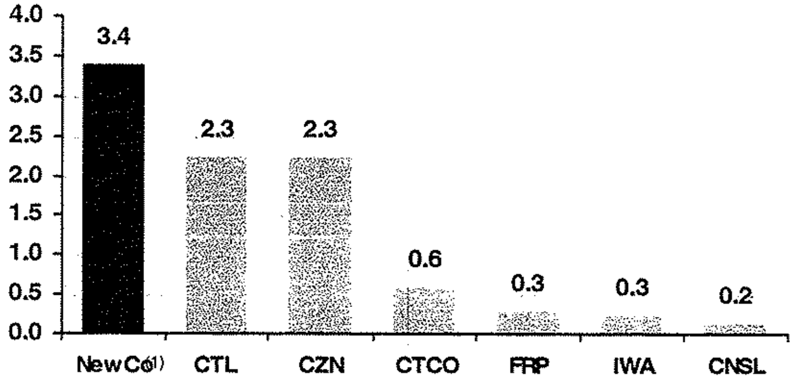



(1) Pro forma for Alltel/VALOR merger.

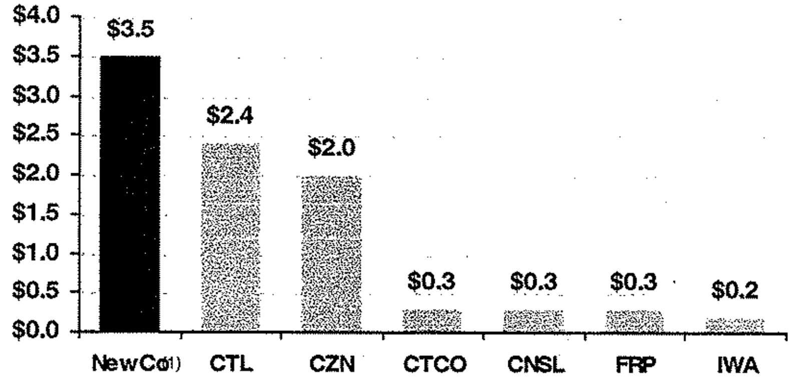
# Premier Rural Wireline Company

## *Significant Scale and Profitability*

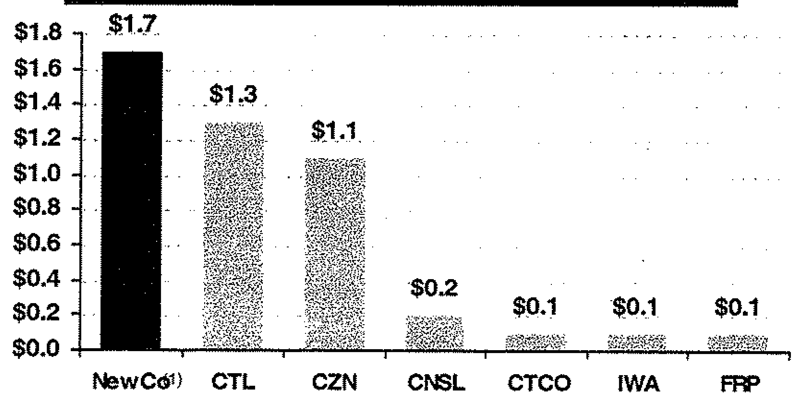
### Q3'05 Access Lines (M)




### 2004 Revenue ($B)



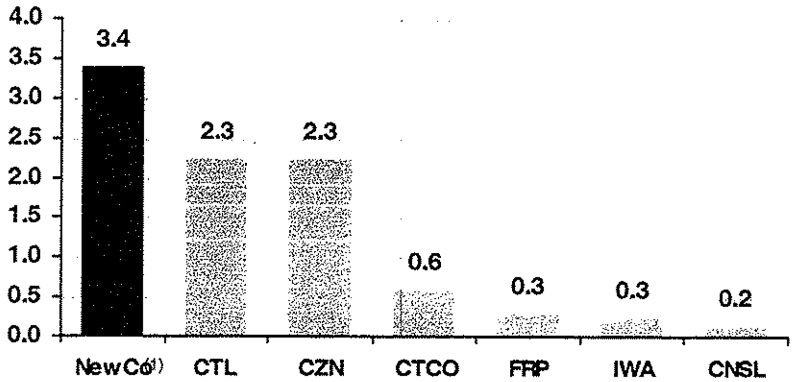

### 2004 OIBDA ($B)



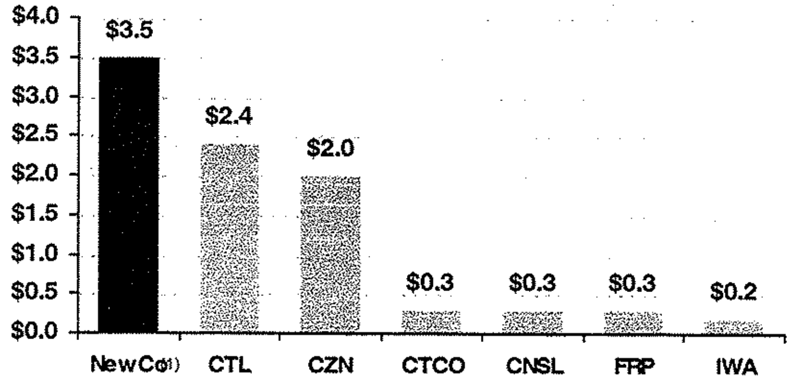

*(1) Pro forma for Alltel/VALOR merger .*

# Premier Rural Wireline Company
## *Significant Scale and Profitability*

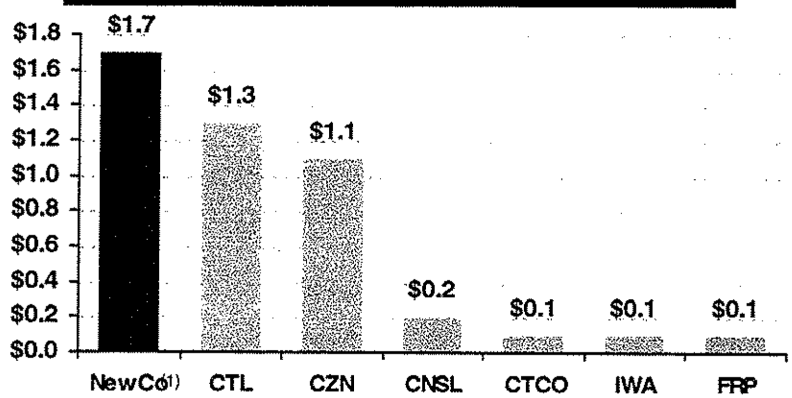
### Q3'05 Access Lines (M)




### 2004 Revenue ($B)




### 2004 OIBDA ($B)

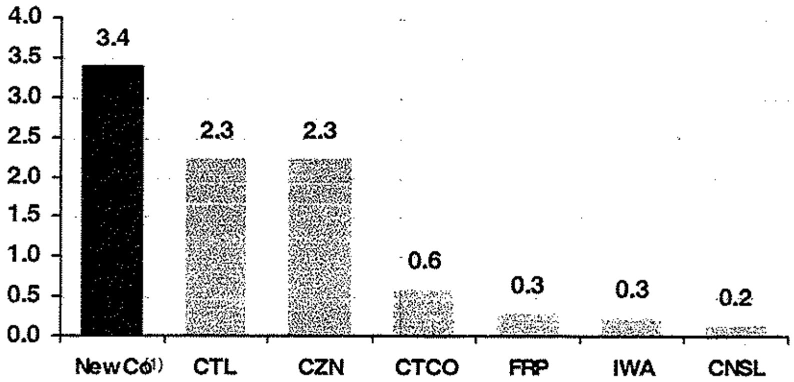



*(1) Pro forma for Alltel/VALOR merger.*

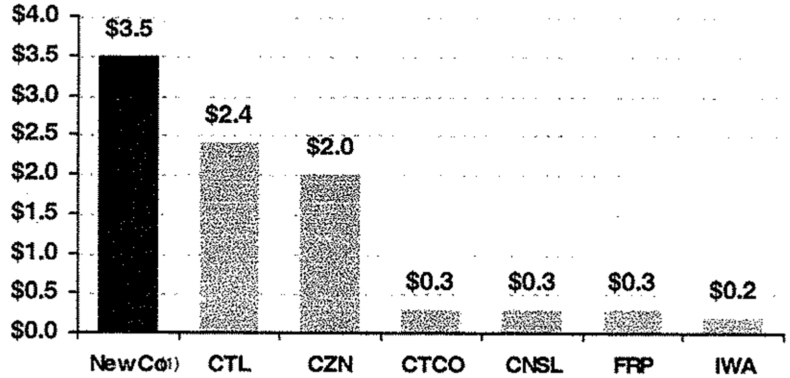
# Premier Rural Wireline Company

## *Significant Scale and Profitability*

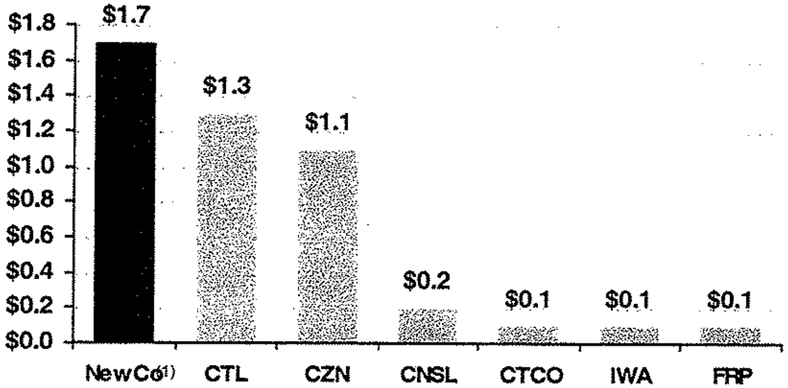
### Q3'05 Access Lines (M)




