

Exhibit No. _____
Witness: Mark D. Harper
Type of Exhibit: Surrebuttal Testimony
Party: Sprint Nextel Corporation
Case No. IO-2006-0086

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

Application of Sprint Nextel Corporation)
for Approval of the Transfer of Control of) Case No. IO-2006-0086
Sprint Missouri, Inc., Sprint Long)
Distance, Inc. and Sprint Payphone)
Services, Inc. From Sprint Nextel)
Corporation to LTD Holding Company.)

SURREBUTTAL TESTIMONY OF MARK D. HARPER

ON

BEHALF OF

SPRINT NEXTEL CORPORATION

PUBLIC VERSION

JANUARY 5, 2006

1 **I. INTRODUCTION**

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

3 A. My name is Mark D. Harper. My business address is 6450 Sprint Parkway,
4 Overland Park, Kansas 66251. I am currently employed by Sprint United
5 Management Company as Director – State Regulatory. I have been offered and
6 have accepted the position of Director – State Regulatory with LTD Holding
7 Company upon completion of the separation transaction.

8

9 **Q. Are you the same Mark D. Harper who filed Direct Testimony in support of**
10 **Sprint’s Joint Application?**

11 A. Yes. As noted in his Surrebuttal Testimony, Sprint Witness Mr. Kent Dickerson
12 is adopting my Direct Testimony as filed.

13

14 **II. PURPOSE OF SURREBUTTAL TESTIMONY**

15

16 **Q. What Is The Purpose Of Your Surrebuttal Testimony?**

17 A. My testimony provides an overview of the Surrebuttal Testimony filed by each of
18 the Sprint Nextel Corporation (“Sprint”) witnesses. In addition, I will specifically
19 respond to the statements made by Ms. Debbie Goldman on behalf of the
20 Communications Workers of America (“CWA”) regarding service quality in her
21 Amended Response to Staff Testimony filed on January 4, 2006. Finally, I will

1 summarize Sprint's response to each of her proposed conditions contained on
2 pages 25-26 of her testimony.

3 A. In responding to each of CWA's identified concerns and conditions, it is Sprint's
4 intent to provide the facts and to correct misunderstandings or misstatements by
5 Ms. Goldman in her testimony. However, Sprint's testimony does not address the
6 question of whether any of these concerns raised by CWA are properly within the
7 purview of the Commission, that issue will be more appropriately addressed in the
8 position statement and Sprint's briefs.

9
10 **Q. Why are you not responding to the Staff Recommendation and Rebuttal**
11 **Testimony or the Office of Public Counsel's Comments in response to the**
12 **Staff Recommendation in this testimony?**

13 A. A. Sprint, the Staff of the Missouri Public Service Commission (Staff) and
14 the Office of Public Counsel (OPC) jointly filed a Non-unanimous Stipulation and
15 Agreement (Agreement) on December 27, 2005 in support of a Commission
16 finding that the proposed transfer of control is not detrimental to the public
17 interest and as such it should be approved by this Commission subject to certain
18 conditions noted in the Agreement. Based on the Agreement, there are no
19 remaining issues between Sprint and the Staff or the OPC to be addressed. All
20 three parties fully support the Commission's approval of the transfer of control as
21 proposed in the Agreement.
22

1 As a result, Sprint's testimony focuses on responding to the testimony of Ms.
2 Goldman on behalf of CWA, the remaining party in this case, and demonstrating
3 why the Commission need not implement any of her specified conditions but
4 instead accept the Stipulation and Agreement of Sprint, Staff and OPC. CWA also
5 filed a brief Objection to the Stipulation and Agreement on January 3, 2006.
6 Responses to the issues noted in that filing CWA are included within the
7 surrebuttal testimony of Sprint.

8
9 **III. SUMMARY OF SURREBUTTAL TESTIMONY**

10
11 **Q. Please Provide A Summary Of the Surrebuttal Testimony of Sprint?**

12 A. In addition to my testimony, four Sprint witnesses are filing testimony addressing
13 the Response to Staff Testimony of Ms. Debbie Goldman, on behalf of CWA:

14 Dr. John Mayo demonstrates that contrary to Ms. Goldman's statements
15 the transaction as proposed is clearly in the public interest;

16
17 Mr. Kevin Collins addresses her misplaced concerns regarding the
18 financial health of the LTD Holding Company ("LHC"), as well as her
19 unwarranted concern about negative book equity of LHC;

