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Protection Cabinet

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Mark David Goss
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Vice Chairman

Gregory Coker
Commissioner

March 1, 2006

PARTIES OF RECORD

Re: Case No. 2005-00534

Attached is a copy of the memorandum which is being filed in the record of the above-referenced cases. If you have any comments you would like to make regarding the contents of the informal conference memorandum, please do so within five days of receipt of this letter. If you have any questions, please contact Amy Dougherty at 502/564-3940, Extension 257.

Sincerely,

A large, stylized handwritten signature in black ink, appearing to read "Beth O'Donnell".

Beth O'Donnell
Executive Director

Attachment

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File

FROM: Amy E. Dougherty, Staff Attorney 

DATE: March 1, 2006

SUBJECT: Case No. 2005-00534
Memorandum Regarding Informal Conferences

February 23, 2006 Informal Conference

On February 23, 2006, the following persons met via telephonic conference to discuss the procedures of this case: for ALLTEL, Mark Overstreet, Brian Harmon, Dan Logsdon, Barry Bishop, Dan Powell, Mike Rhoda and Steve Rowell; for the Attorney General, Dennis Howard and Larry Cook; for Lexington-Fayette Urban County Government, David Barberie; for SouthEast, Beth Bowersock and Liz Thacker; for NuVox and Kentucky Telephone, Doug Brent; for ALEC and SouthEast, Jonathon Amlung; for Brandenburg, Holly Wallace; for Communications Workers of America, Don Meade; and for the Commission Staff, Jim Stevens, Kyle Willard and Amy Dougherty.

ALLTEL began by stating that it had filed its testimony on February 16 and had received all approvals necessary from the federal government. Also, ALLTEL indicated that North Carolina had approved its financing. ALLTEL agreed to file this approval into the record. In order to expedite matters, ALLTEL requested that there be an informal exchange of information and that it would make witnesses available via phone for discovery purposes. Dennis Howard of the Attorney General's office stated that he wanted written responses to his data requests and that he believed that the matter could not be resolved in 60 days. The Attorney General's office wanted the opportunity to have two rounds of data requests. The Attorney General and other intervenors indicated that they would not be in a position to know whether they would be sponsoring witnesses for a possible hearing until after the discovery was concluded.

Staff indicated that its recommendation for a file completion date was February 16 and that the 60 days, with the possibility of an additional 60 days pursuant to the statute, would not begin to run until February 16, 2006.

ALLTEL proposed that the first data request be due March 3, that its responses be due March 13, and that intervenors file testimony March 23. If no intervenor testimony was filed, then the matter would be submitted to the Commission at that point. The Attorney General and other intervenors indicated that that time frame was not practical and must be extended. All participants in the telephone conference discussed possible dates. The following dates were listed for possible inclusion in a procedural schedule, though ALLTEL made it clear it believed a much reduced schedule was possible.

First data request	March 3, 2006
ALLTEL response to the first data request	March 13, 2006
Supplemental data request	March 28, 2006
Responses to supplemental data request	April 7, 2006
Testimony of intervenors, if any	April 21, 2006
Hearing to be held	week of April 24, 2006
Post-hearing briefs to be filed	May 12, 2006
PSC decision to be rendered by the end of May or early June	

Everyone agreed that, though this matter would not be an electronically filed case, all filings would be served immediately via email to all parties. Also, everyone agreed that an expedited transcript would be ordered by ALLTEL.

January 4, 2006 Informal Conference

Attached to this memo is a list of those persons who attended the January 4, 2006 conference in this proceeding. Also attached is a copy of the hand-out which ALLTEL distributed during this initial informal conference. The Attorney General made it clear that, normally, conditions for acceptance of a proposed transfer are requested by the Attorney General's office and, if agreed to by the applicants, would result in the Attorney General supporting the transfer.