### 2004 Revenue ($B)



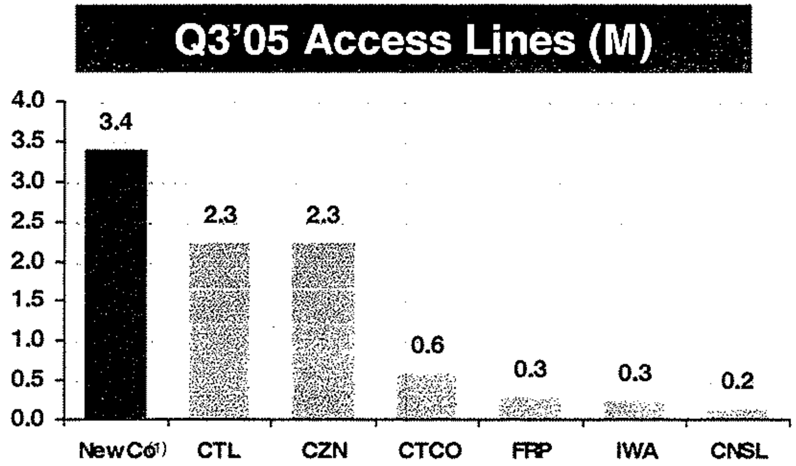

### 2004 OIBDA ($B)

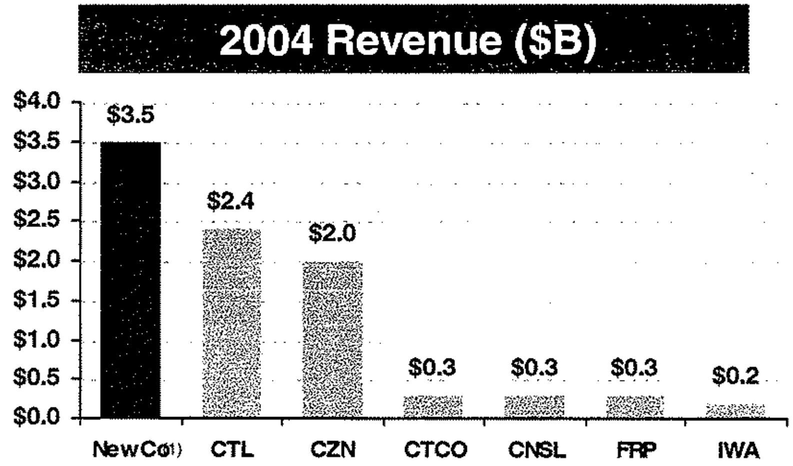


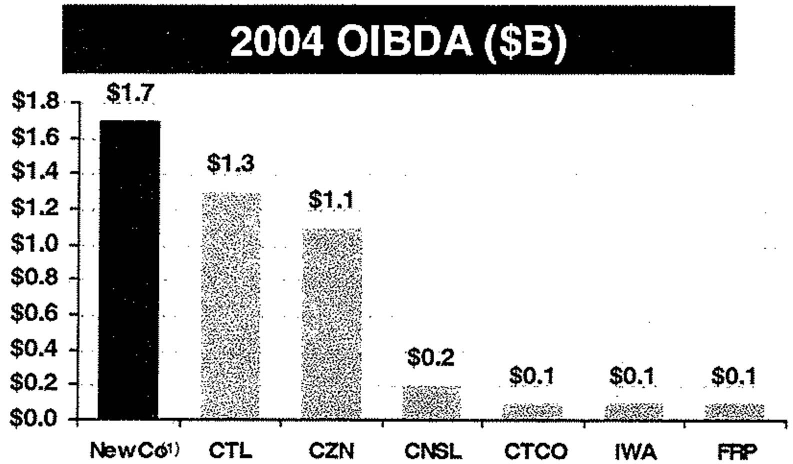

(1) Pro forma for Alltel/VALOR merger.

# Premier Rural Wireline Company

## *Significant Scale and Profitability*



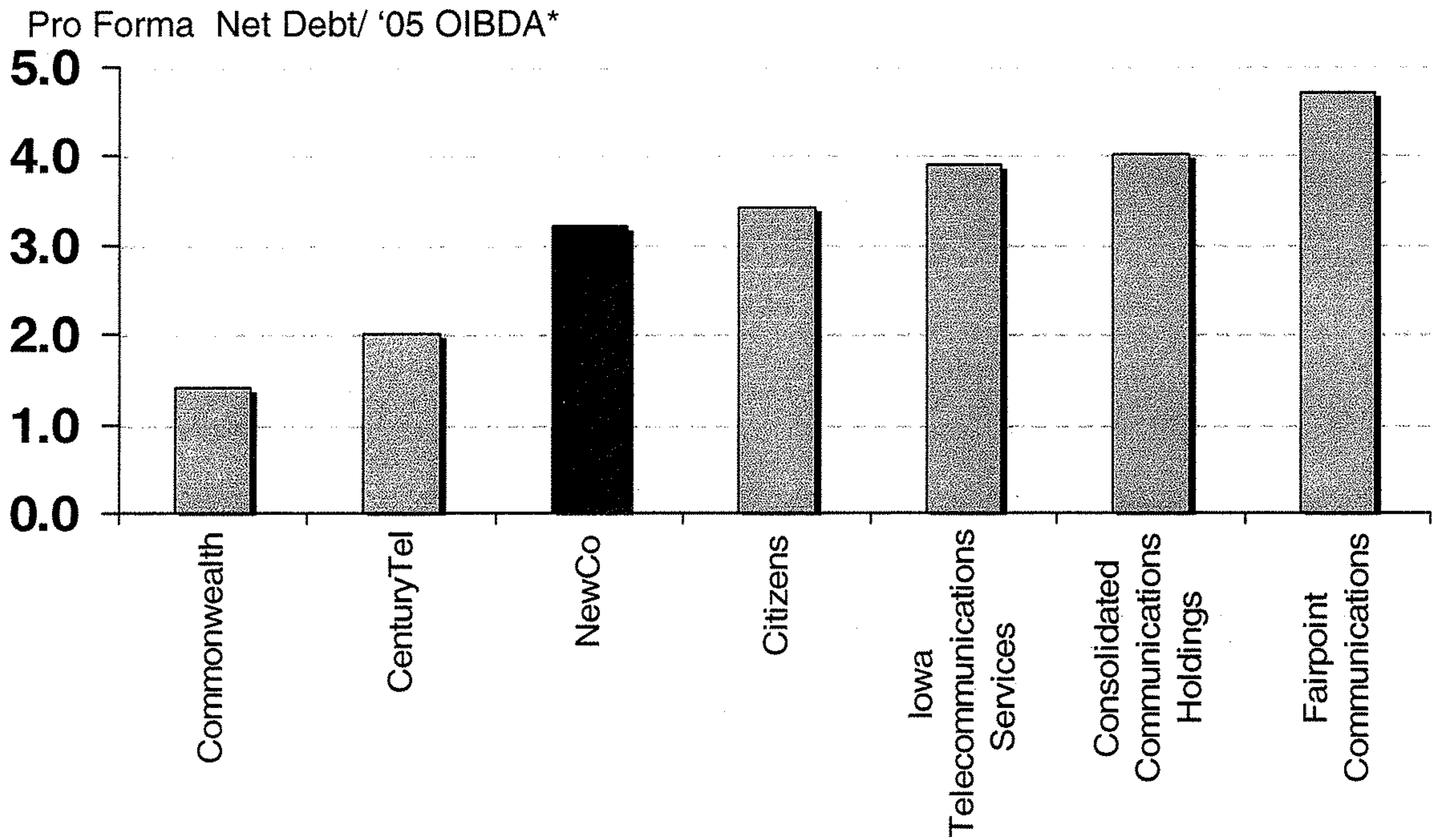




(1) Pro forma for Alltel/VALOR merger.

