

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION FOR APPROVAL OF THE	)	
TRANSFER OF CONTROL OF ALLTEL	)	CASE NO.
KENTUCKY, INC. AND KENTUCKY	)	2005-00534
ALLTEL, INC.	)	

INITIAL DATA REQUEST OF  
COMMISSION STAFF TO APPLICANTS

Pursuant to Administrative Regulation 807 KAR 5:001, Commission Staff requests that Alltel Kentucky, Inc., Kentucky Alltel, Inc., Alltel Communications, Inc., Alltel Holding Corp., Valor Communications Group, and Alltel Holding Corporate Services, Inc. shall file with the Commission, by no later than March 13, 2006, the original and 4 copies of the following information, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the person who is responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been previously provided, in the format requested herein, reference may be made to the specific location of said information in responding to this information request.

1. Refer to Gardner Testimony page 3, line 14. Explain how a significantly larger wireline company, as compared to other rural local exchange companies, is a benefit to Kentucky ratepayers.

2. Refer to Gardner Testimony page 3, lines 15-17.
  - a. Explain how increased scale is a benefit to Kentucky ratepayers.
  - b. Explain how increased scope is a benefit to Kentucky ratepayers.
  - c. Provide a discussion of the support services that are currently provided to regulated entities by Alltel Corporation.
  - d. Provide a discussion of how the level of support services that are currently provided to regulated entities is going to be improved. Also, provide a chart that documents how the support service levels are currently tracked (benchmarks) and the improvement goals for each category that will be achieved after the merger.
3. Refer to Gardner Testimony page 6.
  - a. Provide a description of how the regulated entities will finance necessary and large capital improvements in their outside plant and infrastructure.
  - b. Provide a discussion of how capital will be budgeted and allocated to the various subsidiaries by the New Holding Company.
  - c. Do the regulated entities in Kentucky anticipate maintaining at least the same levels of O&M expenditures and capital investment in Kentucky as before the spin-off and merger? Explain.
4. Refer to Gardner Testimony pages 6 and 9-10. Provide the current dividend policy and rate regarding the remission from regulated entities in Kentucky to the current parent corporation. Does the New Holding Company anticipate any changes to the current dividend payment policy (the remission rate) regarding the regulated entities to the new parent? Explain and quantify any differences.

5. Refer to Gardner Testimony page 9. Provide the exact citation in Exhibit 1 that documents that the expected New Holding Company will produce annual operating income before depreciation and amortization of \$1.7 billion.

6. Refer to Gardner Testimony page 10.

a. Provide the calculations for the debt equity ratios of the current parent and the debt equity ratios anticipated for the New Holding Company after the merger.

b. Explain why distributing a greater percentage of free cash flow back to the parent than do similarly situated ILECs is beneficial for Kentucky ratepayers.

7. Refer to Gardner Testimony page 10, lines 8-12. Does the statement mean that the company is so highly leveraged that it must issue new stock to fund future capital needs as opposed to issuing debt? Explain.

8. Refer to Gardner Testimony page 11. Provide a copy of the solvency opinion from Duff & Phelps, LLC.

9. Refer to Gardner Testimony page 13.

a. Identify the companies which are being used as comparable companies to the New Holding Company.

b. Provide a chart which compares the companies by name referred to in the testimony to the anticipated financial measures of the New Holding Company.

10. Refer to Exhibit 1 of Gardner Testimony. Provide the analogous balance sheets and income statements for Alltel Corporation and for the wireless business as that provided for Alltel Holdings, Valor, and the new combined company as in Exhibit 1.

11. Provide a detailed explanation of the methodology for assigning the existing debt of Alltel Corporation to the new wireless and wireline entities before the merger with Valor Communications Group.

12. Of the total Alltel Corporation debt being assigned to Alltel Holding, provide a detailed discussion of the debt and a chart illustrating the assignment of debt between the incumbent local exchange carriers by state, competitive local exchange carriers, Internet, long distance, telecommunications information services, directory publishing, and product distribution operations for the year ended December 31, 2005.

13. Provide a detailed, step-by-step explanation of what the spin-off of Alltel Holdings and the wireless business and then the merger of Alltel Holdings and Valor will mean to a small shareholder (1,000 shares) of Alltel Corporation stock, including any cash payments and dividends and the number of shares in all companies the shareholder will own after the spin-off and merger.

14. Refer to Exhibit 1 of Mr. Gardner's testimony. The new combined company appears to have taken on \$5.517 billion in debt and doubled the amount of goodwill carried on its books.

a. The new combined company is a debt-financed company. Provide a detailed explanation of how this company is financially stronger and more viable than Alltel Holdings prior to being spun off.

b. Provide a detailed explanation of the exact benefits, quantifiable if possible, that Kentucky ratepayers can expect from the merger of Alltel Holdings and Valor.

15. Refer to Note (b) in Exhibit 1 of Mr. Gardner's testimony. Provide a detailed explanation of why a special dividend, estimated at \$2.4 billion, is being paid to Alltel in an amount not to exceed Alltel's tax basis in Alltel Holdings.

16. Valor has a negative net worth, more debt than assets. Explain how the addition of Valor will bring value to the new company.

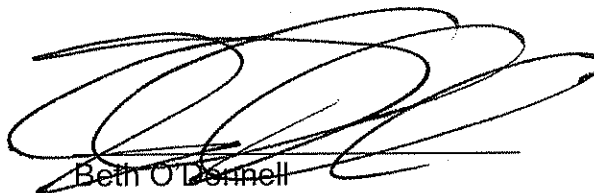
17. What is included in the category "other assets" on Valor's balance sheet?

18. Explain how Valor's unfunded pension liability will affect the new company's overall pension liability. Does Alltel have any unfunded pension liability?

19. Give a brief history of Valor's operations, including the date it began, former names it may have operated under, acquisition history, and principle owners.

20. Is Valor being investigated currently by any state or federal regulatory body?

21. Has Valor had any investigations or judgments against it by any state or federal regulatory body in the past four years?



Beth O'Donnell  
Executive Director  
Public Service Commission  
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DATED March 3, 2006

cc: Parties of Record