It was noted that articles of incorporation for VALOR and for ALLTEL Holding Corporation had not yet been filed into the case. ALLTEL agreed to submit those. Also, the overlap of wireless and wireline operations for ALLTEL in Ashland and Paducah was noted. ALLTEL agreed to describe the effect the transfer would have on its long-distance and interexchange carrier business. In addition, ALLTEL agreed to provide: (a) followup information on each of the merger conditions from the acquisition of ALLTEL of Verizon; (b) information regarding service standard issues under Case No. 2005-00107; (c) earnings reports on a stand-alone and combined basis; (d) the amount of debt to be acquired by Kentucky rate-payers; (e) information regarding calculation of the synergies, based on an in-house investigation, including supporting information for how the numbers were produced, and a confirmation that the synergies indicated are net rather than gross; (f) information regarding bank financing issues; (g) information

regarding the shareholder base for VALOR; (h) regarding page 7 of its initial application, a detailed explanation by ALLTEL of each concept in the finances associated with the merger; (i) reports made to the FCC, the Department of Justice, the SEC, and other regulatory bodies; (j) VALOR's debt and revenues; (k) ALLTEL agreed to supply nine months of information for VALOR and ALLTEL and, by February 2, 2006, to supply a full year; and (l) employment levels as they exist now and as they are expected in a post-transfer environment.

The procedural schedule discussed among the parties became irrelevant because of the filing of an amended application by ALLTEL in February 2006.

2005-00534 IC 2/23/06

Mark Overstreet - ALLTEL
Brian Harmon - ALLT
DAN Logston ALLTEL
Beth Bowersock
Bowersox Southeast
Liz Thack R Southeast
David Barberie
~~Barberie~~ Loc - Fayette Urban Co Govt
Barry ^{Barberie} Bishop ALLTEL
DAN Powell ALLTEL
Don Meade - CWA
Mike Proda - ALLTEL
Holly Wallace - Brandenburg
Dennis Howard - AG
LARRY COOK - AG
Daggy Brent - Na Vot + KY TEL
STEVE Russell - ALLTEL
Jonathan Ambling - ALEC + South East
Jim Stearns - PSC
Amy Dougherty - PSC
Kyle Willard - PSC

Case No. 2005-00534

January 4, 2006

Daniel Logsdon - Alltel

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Jason Bennett - PSC

Beth Bowersock SouthEast Telephone

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Lizbeth Thacker - SouthEast Telephone

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Randall Bradley - Brandenburg TELECOM

RBRADLEY@bbtel.com

Donnie Bennett - South Central RTC

Donnie_Bennett@scrtc.net

Dennis Howard II OAG dunnits.howard@ag.ky.gov

Larry Cook OAG

larry.cook@ag.ky.gov

Jim Newberry Wyatt/Alltel

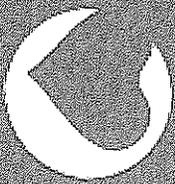
jnewberry@wyattfirm.com

Daniel A. Powell Alltel

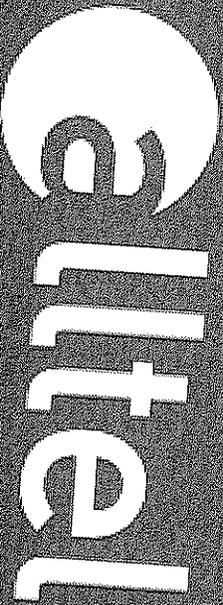
DAN.Powell@Alltel.com

E-mail Addresses:

Jonathan Amlung jonathanamlung.com



Alltel Wireline Spin and Merger
with VALOR Communications



Kentucky Public Service Commission
January 4, 2006

A Closer Look



Alltel Consolidated (pre-transaction)

Revenue ⁽¹⁾	
OIBDA ⁽¹⁾	\$10.1B
Net Debt	\$4.0B
Dividend	\$5.4B
Shares Outstanding	\$1.54 per Share 383M

Alltel - Wireless

Revenue ⁽¹⁾	\$7.5B
OIBDA ⁽¹⁾	\$2.6B
Net Debt	\$1.2B
Dividend	\$0.50 per Share
Shares Outstanding	383M
Planned Share Repurchase	\$3.0B

NewCo - Wireline (Merge with VALOR)

Revenue ⁽¹⁾	\$3.4B
OIBDA ⁽¹⁾	\$1.7B
Net Debt	\$5.4B
Dividend ⁽²⁾	\$1.00 per Share
Shares Outstanding	474M