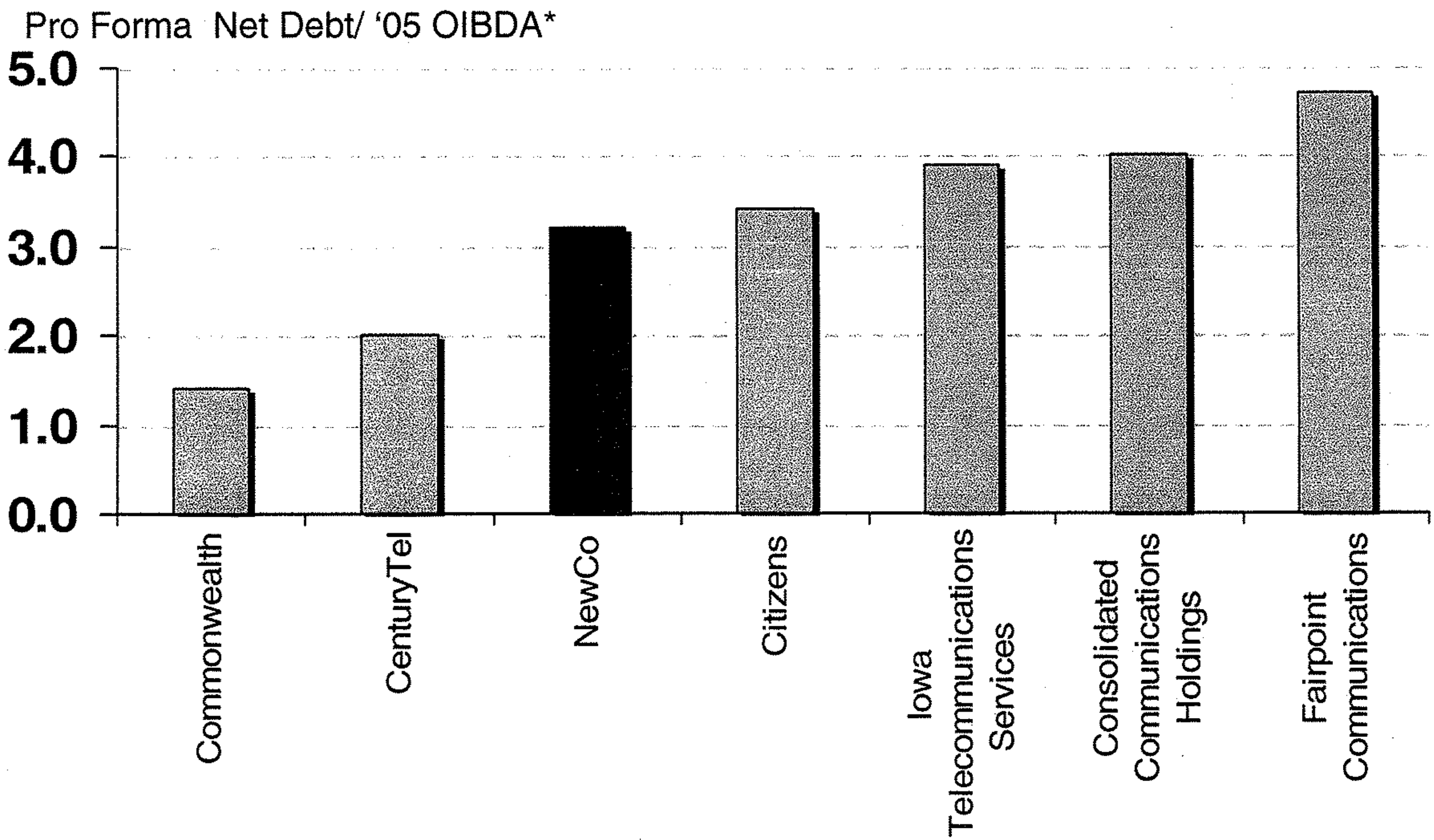
# EXHIBIT 3

# Proposed Wireline Capital Structure



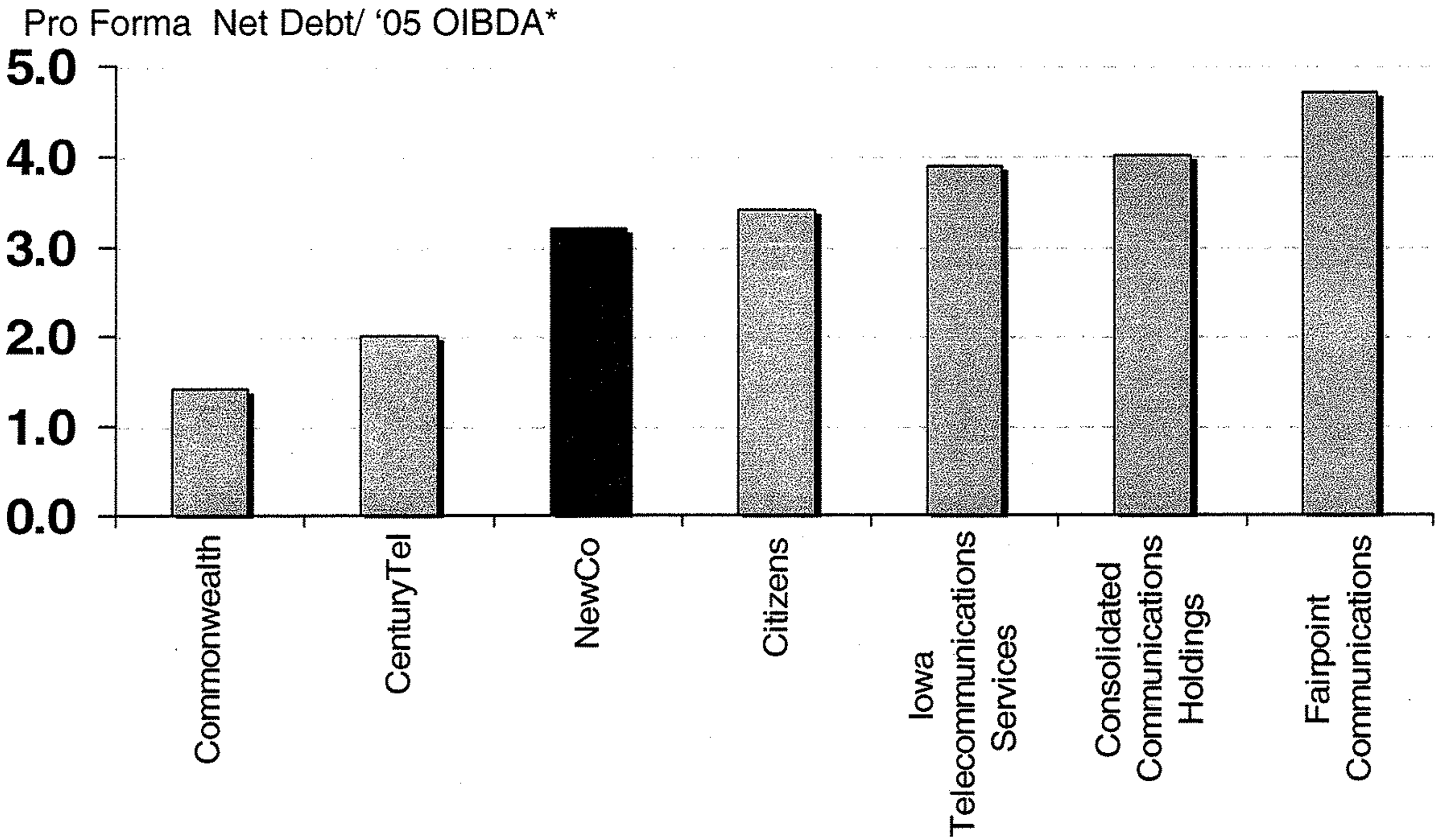

*Newco ratio calculated using pro forma net debt divided by '05 OIBDA.

# Proposed Wireline Capital Structure



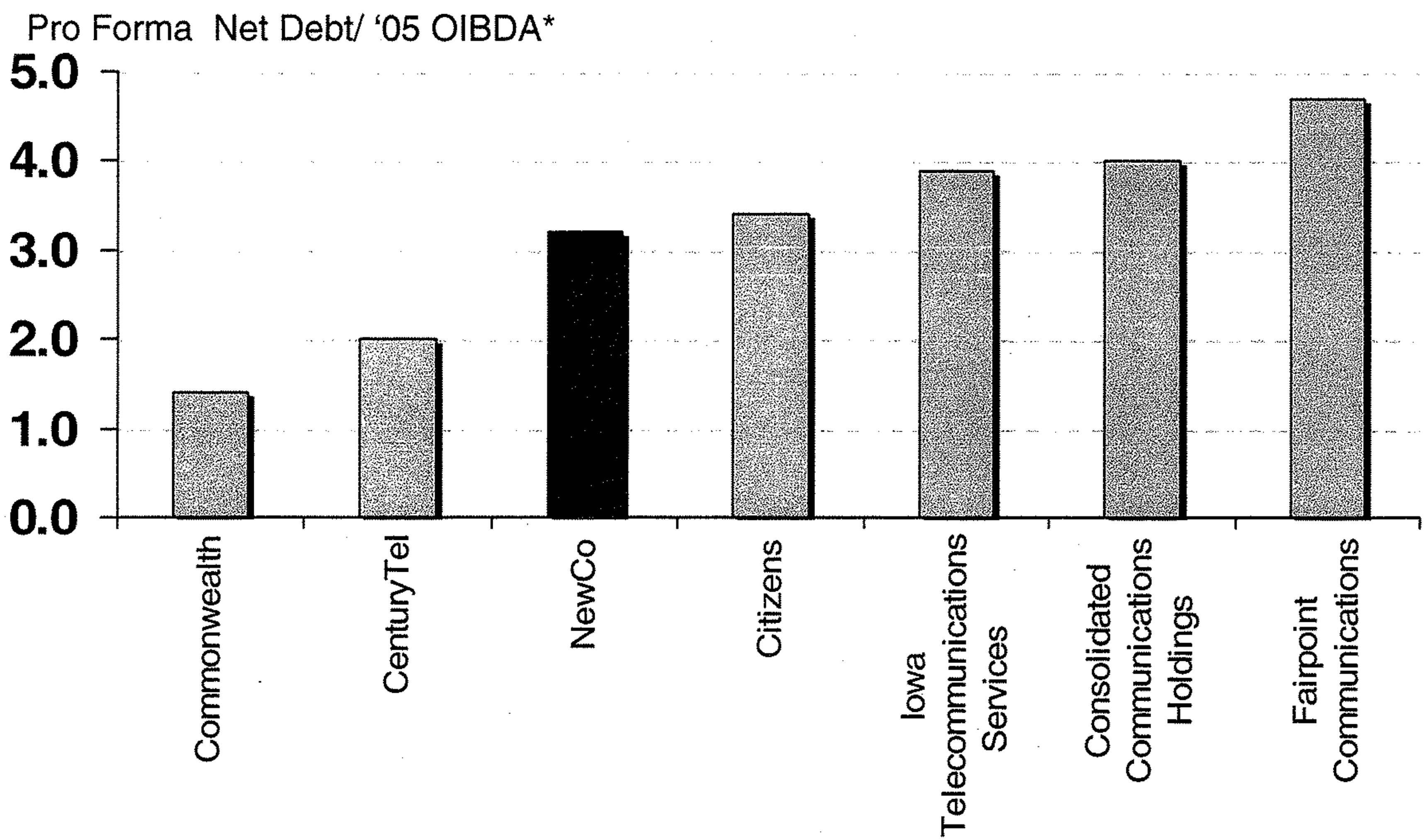

*Newco ratio calculated using pro forma net debt divided by '05 OIBDA.

# Proposed Wireline Capital Structure



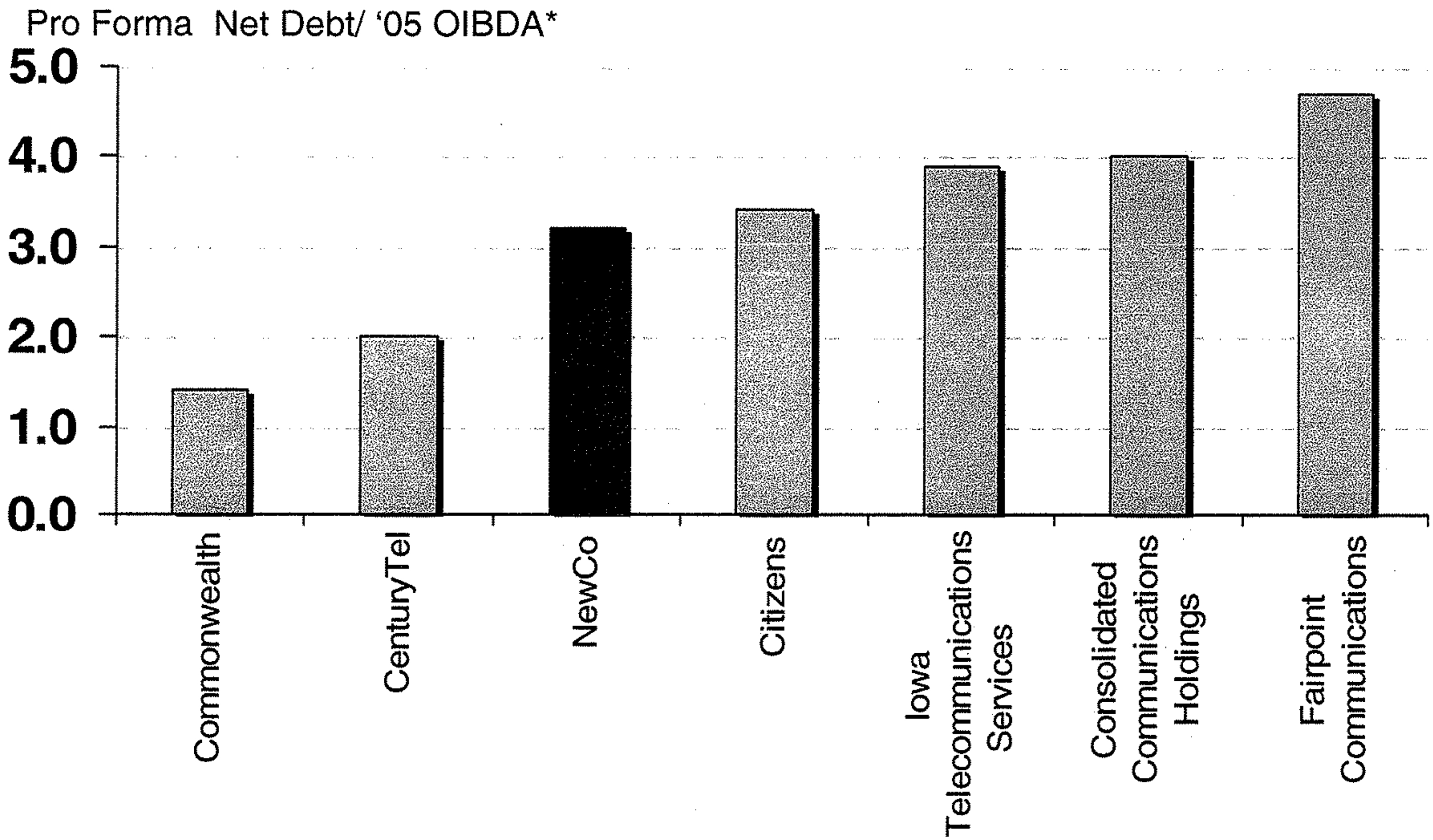

*Newco ratio calculated using pro forma net debt divided by '05 OIBDA.

