

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

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COMMISSION**

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

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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

1 wireless, wireline, CLEC, long distance, DSL and broadband communications. Prior to
2 joining Alltel, I was with Andersen Consulting. I am a graduate of Albion College in
3 Albion, Michigan, with a Bachelor's degree in Economics and Management. I also
4 earned a Master's degree in Business Administration from the University of Michigan.

5
6 **Q. What is the purpose of your testimony in this proceeding?**

7 A. The purpose of my testimony is to explain that the Merged Wireline Business described
8 in our Application will have the requisite managerial and technical capabilities and that
9 the transactions will be made in accordance with law, have a proper purpose and be
10 consistent with the public interest. As described in the Application, Alltel Corporation
11 ("Alltel") is separating its wireline and wireless businesses. As part of the separation,
12 Alltel Holding Corp. will become the owner of Alltel's wireline business, merge with
13 Valor, and assume control of Alltel's incumbent local exchange carrier ("ILEC")
14 subsidiaries including Kentucky Alltel, Inc. and Alltel Kentucky, Inc. ("the Kentucky
15 ILECs"). Additionally, Alltel Holding Corporate Services, Inc. will be a wholly-owned
16 subsidiary of Alltel Holding Corp. and will acquire the existing long distance customers
17 of Alltel Communications, Inc. We have requested that the Kentucky Public Service
18 Commission ("Commission") approve the transfers of control of the Kentucky ILECs, the
19 transfer of long distance customers, and the transaction financing. I may refer to the ILEC
20 and long distance businesses, together with Alltel's other internet, broadband, directory
21 publishing, telecommunications equipment, and other local communications services,
22 collectively as "the Wireline Business". I will demonstrate that the transfer of the
23 Wireline Business complies with K.R.S. §278.020. My testimony will show that the
24 Wireline Business (and after its merger with Valor, "Merged Wireline Business") will

1 continue to possess the requisite technical and managerial ability to provide the same
2 high quality service as is provided today. The testimony of Jeffery Gardner is being filed
3 contemporaneously herewith and will address how the Merged Wireline Business will
4 possess the requisite financial ability.

5
6 **Q. What does K.R.S. §278.020 require?**

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

18
19 **Q. Please describe the Alltel affiliates operating in Kentucky.**

20 A. The Kentucky ILECs are presently wholly-owned subsidiaries of Alltel and serve
21 approximately 544,000 access lines in various exchanges in the Commonwealth. As of
22 June 30, 2005, the Kentucky ILECs and their other LEC affiliates served approximately
23 3.0 million local access lines across fifteen states. Additionally, Alltel Communications,

1 Inc. is certificated in Kentucky to provide resold long distance service and also provides
2 long distance service in 49 states and operates as a CLEC in seven states. Alltel Holding
3 Corporate Services, Inc. (a newly-created subsidiary of Alltel) will become part of the
4 Merged Wireline Business and is seeking authority from this Commission to acquire
5 Alltel Communications, Inc.'s existing long distance resale business in Kentucky.

6
7 Although it does not operate in Kentucky, Alltel Holding Corp. is a newly-formed
8 subsidiary of Alltel. As described above, Alltel Holding Corp. will become the owner of
9 the Wireline Business immediately upon the separation of Alltel's Wireline Business
10 from its wireless businesses then will merge into Valor. Alltel Holding Corp. is not
11 seeking authority from the Commission to become a regulated telecommunications
12 carrier or public utility in Kentucky. Similarly, Valor, which owns LEC operations that as
13 of June 30, 2005 serviced approximately 530,000 access lines in four states, will become
14 the owner of the Merged Wireline Business but will not be a certificated public utility in
15 the Commonwealth.

16
17 **Q. Which entities will operate in Kentucky after the transfer?**

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

1 Corp. or Valor after the transfer and merger. Again, the Kentucky ILECs and Alltel
2 Holding Corporate Services, Inc. will be wholly-owned subsidiaries of the entity
3 resulting from the merger of Alltel Holding Corp. and Valor.
4