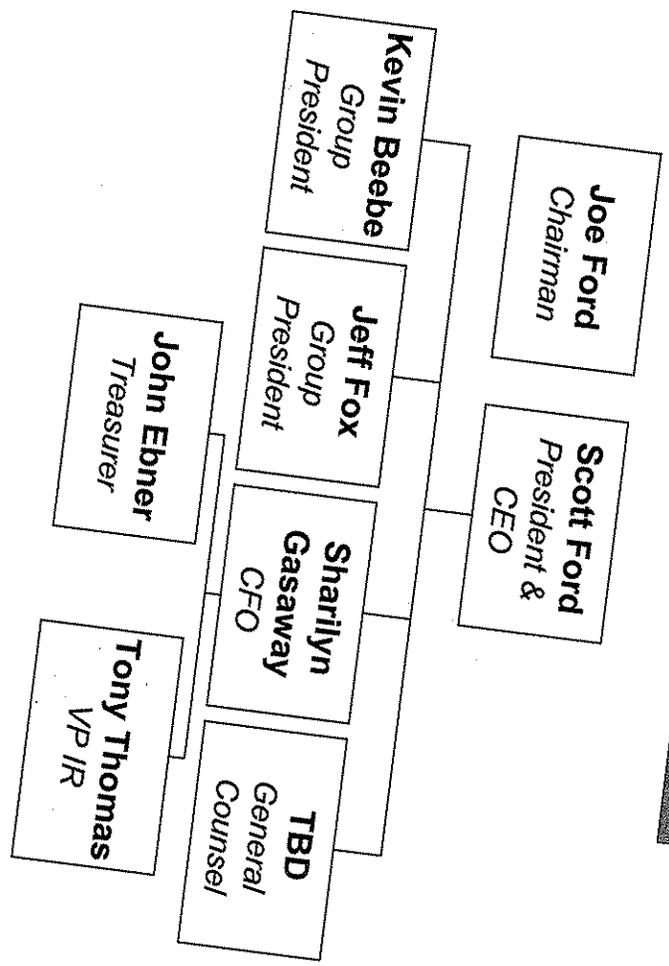
Collective Dividend Will Increase \$0.01 Per Share

(1) LTM 9/30/05 Wireless Pro Forma to include Western Wireless, Midwest Wireless, and related Comm Support Services. Wireline Pro Forma for VALOR merger.
 (2) NewCo dividend is equivalent to \$1.05 per current Alltel share.