# Proposed Wireline Capital Structure



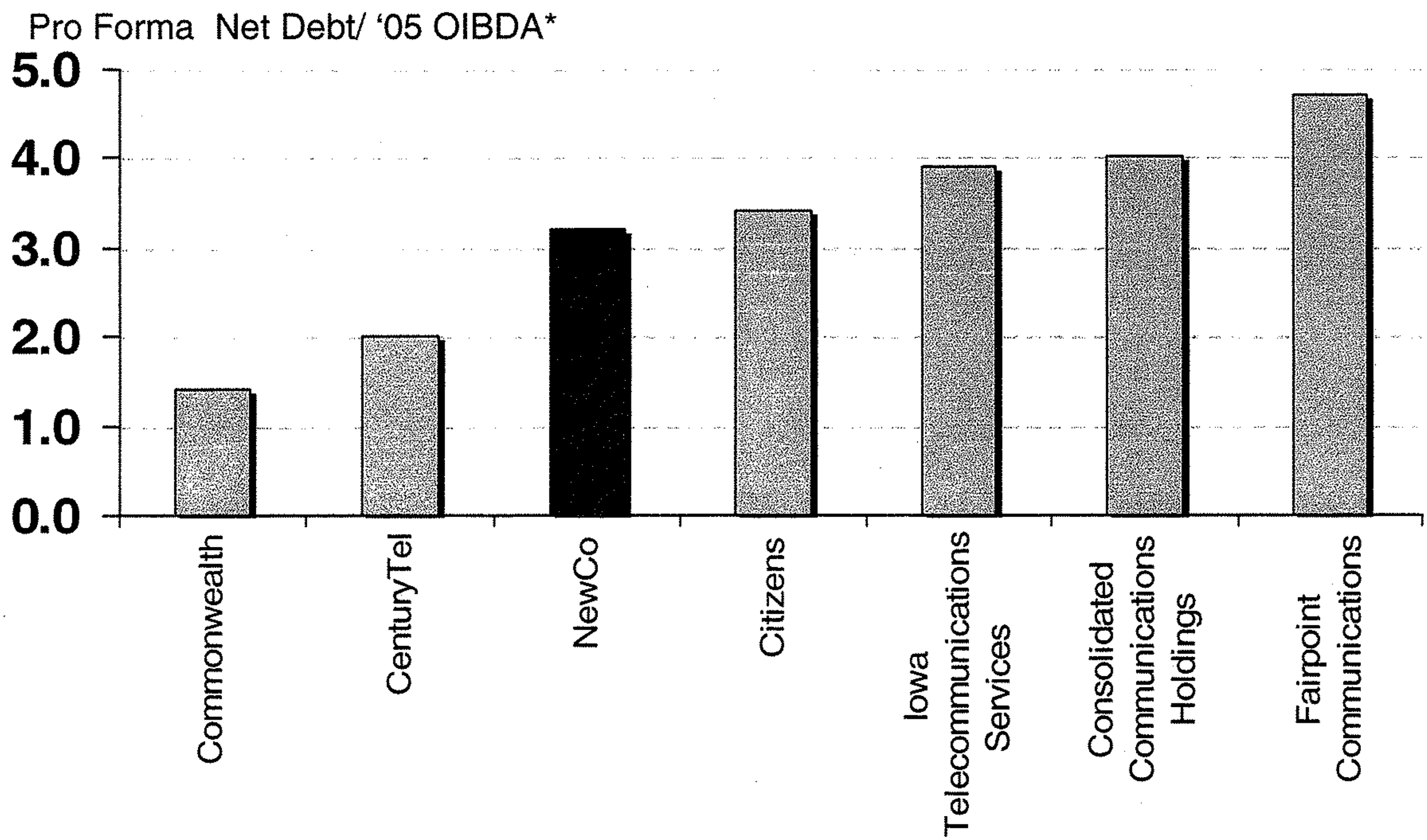

*Newco ratio calculated using pro forma net debt divided by '05 OIBDA.

# Proposed Wireline Capital Structure



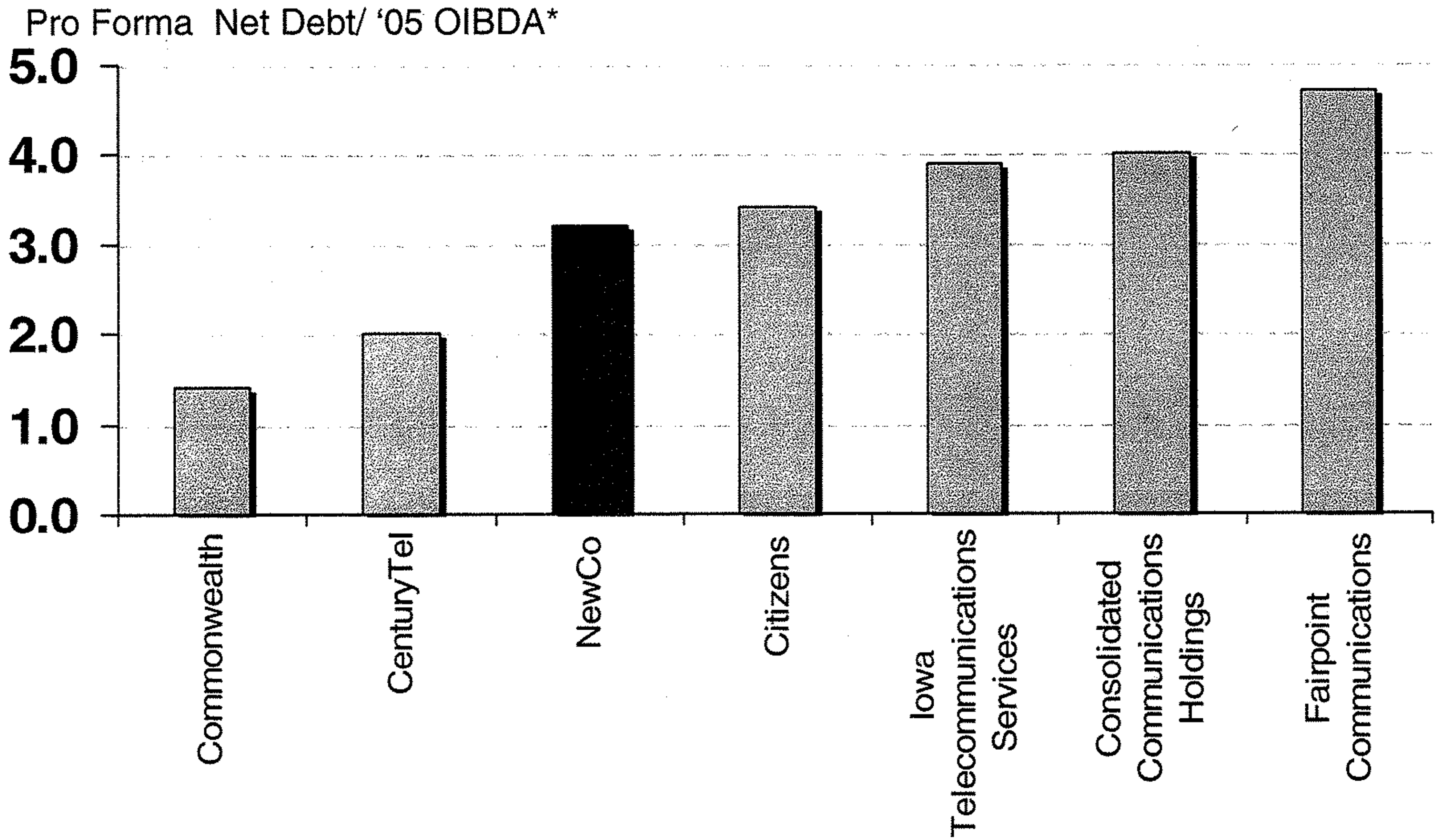

*Newco ratio calculated using pro forma net debt divided by '05 OIBDA.

# Proposed Wireline Capital Structure



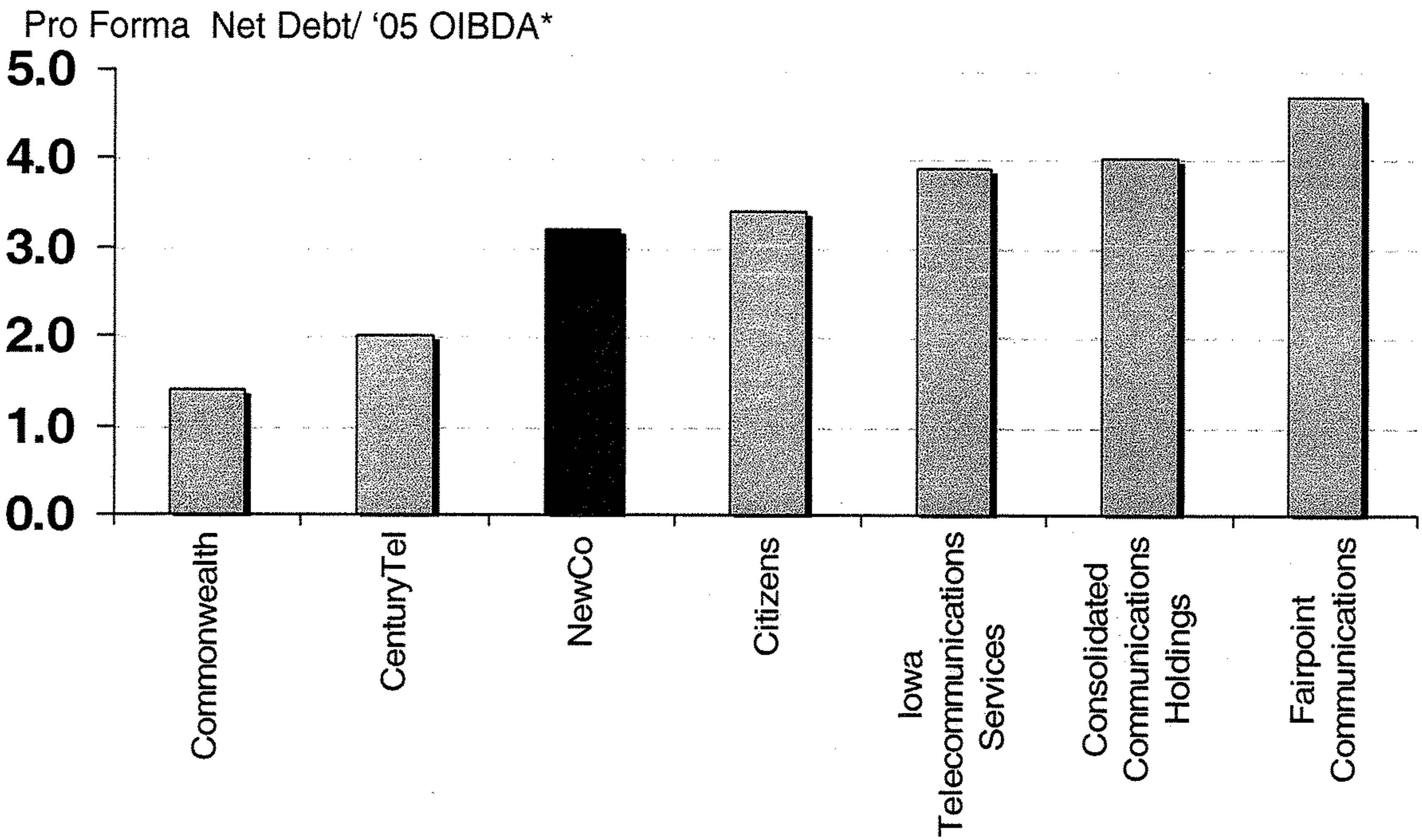

*Newco ratio calculated using pro forma net debt divided by '05 OIBDA.

# Proposed Wireline Capital Structure




*Newco ratio calculated using pro forma net debt divided by '05 OIBDA.