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

7 A. Both the transfer of control of the Kentucky ILECs and the transfer of long distance
8 customers will appear to customers in the short-term merely as a name change. The
9 principal officers of the Merged Wireline Business will be certain present Alltel officers,
10 and the Merged Wireline Business will adopt a new name and corporate logo.
11 Consequently, because end user customers of the Kentucky ILECs will continue to
12 receive the same rates and high quality service from the same dedicated local operations,
13 the transfer will appear merely as a name change. The existing status of Kentucky Alltel,
14 Inc. as a toll provider and Alltel Kentucky, Inc. as a non-toll provider will not change.
15 The Kentucky ILECs simply will have a new parent company and new names. With
16 respect to long distance customers, they will be transferred from Alltel Communications,
17 Inc. to Alltel Holding Corporate Services, Inc. and will continue receiving the same
18 resold interexchange service they receive today. Customers will receive notice of the
19 transfers in accordance with the Federal Communications Commission's anti-slamming
20 rules and, again, will notice a name change in their providers. In the long-term, customers
21 will experience benefits of the Merged Wireline Business as discussed in greater detail
22 below.
23

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

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

23
24 **Q. How will Alltel accomplish the separation of the Wireline Business from its wireless**

1 **businesses?**

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

18
19 **Q. What will be the overall result of the separation?**

20 A. The transfer is in accordance with law, for a proper purpose, and consistent with the
21 public interest, and the resulting Merged Wireline Business will produce benefits for the
22 wireline local exchange residential and business customers. As of June 30, 2005, the
23 Kentucky ILECs and Alltel's other ILEC affiliates served approximately 3.0 million local
24 access lines in fifteen states. Alltel Communications, Inc. currently provides long

1 distance service in 49 states and operates as a CLEC in several states. Valor is the owner
2 of local exchange operating companies that as of June 30, 2005, provided local exchange
3 service to approximately 530,000 access lines in four states. The Merged Wireline
4 Business will continue to have the same technical and managerial capability to provide
5 these services that the Wireline Business currently provides today. As described later in
6 my testimony, the principal officers of the Merged Wireline Business will be certain
7 current officers of Alltel. The Merged Wireline Business will adopt a name and corporate
8 logo that is presently being determined and will be headquartered in Little Rock,
9 Arkansas. Because end user customers will continue to receive the same high quality
10 service from the same dedicated local operations, the transfer will appear merely as a
11 name change.

12
13 **Q. Will the Merged Wireline Business possess the requisite technical ability to provide**
14 **adequate service?**

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

1 Business. However, to the extent the Merged Wireline Business requires continued use of
2 these assets or services from Alltel, they will be provided through lease arrangements or
3 service agreements with the separated Alltel companies. Following the transfer of
4 control, the Merged Wireline Business will continue to own or have arrangements to use
5 all of the necessary network assets and ordering, provisioning, billing, and customer care
6 capabilities required to continue to provide high quality retail and wholesale services
7 seamlessly.

8
9
10 **Q. Will the Merged Wireline Business possess the requisite managerial ability to**
11 **provide adequate service?**

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

20
21 **Q. What existing management expertise will the Kentucky ILECs acquire with the**
22 **business?**

23 A. The Merged Wireline Business will possess the management experience of key wireline
24 personnel who presently operate the Wireline Business and who will transfer to the
25 Merged Wireline Business. Attached to the Application and incorporated herein is a list

1 of the names and addresses of the officers of the Merged Wireline Business and a
2 description of their qualifications, together with a list of the names and addresses of the
3 Board of Directors of the Merged Wireline Business and all 15% or greater shareholders.
4 Many of these capable, experienced executives are transferring from Alltel to the
5 Merged Wireline Business. For example, Alltel Chief Financial Officer, Jeffrey Gardner,
6 has been named Chief Executive Officer of the Merged Wireline Business. I am
7 currently Alltel President of Wireline Services and will continue in that role for the new
8 company. The collective experience of our officers demonstrates that the Merged
9 Wireline Business will maintain the requisite technical and managerial ability. The
10 Merged Wireline Business will employ personnel experienced and dedicated to the
11 provision of high quality communications service. The customer service, network and
12 operations functions that are critical to the success of the Wireline Business today will
13 persist, and the Merged Wireline Business will be staffed to ensure that continuity. For
14 example, the Kentucky ILEC's local operations will continue to be staffed and managed
15 by employees with established ties to the community in the Commonwealth and
16 extensive knowledge of the local telephone business.