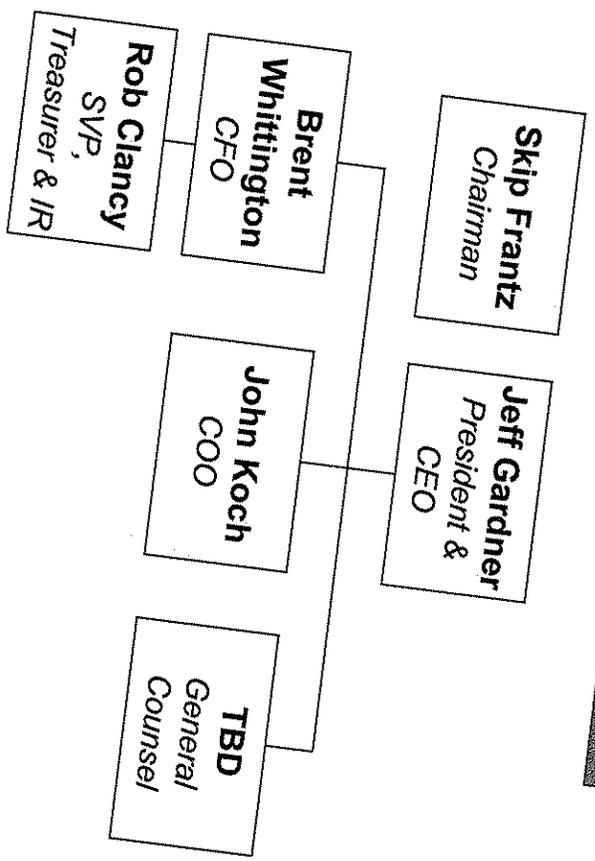
Overview of Management Teams



Alltel - Wireless

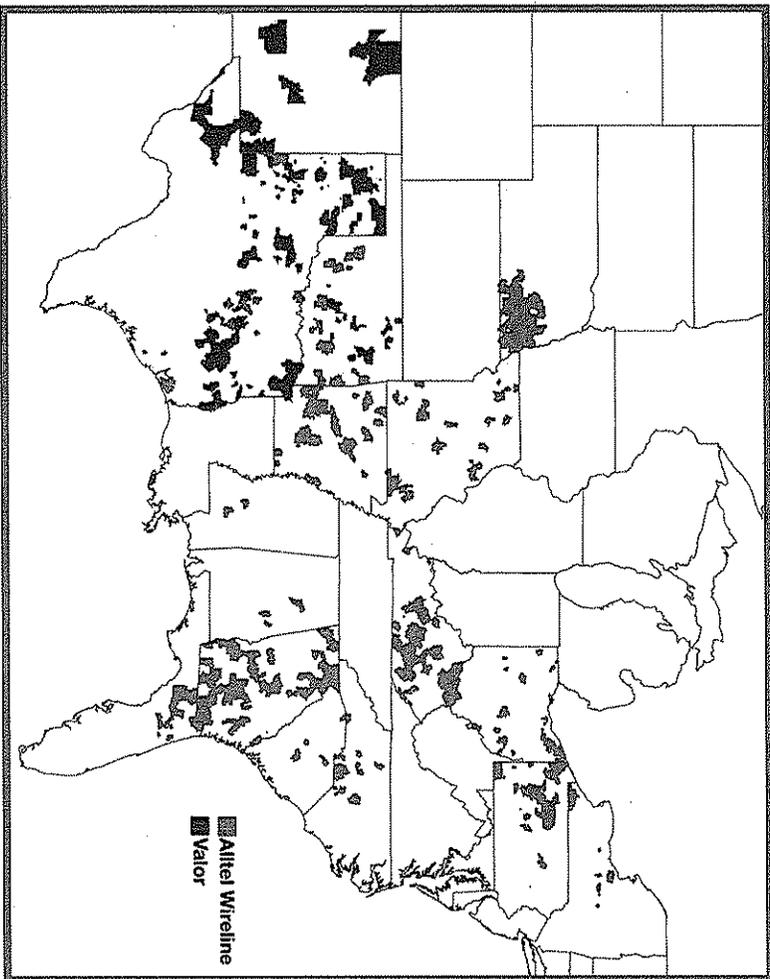


NewCo - Wireline



Alltel Wireline Merger with VALOR (“NewCo”)

Enhancing Scale and Scope



- NewCo Wireline business
 - 3.4M customers
 - \$3.4B revenue and \$1.7B OIBDA⁽¹⁾