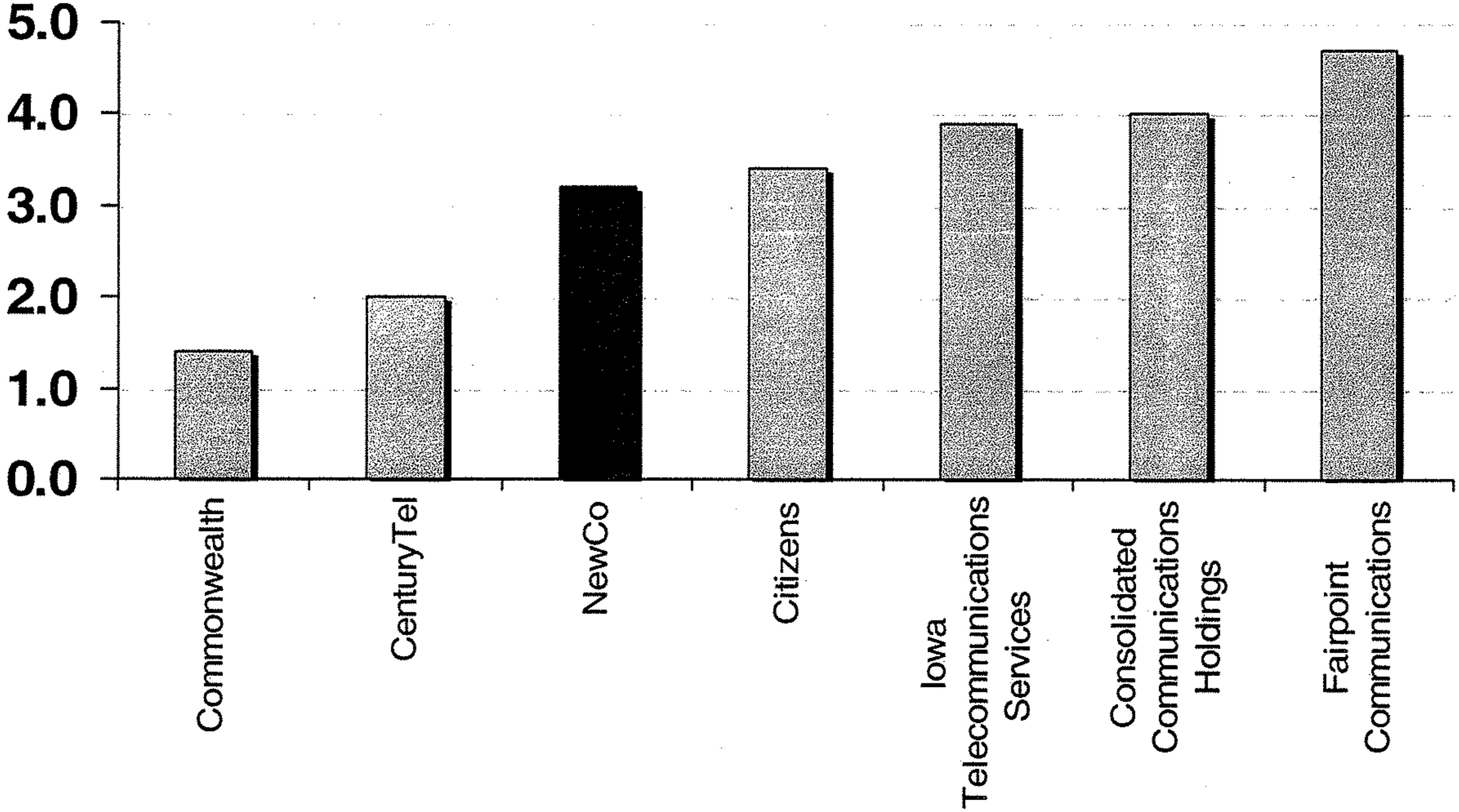
# Proposed Wireline Capital Structure




*Newco ratio calculated using pro forma net debt divided by '05 OIBDA.

# Proposed Wireline Capital Structure

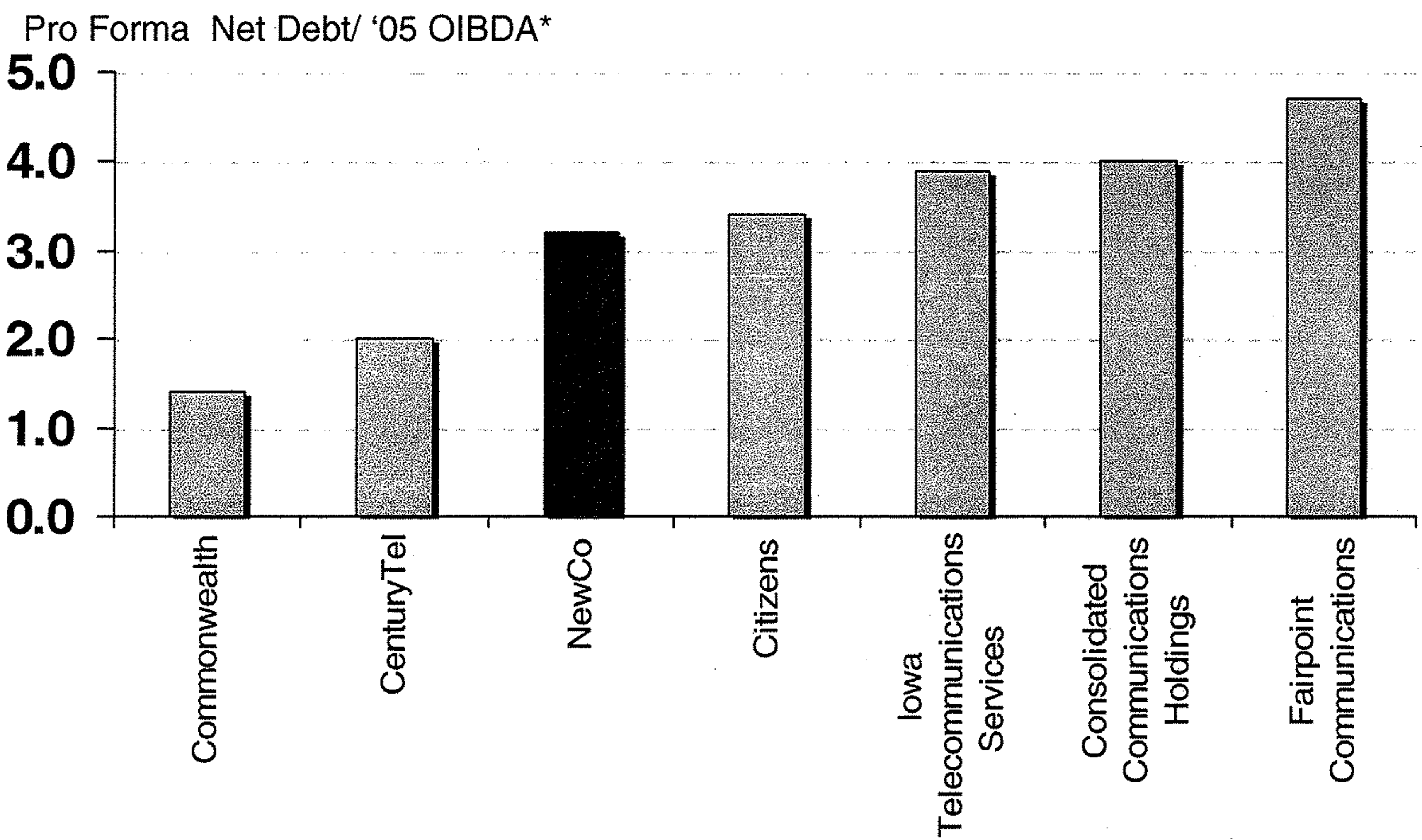
Pro Forma Net Debt/ '05 OIBDA*




*Newco ratio calculated using pro forma net debt divided by '05 OIBDA.