17
18 **Q. What managerial services will the Kentucky ILECs and Alltel Holding Corporate**
19 **Services, Inc. receive from the new parent company (Alltel Holding Corp.)?**

20 A. The Kentucky ILECs and Alltel Holding Corporate Services, Inc. will be supported by
21 Alltel Holding Corp.'s extensive management experience and telecommunications
22 expertise. As part of the Merged Wireline Business, these entities will continue to receive
23 certain centralized management services and will be staffed by many of the same

1 experienced and knowledgeable persons currently providing these services. Presently,
2 centralized functions include human resource, finance, tax, media, legal, planning,
3 general support, and information services, thereby allowing the individual entities to
4 benefit from the efficiencies enjoyed with centralized support services. After the transfer
5 of control, the Merged Wireline Business will continue to receive similar centralized
6 management services and thus, will continue to enjoy efficiencies from centralized
7 support services and the benefits of an experienced staff.

8
9 **Q. Does Alltel Holding Corp. have the experience necessary to provide this expertise?**

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

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

3 A. Yes. Up to and after the separation and merger, customers will receive the same full
4 range of products and services that the Wireline Business offered prior to the separation,
5 at the same prices, and under the same terms and conditions. Currently, the Kentucky
6 ILECs offer bundles of local calling and custom calling features combined with other
7 services via sales of their own services or their own services combined with the services
8 of another provider sold via a sales agency arrangement. These bundled offerings were
9 designed to meet the customer demand for a true “one stop shop” for communications
10 needs. The Merged Wireline Business will enter into the necessary arrangements to allow
11 it to continue providing bundled service offerings. Similarly, Alltel Holding Corporate
12 Services, Inc. will provide on a resale basis the same quality long distance service that
13 Alltel Communications, Inc. provides today. The transfers will not effect the Kentucky
14 entities’ existing price regulation plans, service quality obligations, or tariffs, and any
15 subsequent end user rate changes will continue to be governed by the same rules and
16 procedures. Although the transfer will not result in substantive tariff changes, the entities
17 will amend applicable tariffs to reflect their new names. Further, the terms and prices for
18 existing wholesale services under applicable access tariffs will remain unchanged as a
19 result of this transfer. Finally, the transfer of control will not impact the terms of any
20 existing interconnection agreements or obligations under state and federal laws regarding
21 interconnection. Most significantly, the customer interface with the Merged Wireline
22 Business will not change. Customers will continue to call existing numbers to order new

1 services, report service problems, and inquire about billing or other customer care issues
2 and will receive notice of the transfer and name change via bill messages.

3
4 **Q. Will local operations continue to be involved with their Kentucky communities?**

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

14
15 **Q. Will any labor contracts be impacted by the transactions?**

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

18
19 **Q. Given the technical and managerial capability of the Merged Wireline Business, is
20 the transfer in accordance with law, for a proper purpose, and consistent with the
21 public interest?**

22 A. Yes, the transfer is in accordance with law, for a proper purpose, and consistent with the
23 public interest. All of the above facts demonstrate that the Merged Wireline Business will

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

20
21 **Q. Is it your opinion that the Commission should approve this transfer?**

22 **A.** Yes, the Commission should issue an order approving the transfer. I have demonstrated
23 that the resulting Merged Wireline Business will have the requisite technical and

1 managerial capability as is possessed by the Wireline Business today. These facts together
2 with the benefits to customers that I discussed previously support a finding that the
3 transfer is consistent with the public interest.

4

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

6 A. Yes, at this time.

AFFIDAVIT

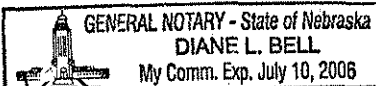
STATE OF Nebraska)
COUNTY OF Lincoln)

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) 

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

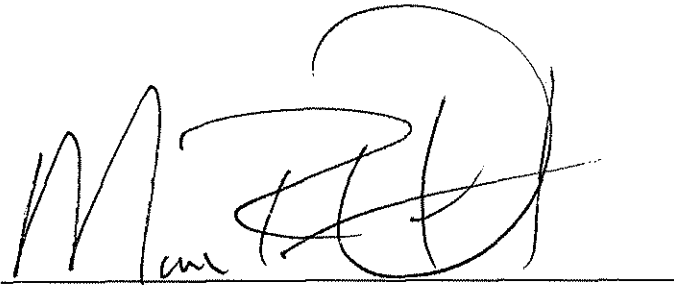
John Selent
Dinsmore & Shohl
Suite 2000
462 South Fourth Street
Louisville, Kentucky 40202-3466

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.

A handwritten signature in black ink, appearing to read 'Mark R. Overstreet', written over a horizontal line.

Mark R. Overstreet