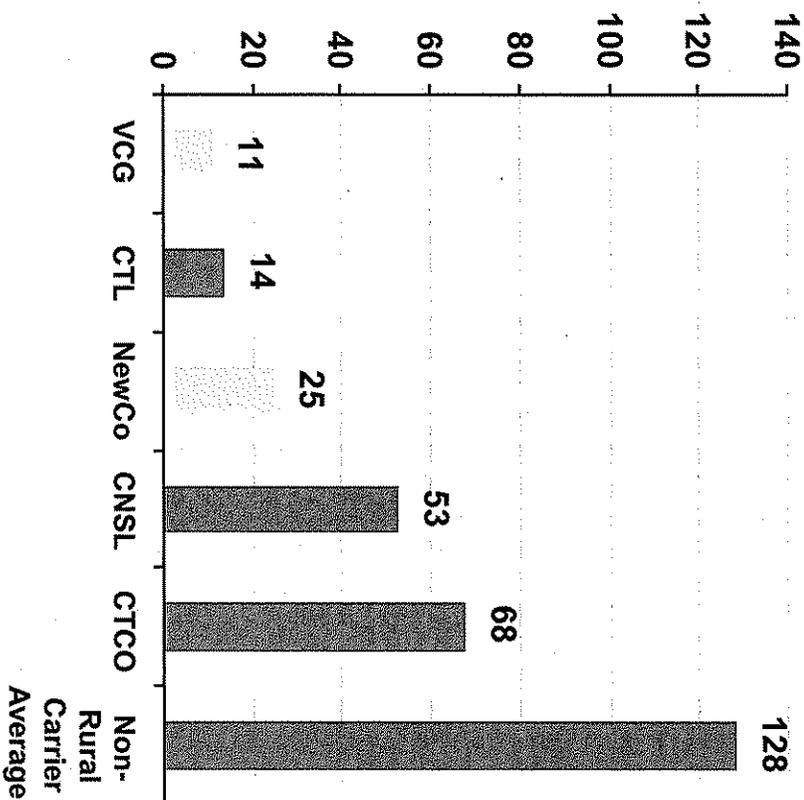
Transaction Highlights

- Alltel Wireline to merge with VALOR in Reverse Morris Trust transaction (Tax-free)
- Alltel shareholders to own 85% of pro forma entity
- Complementary markets with favorable rural characteristics
- Ease of integration (VALOR currently utilizes Alltel billing system)
- ~\$40 million expected run-rate synergies
- Required approvals: VALOR shareholders, FCC, DoJ, applicable State PUCs
- NewCo to determine appropriate branding strategy before closing
- Expected to close mid-2006

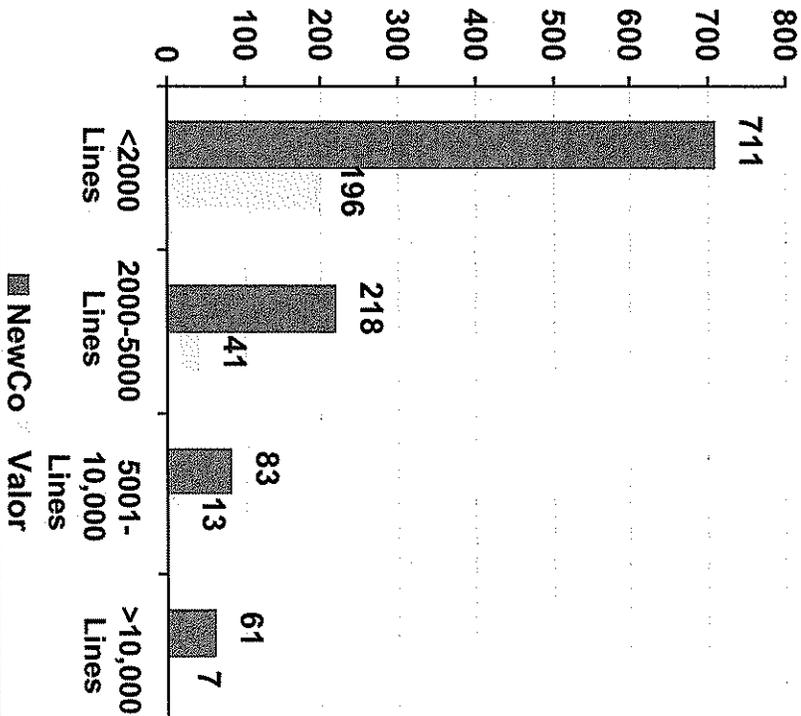
(1) Pro forma LTM 9/30/05

Favorable Rural Characteristics

Access Lines per Square Mile



Number of Markets per Size of Markets Served

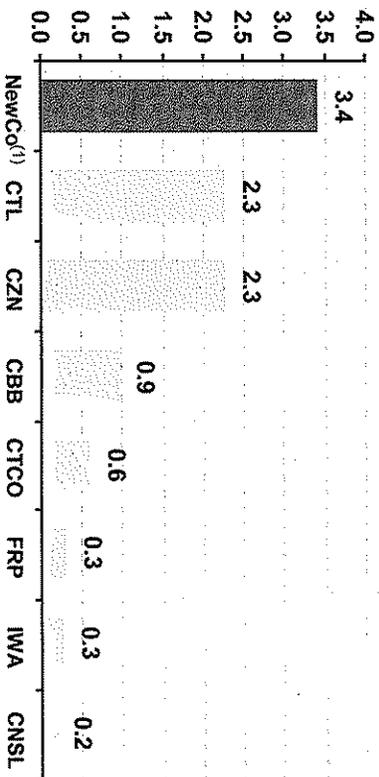


NewCo Teledensity Is 25 Access Lines Per Square Mile As Compared to the Non-rural Carrier Average of 128