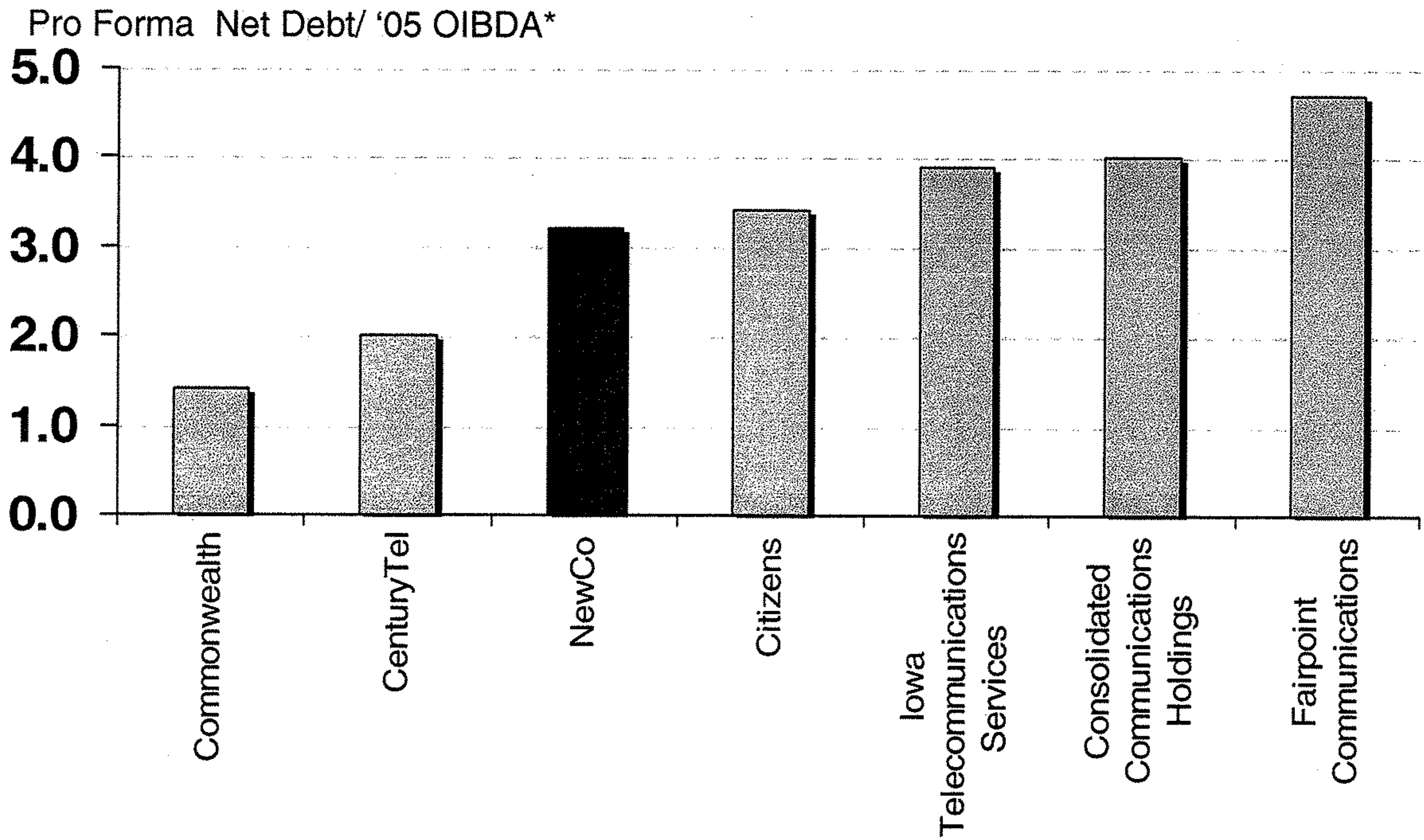
alltel

# Proposed Wireline Capital Structure



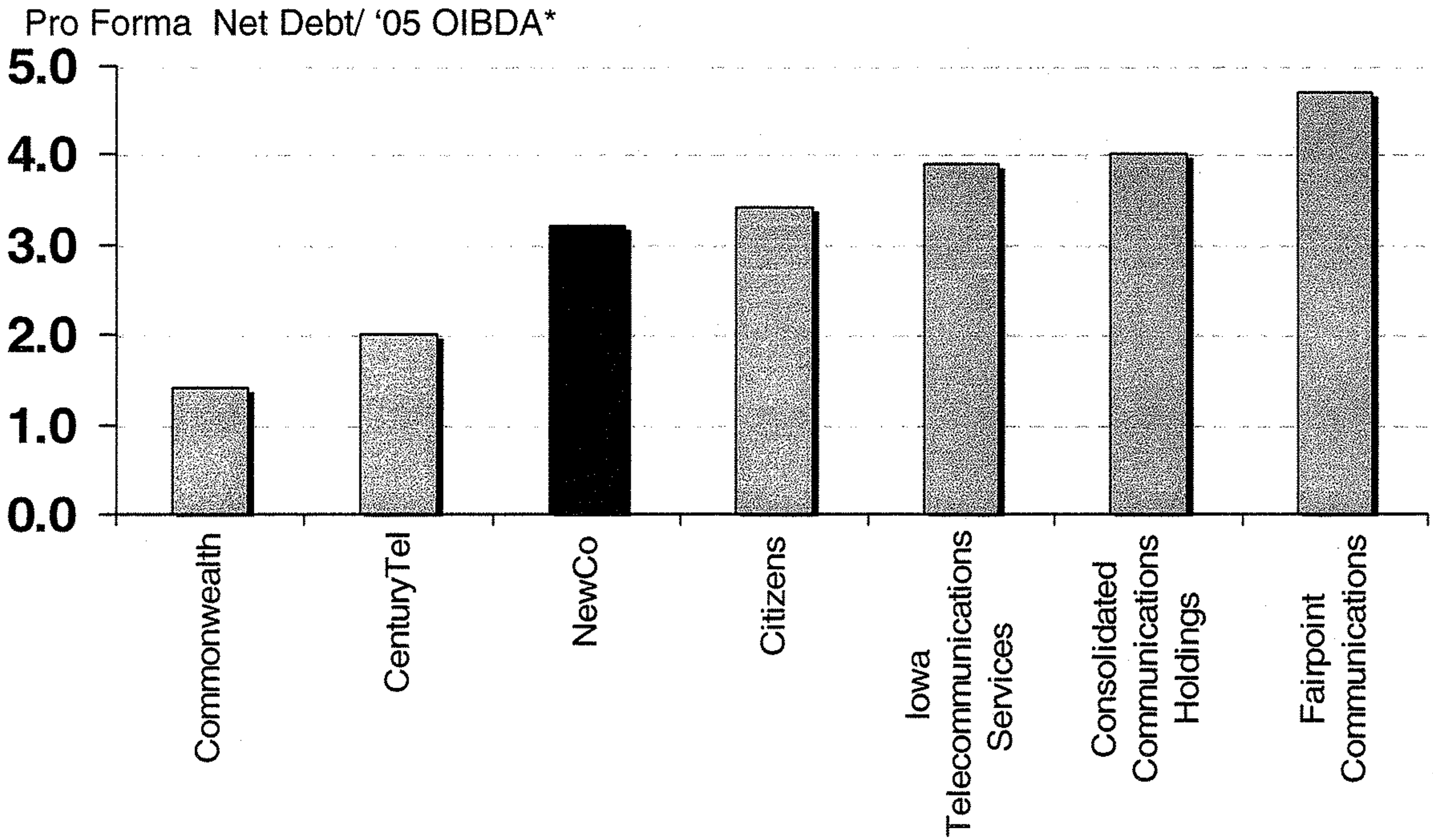

*Newco ratio calculated using pro forma net debt divided by '05 OIBDA.

# Proposed Wireline Capital Structure




*Newco ratio calculated using pro forma net debt divided by '05 OIBDA.

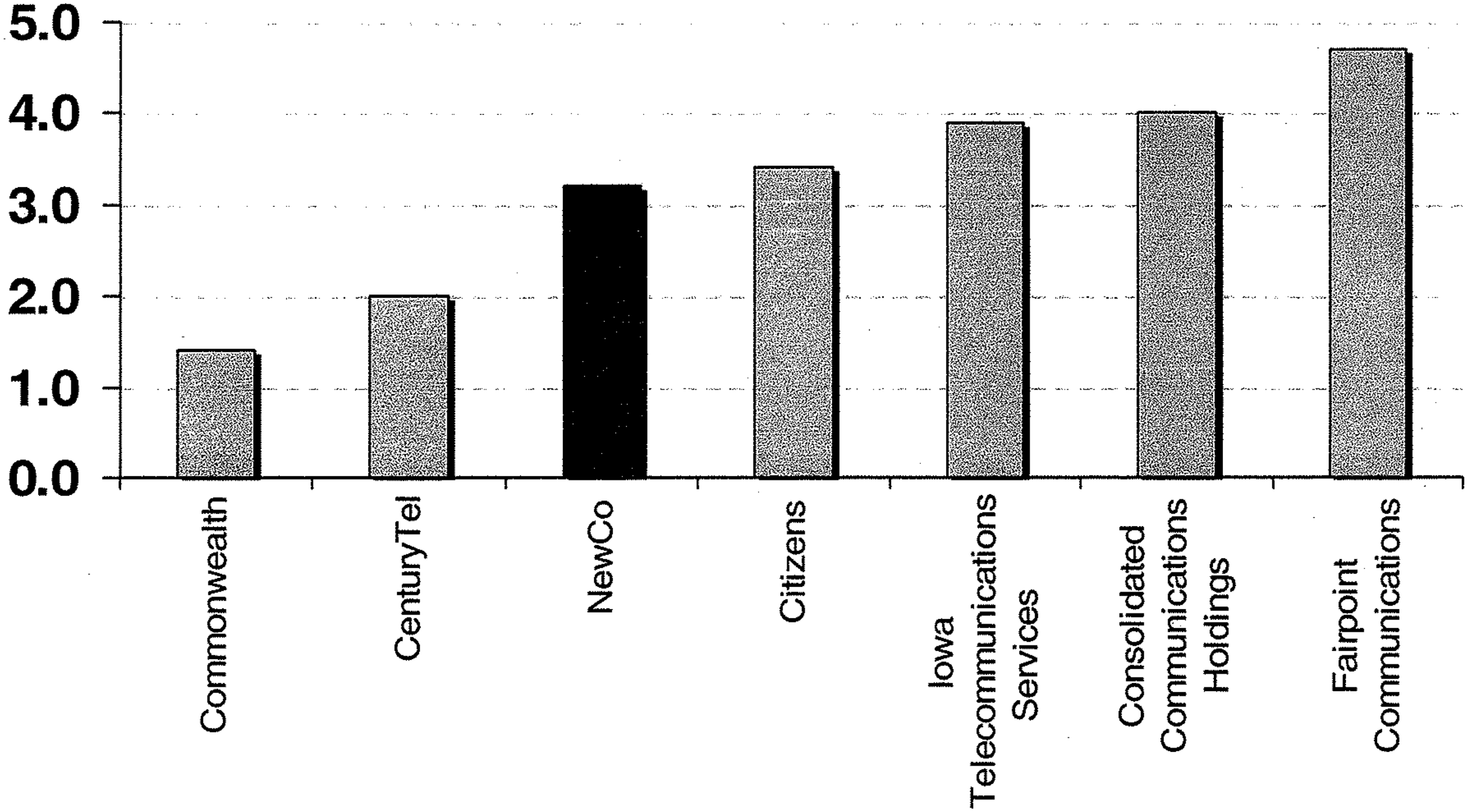
# Proposed Wireline Capital Structure




*Newco ratio calculated using pro forma net debt divided by '05 OIBDA.