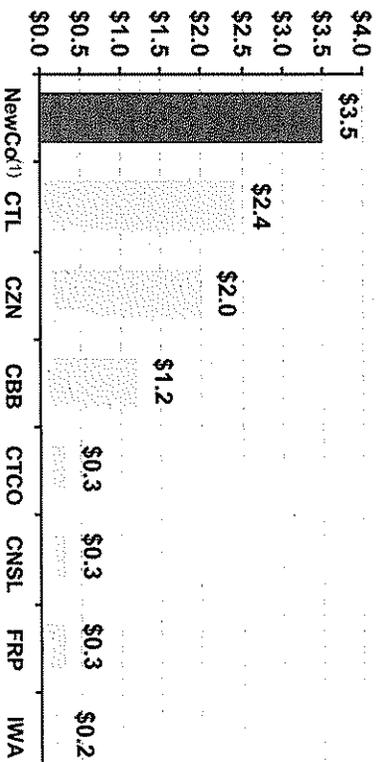
Premier Rural Wireline Company

Significant Scale and Profitability

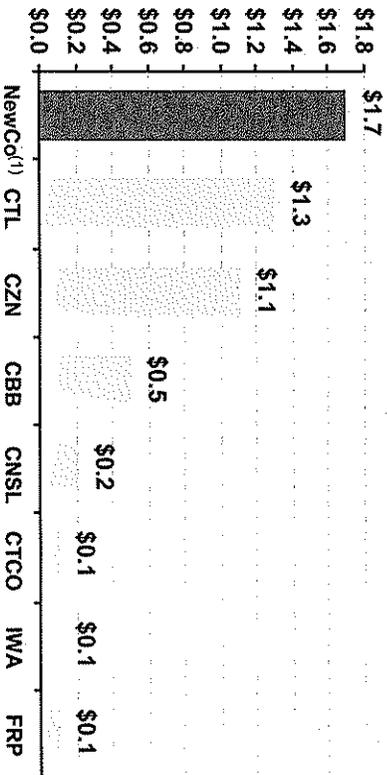
Q3'05 Access Lines (M)



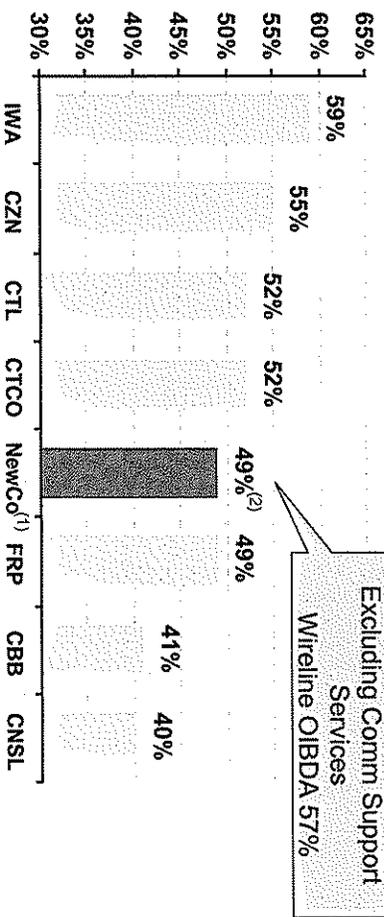
2004 Revenue (\$B)



2004 OIBDA (\$B) Pre-Synergy



2004 OIBDA % Pre-Synergy



(1) Pro forma for Alltel/VALOR merger.
 (2) Includes CSS. Wireline OIBDA margin excluding CSS is 57%.

Opportunities in the Wireline Business

Improve
Broadband
Penetration

Strategic
Opportunities

Improve
Feature
Penetration

Opportunities

Expand
Service
Offerings
(Video)

Expand
Service
Offerings
(Wireless)