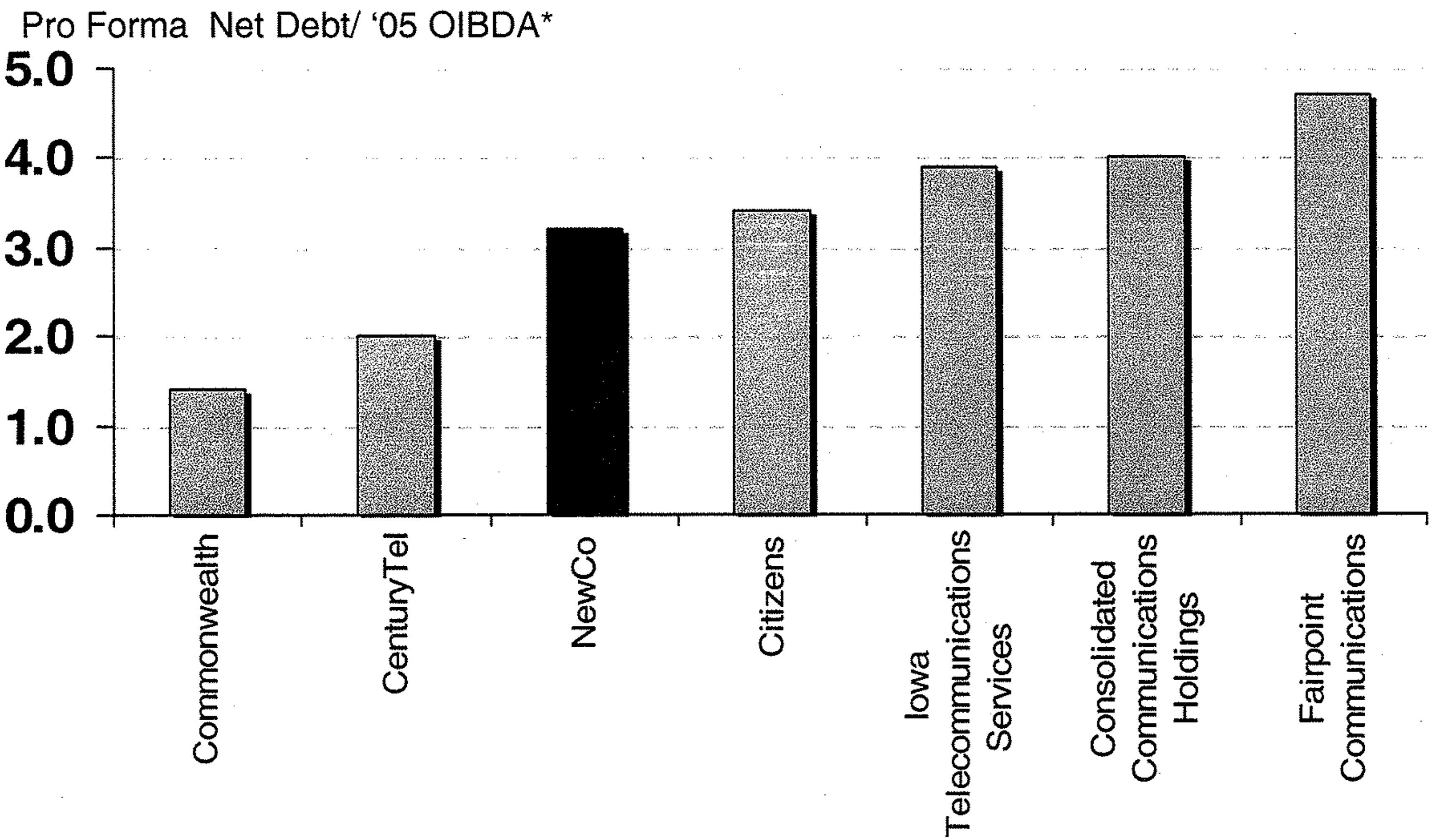
# Proposed Wireline Capital Structure

Pro Forma Net Debt/ '05 OIBDA*



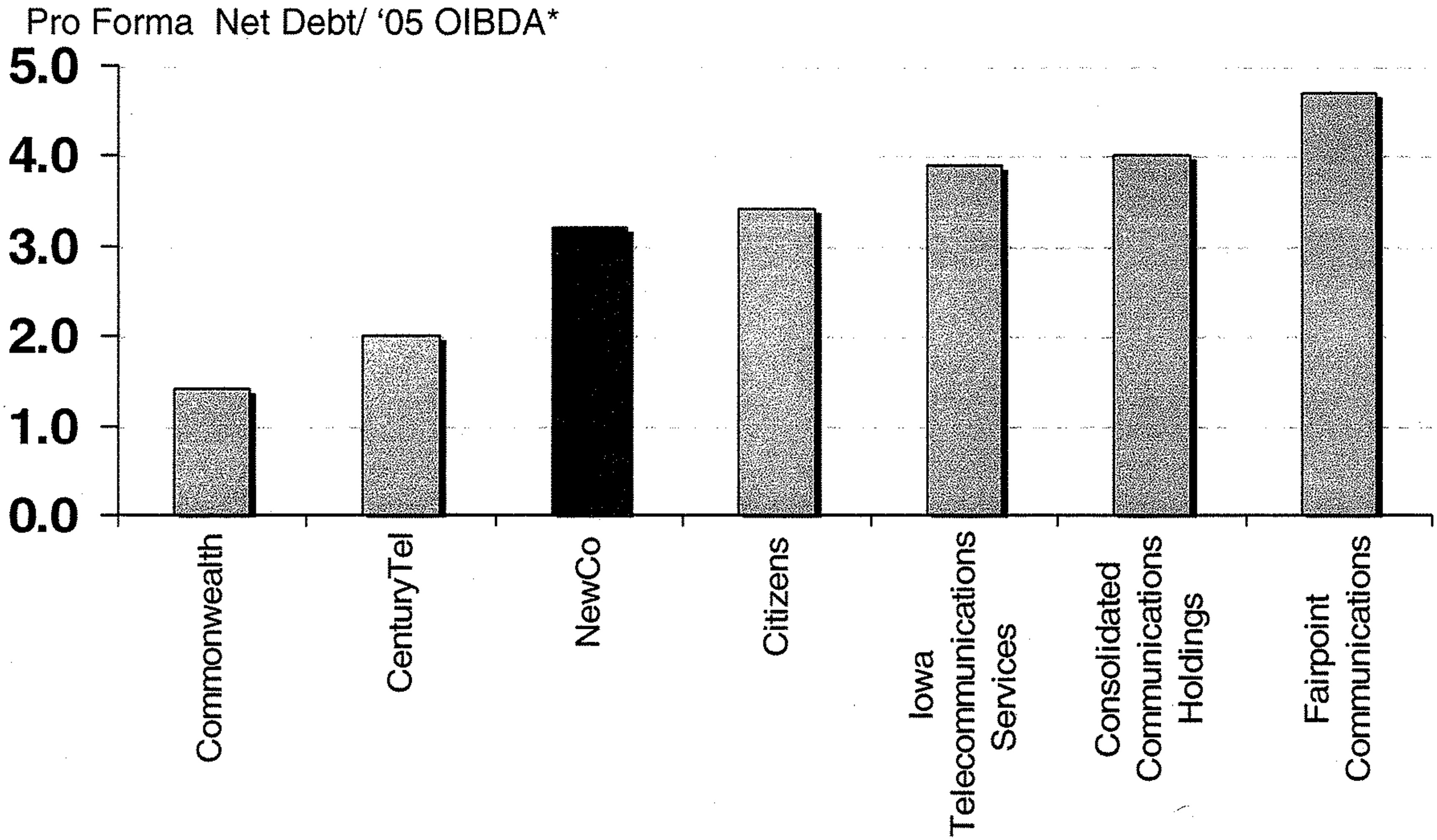

*Newco ratio calculated using pro forma net debt divided by '05 OIBDA.

# Proposed Wireline Capital Structure




*Newco ratio calculated using pro forma net debt divided by '05 OIBDA.

# Proposed Wireline Capital Structure




*Newco ratio calculated using pro forma net debt divided by '05 OIBDA.

**BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION**

| | |
|---|---|
| **Application for Approval of the Transfer of Control of Alltel Kentucky, Inc. and Kentucky Alltel, Inc. and for Authorization To Guarantee Indebtedness** | **CASE NO. 2005-00534** |

**INITIAL TESTIMONY**

**OF**

**DANIEL A. POWELL**

ON BEHALF OF KENTUCKY ALLTEL, INC., ALLTEL KENTUCKY, INC., ALLTEL COMMUNICATIONS, INC., ALLTEL HOLDING CORP., ALLTEL HOLDING CORPORATE SERVICES, INC., AND VALOR COMMUNICATIONS GROUP

Filed February 16, 2006

DIRECT TESTIMONY OF DANIEL A. POWELL

**Q. Please state your name and business address.**

A. My name is Daniel A. Powell. My business address is 130 West New Circle Road, Lexington, Kentucky.

**Q. By whom are you employed and in what capacity?**

A. I am presently employed by Alltel Communications as Area President of Wireline Services. I am testifying in this proceeding on behalf of Kentucky Alltel, Inc., Alltel Kentucky, Inc., Alltel Communications, Inc., Alltel Holding Corp., Alltel Holding Corporate Services, Inc., and Valor Communications Group ("Valor") (collectively, "Applicants").

**Q. Please describe your experience with Alltel Communications and in the telecommunications industry.**

A. Currently, I have responsibilities for the day-to-day operations of Alltel's wireline and competitive local exchange operations in Nebraska, Kentucky, Ohio, and New York and will continue in this role for the new Wireline Business. I joined Alltel in 1993 and have held a variety of operational and corporate positions including Vice President and General Manager of the Virginia Market Area, Vice President of Marketing, Manager of Corporate Strategy, and Vice President of Investor Relations. Most recently, I served as Area President for Wireline Services for Arkansas, Missouri, Nebraska, Oklahoma and Texas and have served as Market Area President for New York, North Carolina, Pennsylvania, Tennessee, Virginia and West Virginia where I was responsible for wireless, wireline, CLEC, long distance, DSL and broadband communications. Prior to joining Alltel, I was with Andersen Consulting. I am a graduate of Albion College in Albion, Michigan, with a Bachelor's degree in Economics and Management. I also earned a Master's degree in Business Administration from the University of Michigan.

**Q. What is the purpose of your testimony in this proceeding?**

A. The purpose of my testimony is to explain that the Merged Wireline Business described in our Application will have the requisite managerial and technical capabilities and that the transactions will be made in accordance with law, have a proper purpose and be consistent with the public interest. As described in the Application, Alltel Corporation ("Alltel") is separating its wireline and wireless businesses. As part of the separation, Alltel Holding Corp. will become the owner of Alltel's wireline business, merge with Valor, and assume control of Alltel's incumbent local exchange carrier ("ILEC") subsidiaries including Kentucky Alltel, Inc. and Alltel Kentucky, Inc. ("the Kentucky ILECs"). Additionally, Alltel Holding Corporate Services, Inc. will be a wholly-owned subsidiary of Alltel Holding Corp. and will acquire the existing long distance customers of Alltel Communications, Inc. We have requested that the Kentucky Public Service Commission ("Commission") approve the transfers of control of the Kentucky ILECs, the transfer of long distance customers, and the transaction financing. I may refer to the ILEC and long distance businesses, together with Alltel's other internet, broadband, directory publishing, telecommunications equipment, and other local communications services, collectively as "the Wireline Business". I will demonstrate that the transfer of the Wireline Business complies with K.R.S. §278.020. My testimony will show that the Wireline Business (and after its merger with Valor, "Merged Wireline Business") will continue to possess the requisite technical and managerial ability to provide the same high quality service as is provided today. The testimony of Jeffery Gardner is being filed contemporaneously herewith and will address how the Merged Wireline Business will possess the requisite financial ability.

**Q. What does K.R.S. §278.020 require?**

A. Pursuant to K.R.S. §278.020, Applicants are required to demonstrate that they possess the requisite technical, managerial, and financial capability to provide reasonable service and that the proposed transactions are made in accordance with law, have a proper purpose and are consistent with the public interest. As noted above, Mr. Gardner will testify to Applicant's financial capability and that the proposed financing is lawful, within the Kentucky ILECs' corporate purposes, consistent with the ILECs' proper performance, and reasonably necessary and appropriate. I will demonstrate that the transfers of control and transfer of long distance customers satisfy the technical and managerial criteria and are consistent with the public interest. All of the testimony presented on behalf of the Applicants demonstrates that the transactions are in accordance with law and for a proper purpose.

**Q. Please describe the Alltel affiliates operating in Kentucky.**

A. The Kentucky ILECs are presently wholly-owned subsidiaries of Alltel and serve approximately 544,000 access lines in various exchanges in the Commonwealth. As of June 30, 2005, the Kentucky ILECs and their other LEC affiliates served approximately 3.0 million local access lines across fifteen states. Additionally, Alltel Communications, Inc. is certificated in Kentucky to provide resold long distance service and also provides long distance service in 49 states and operates as a CLEC in seven states. Alltel Holding Corporate Services, Inc. (a newly-created subsidiary of Alltel) will become part of the Merged Wireline Business and is seeking authority from this Commission to acquire Alltel Communications, Inc.'s existing long distance resale business in Kentucky.

Although it does not operate in Kentucky, Alltel Holding Corp. is a newly-formed subsidiary of Alltel. As described above, Alltel Holding Corp. will become the owner of the Wireline Business immediately upon the separation of Alltel's Wireline Business from its wireless businesses then will merge into Valor. Alltel Holding Corp. is not seeking authority from the Commission to become a regulated telecommunications carrier or public utility in Kentucky. Similarly, Valor, which owns LEC operations that as of June 30, 2005 serviced approximately 530,000 access lines in four states, will become the owner of the Merged Wireline Business but will not be a certificated public utility in the Commonwealth.

**Q. Which entities will operate in Kentucky after the transfer?**

A. As set forth in greater detail later in my testimony, the Kentucky ILECs will continue to operate as ILECs, and the transfer will appear primarily as a name change to end user customers. Alltel Communications, Inc. will remain with Alltel's wireless businesses, although its existing long distance customers will transfer to Alltel Holding Corporate Services, Inc., which will provide long distance services in Kentucky on a resale basis. Just as Alltel is not a certificated entity in Kentucky today, neither will Alltel Holding

Corp. or Valor after the transfer and merger. Again, the Kentucky ILECs and Alltel Holding Corporate Services, Inc. will be wholly-owned subsidiaries of the entity resulting from the merger of Alltel Holding Corp. and Valor.

**Q. What will be the impact to Kentucky customers as a result of the transfers referenced above?**

A. Both the transfer of control of the Kentucky ILECs and the transfer of long distance customers will appear to customers in the short-term merely as a name change. The principal officers of the Merged Wireline Business will be certain present Alltel officers, and the Merged Wireline Business will adopt a new name and corporate logo. Consequently, because end user customers of the Kentucky ILECs will continue to receive the same rates and high quality service from the same dedicated local operations, the transfer will appear merely as a name change. The existing status of Kentucky Alltel, Inc. as a toll provider and Alltel Kentucky, Inc. as a non-toll provider will not change. The Kentucky ILECs simply will have a new parent company and new names. With respect to long distance customers, they will be transferred from Alltel Communications, Inc. to Alltel Holding Corporate Services, Inc. and will continue receiving the same resold interexchange service they receive today. Customers will receive notice of the transfers in accordance with the Federal Communications Commission's anti-slamming rules and, again, will notice a name change in their providers. In the long-term, customers will experience benefits of the Merged Wireline Business as discussed in greater detail below.

**Q. Why is Alltel transferring control of the Kentucky ILECs and customers of the long distance business?**

A. These transfers are necessary because Alltel is separating its wireline and wireless businesses and then merging the Wireline Business with Valor. This separation is the result of the dramatic changes in the telecommunications industry in the last several years and the expected changes in the coming years. As a result of intermodal competition and rapidly changing fundamentals of the wireline industry, wireline companies need to adapt their existing business models to more effectively compete. Intermodal competition, between wireline and wireless telecommunications services, for example, is now widespread even in the territories served by the Kentucky ILECs. One result of such intermodal competition is an increased need by the Wireline Business for enhanced financial and operational opportunities. Specifically, wireline businesses will require enhanced strategic flexibility in the future to bring new products and services to the marketplace faster and improve their existing overall customer service. The need to execute strategies faster in the future will require greater focus and access to adequate human and financial capital. Separating the Wireline Business into an independent, stand-alone corporate structure and merging it with Valor allows the Merged Wireline Business to achieve such enhanced opportunities. The Merged Wireline Business will increase its focus on providing a full portfolio of high quality services to its residential and business customers. Through its subsidiaries, the new wireline-focused company will continue to meet the needs of local exchange and long distance customers throughout its service areas.

**Q. How will Alltel accomplish the separation of the Wireline Business from its wireless**

**businesses?**

A. In order to carry out the separation, two new subsidiaries of Alltel have been created, Alltel Holding Corp. and Alltel Holding Corporate Services, Inc. The pre-separation corporate structure is illustrated on Exhibit 1 to the parties' Application. Alltel will transfer ownership of the Kentucky ILECs and Alltel's other ILEC subsidiaries to Alltel Holding Corp. Next, customers of Alltel Communications, Inc.'s long distance and CLEC businesses will transfer to Alltel Holding Corporate Services, Inc. This new long distance reseller will become a wholly-owned subsidiary of Alltel Holding Corp. and is seeking a certificate to operate as a reseller of long distance services in Kentucky. Thereafter, the ownership of Alltel Holding Corp. will transfer from Alltel to Alltel's shareholders, thereby establishing Alltel Holding Corp. (along with its subsidiary, Alltel Holding Corporate Services, Inc.) as a stand-alone holding company. The post-separation corporate structure is illustrated on Exhibit 2 to the parties' Application. In the final step of this process, Alltel Holding Corp. will merge into Valor, a holding company with its own LEC subsidiaries operating in the states of Texas, New Mexico, Oklahoma and Arkansas. The final post-merger corporate structure is illustrated in the chart attached as Exhibit 3 to the parties' Application.

**Q. What will be the overall result of the separation?**

A. The transfer is in accordance with law, for a proper purpose, and consistent with the public interest, and the resulting Merged Wireline Business will produce benefits for the wireline local exchange residential and business customers. As of June 30, 2005, the Kentucky ILECs and Alltel's other ILEC affiliates served approximately 3.0 million local access lines in fifteen states. Alltel Communications, Inc. currently provides long distance service in 49 states and operates as a CLEC in several states. Valor is the owner of local exchange operating companies that as of June 30, 2005, provided local exchange service to approximately 530,000 access lines in four states. The Merged Wireline Business will continue to have the same technical and managerial capability to provide these services that the Wireline Business currently provides today. As described later in my testimony, the principal officers of the Merged Wireline Business will be certain current officers of Alltel. The Merged Wireline Business will adopt a name and corporate logo that is presently being determined and will be headquartered in Little Rock, Arkansas. Because end user customers will continue to receive the same high quality service from the same dedicated local operations, the transfer will appear merely as a name change.

**Q. Will the Merged Wireline Business possess the requisite technical ability to provide adequate service?**

A. Yes. The Merged Wireline Business will continue to possess the requisite technical ability to provide the same high quality service as is provided today. All equipment, buildings, systems, software licenses and other assets owned and used by the Wireline Business in the provision of its service will remain assets of the Kentucky ILECs or will transfer to the Merged Wireline Business or a subsidiary thereof. For example, the Signaling System 7 network used by the Wireline Business to provide routing of communications traffic will be transferred to the Merged Wireline Business. Some assets held by an Alltel affiliate are jointly used to provide services to the Wireline Business and one or more other affiliates that may not become part of the Merged Wireline

Business. However, to the extent the Merged Wireline Business requires continued use of these assets or services from Alltel, they will be provided through lease arrangements or service agreements with the separated Alltel companies. Following the transfer of control, the Merged Wireline Business will continue to own or have arrangements to use 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.

**Q. Will the Merged Wireline Business possess the requisite managerial ability to provide adequate service?**

A. Yes, the Merged Wireline Business will continue to be managed by very capable, experienced Alltel executives and employees, many of whom are transferring from Alltel to the Merged Wireline Business. The collective experience of these Alltel officers demonstrates that the Merged Wireline Business will maintain the same technical and managerial ability to continue providing reliable high quality services subsequent to the separation as the Wireline Business provides today. In particular, the Kentucky ILECs will have the support and direction of the extensive Alltel management experience and telecommunications expertise that they receive today from Alltel and its affiliates.

**Q. What existing management expertise will the Kentucky ILECs acquire with the business?**

A. The Merged Wireline Business will possess the management experience of key wireline personnel who presently operate the Wireline Business and who will transfer to the Merged Wireline Business. Attached to the Application and incorporated herein is a list of the names and addresses of the officers of the Merged Wireline Business and a description of their qualifications, together with a list of the names and addresses of the Board of Directors of the Merged Wireline Business and all 15% or greater shareholders. Many of these capable, experienced executives are transferring from Alltel to the Merged Wireline Business. For example, Alltel Chief Financial Officer, Jeffrey Gardner, has been named Chief Executive Officer of the Merged Wireline Business. I am currently Alltel President of Wireline Services and will continue in that role for the new company. The collective experience of our officers demonstrates that the Merged Wireline Business will maintain the requisite technical and managerial ability. The Merged Wireline Business will employ personnel experienced and dedicated to the provision of high quality communications service. The customer service, network and operations functions that are critical to the success of the Wireline Business today will persist, and the Merged Wireline Business will be staffed to ensure that continuity. For example, the Kentucky ILEC's local operations will continue to be staffed and managed by employees with established ties to the community in the Commonwealth and extensive knowledge of the local telephone business.

**Q. What managerial services will the Kentucky ILECs and Alltel Holding Corporate Services, Inc. receive from the new parent company (Alltel Holding Corp.)?**

A. The Kentucky ILECs and Alltel Holding Corporate Services, Inc. will be supported by Alltel Holding Corp.'s extensive management experience and telecommunications expertise. As part of the Merged Wireline Business, these entities will continue to receive certain centralized management services and will be staffed by many of the same experienced and knowledgeable persons currently providing these services. Presently, centralized functions include human resource, finance, tax, media, legal, planning, general support, and information services, thereby allowing the individual entities to benefit from the efficiencies enjoyed with centralized support services. After the transfer of control, the Merged Wireline Business will continue to receive similar centralized management services and thus, will continue to enjoy efficiencies from centralized support services and the benefits of an experienced staff.

**Q. Does Alltel Holding Corp. have the experience necessary to provide this expertise?**

A. Yes, it does. The Merged Wireline Business will consist in part of at least twenty-eight ILECs serving over 3.4 million access lines in 16 states and a long distance reseller that provides service in 49 states. Alltel has been acquiring, managing, and operating telecommunications companies for many years, and its ILEC subsidiaries are the result of over 250 mergers and acquisitions spanning over 60 years. In recent years, for example, Alltel acquired Kentucky Alltel, Inc. in 2002, Georgia Telephone Corporation in 1997, Standard Group, Inc. in Georgia in 1999, and Aliant Communications, Inc. in Nebraska in 1999. In these 63 years of providing telecommunications service, Alltel has never, to my knowledge, been found by any commission or regulatory agency to lack the managerial or technical expertise to provide telecommunications service. Many of the same officers who successfully manage and operate Alltel's Wireline Business today will transfer to the Merged Wireline Business, thereby ensuring that the new business will possess the same managerial ability to continue providing high quality service.

**Q. Will the Kentucky ILECs and Alltel Holding Corporate Services, Inc. provide adequate service to Kentucky customers?**

A. Yes. Up to and after the separation and merger, customers will receive the same full range of products and services that the Wireline Business offered prior to the separation, at the same prices, and under the same terms and conditions. Currently, the Kentucky ILECs offer bundles of local calling and custom calling features combined with other services via sales of their own services or their 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" for communications needs. The Merged Wireline Business will enter into the necessary arrangements to allow it to continue providing bundled service offerings. Similarly, Alltel Holding Corporate Services, Inc. will provide on a resale basis the same quality long distance service that Alltel Communications, Inc. provides today. The transfers will not effect the Kentucky entities' existing price regulation plans, service quality obligations, or tariffs, and any subsequent end user rate changes will continue to be governed by the same rules and procedures. Although the transfer will not result in substantive tariff changes, the entities will amend applicable tariffs to reflect their new names. Further, the terms and prices for existing wholesale services under applicable access tariffs will remain unchanged as a result of this transfer. Finally, the transfer of control will not impact the terms of any existing interconnection agreements or obligations under state and federal laws regarding interconnection. Most significantly, the customer interface with the Merged Wireline Business will not change. Customers will continue to call existing numbers to order new services, report service problems, and inquire about billing or other customer care issues and will receive notice of the transfer and name change via bill messages.

**Q. Will local operations continue to be involved with their Kentucky communities?**

A. Yes. The Merged Wireline Business will concentrate on the local operations of wireline customers, and local affairs will continue to be managed by men and women with established local relationships and extensive knowledge of the local telephone business. Applicants' participation in the local community will be ongoing and continue to be of great importance. Furthermore, the senior executive team of the Merged Wireline Business will be comprised of many of the same Alltel executives that have guided Alltel's local operations in the past. Their experience and expertise, combined with new flexibility to pursue wireline-only strategic goals, will ensure that the Merged Wireline Business service quality and standards will remain at the highest levels.

**Q. Will any labor contracts be impacted by the transactions?**

A. No. Kentucky Alltel, Inc.'s labor contract will remain in effect in accordance with the existing terms and conditions of that agreement.

**Q. Given the technical and managerial capability of the Merged Wireline Business, is the transfer in accordance with law, for a proper purpose, and consistent with the public interest?**

A. Yes, the transfer is in accordance with law, for a proper purpose, and consistent with the public interest. All of the above facts demonstrate that the Merged Wireline Business will maintain the requisite capability to fully support its operations subsequent to the transfer of control and provide high quality service. The Merged Wireline Business will operate in an industry that has been and continues to be subject to rapid technological advances, evolving consumer preferences, and dynamic change. These factors, combined with regulatory developments, create an environment in which the interests of the wireline business are diverging from a wireless-centric focus. The establishment of the Merged Wireline Business as part of an independent, stand-alone wireline-centric corporation serves the public interest by allowing Alltel's separated ILECs to focus squarely on building their local wireline operations to provide a full range of high quality services to local residential and business customers. This separation better aligns the interests of the Merged Wireline Business with the interests of its customers. The company's strategic wireline focus will allow for a stronger local emphasis and permits the Merged Wireline Business to provide services tailored to the needs of its customers. As I noted previously, the separation and merger, other than a change of name, will be virtually transparent to customers, and service quality and the customer experience will remain high priorities. Customers will experience no less than business as usual, but very likely an improved experience, as the Merged Wireline Business enhances service delivery, product development, and customer interaction. Thus, the transfer promotes and is consistent with the public interest, is in accordance with law, and is for a proper purpose.

**Q. Is it your opinion that the Commission should approve this transfer?**

A. Yes, the Commission should issue an order approving the transfer. I have demonstrated that the resulting Merged Wireline Business will have the requisite technical and managerial capability as is possessed by the Wireline Business today. These facts together with the benefits to customers that I discussed previously support a finding that the transfer is consistent with the public interest.

**Q. Does this conclude your testimony?**

A. Yes, at this time.

## AFFIDAVIT

STATE OF Nebraska )
)
COUNTY OF Lancaster ) SS:

Daniel A. Powell, being duly sworn according to law, deposes and says that he is Area President Wireline Services, and that in this capacity he is authorized to and does make this Affidavit on behalf of Applicants and that the statements set forth in the foregoing Testimony are true and correct to the best of his knowledge, information and belief.

Daniel A. Powell

Sworn and Subscribed to before me this 14 day of February, 2006.

(SEAL) GENERAL NOTARY - State of Nebraska DIANE L. BELL My Comm. Exp. July 10, 2006

Diane L Bell
Notary Public

My Commission Expires:
7-10-06

**CERTIFICATE OF SERVICE**

I hereby certify that a true and accurate copy of the foregoing was served via United States Postal Service, First Class Mail, postage prepaid, upon:

Douglas F. Brent
Stoll Keenon & Ogden, PLLC
2650 Aegon Center
400 West Market Street
Louisville, Kentucky 40202

John Selent
Dinsmore & Shohl
Suite 2000
462 South Fourth Street
Louisville, Kentucky 40202-3466

David Barberie
Department of Law
Lexington-Fayette Urban County Government
200 East Main Street
Lexington, Kentucky 40507

Jonathan Amlung
1000 Republic Building
429 West Muhammad Ali Boulevard
Louisville, Kentucky 40202

Dennis Howard
Office of the Attorney General
Suite 200
1024 Capital Center Drive
Frankfort, Kentucky 40601

on this the 16th day of February, 2006.

Mark R. Overstreet