20
21 Mr. Kent Dickerson further demonstrates how Ms. Goldman's concerns
22 regarding the financial health of LHC are simply wrong and are based on

1 misunderstandings of the facts. Mr. Dickerson also demonstrates how
2 LHC does, in fact, receive an equitable allocation of assets and, more
3 importantly, all of the assets necessary for it to successfully conduct its
4 business. Finally, Mr. Dickerson demonstrates that any concerns
5 regarding the allocation of pension assets are misguided and that Sprint
6 and LHC will fully comply with the appropriate regulations and laws; and

7
8 Dr. Brian Staihr demonstrates that her concerns about the capital structure
9 of LHC are once again misguided. In contrast to Ms. Goldman's
10 assertions, Dr. Staihr shows that the proposed structure is the optimal
11 capital structure for LHC.

12 Together Sprint's testimony demonstrates that each of Ms. Goldman's concerns
13 are unfounded and thus her proposed conditions are unnecessary and should be
14 rejected. Instead, the Commission should accept the Stipulation and Agreement
15 filed by Sprint, Staff and OPC in this case and approve the transfer of control
16 expeditiously. At this time, Sprint has gained state regulatory agency approval in
17 seven states where formal approval is required; Florida, North Carolina, Ohio,
18 Minnesota, Nevada, South Carolina and Wyoming. Together with the four states
19 where formal approval is not required, these states represent 78% of the access
20 lines of LHC.

1 **IV. SERVICE QUALITY**

2
3 **Q. Beginning on page 20, Ms Goldman discusses service quality. Do you agree**
4 **with her initial claim that service quality has been deteriorating over the last**
5 **seven years?**

6 A. No. Ms. Goldman's discussion completely ignores this Commission's service
7 quality standards from Chapter 32 of its rules, the relevant standards for
8 consideration in this case. Instead, she selectively focuses on two measures from
9 Sprint Missouri's FCC ARMIS reports. The apparent reason Ms. Goldman
10 ignores this Commission's rules becomes clear when Sprint Missouri's reported
11 service results are examined as Staff Witness Larry Henderson did in his Rebuttal
12 Testimony. Based on Mr. Henderson's Schedule 2, Sprint Missouri's service
13 performance from 3rd Quarter 2001 to 1st Quarter 2005 has met or exceeded all of
14 this Commission's quantified service surveillance levels with the exception of one
15 measure for one quarter (3rd 01, Customer Assisted Seconds). (See Exhibit MDH-
16 1, attached, which is a copy of Schedule 2 from Mr. Henderson's previously filed
17 Rebuttal Testimony). This is hardly a demonstration of "seriously deteriorated"
18 service quality as claimed by Ms. Goldman. According to Mr. Henderson, (page
19 3, line 8-9 of his testimony) "Sprint Missouri, Inc. has complied with the
20 Commission's service objectives as described in 4 CSR 240.32.080." For
21 unexplained reasons, Ms. Goldman must look elsewhere for concerns about Sprint
22 Missouri's service quality.

1 **Q. What information does Ms. Goldman use in reaching her conclusions about**
2 **Sprint Missouri's quality of service?**

3 A. Ms. Goldman apparently relies on the Sprint Missouri's annual ARMIS 43-05
4 reports for the statistics supporting her claims regarding out-of-service repair
5 intervals and repeat-out-of-service trouble reports. While the percentage increase
6 of 2004 over 1998 for out-of-service repair intervals appears to be correct, the
7 1994 data point should be 13.3 hours not 10.6 hours as Ms. Goldman has stated.
8 Also, the percentage increase in repeat-out-of-service trouble reports is
9 significantly overstated as calculated in her testimony and instead should be 62%
10 rather than 121%.

11

12 **Q. Even with corrected data, do Ms. Goldman's selected statistics from FCC**
13 **ARMIS Reports support her statement that Sprint Missouri's service quality**
14 **has seriously deteriorated?**

15 A. No. The FCC reporting is merely raw data with no service benchmarks to
16 indicate relative performance like the service quality measures of this
17 Commission which have been consistently met by Sprint Missouri. In fact, the
18 same reports show that Sprint Missouri's performance for out-of-service repair
19 intervals in hours in 2004 is more than 30% better than the statewide Missouri
20 average for the all the large ILECs (SWBT, CenturyTel, and Sprint). Also, lost
21 within her claims regarding repeat trouble report percentage is the fact that the
22 total number of trouble reports in the ARMIS report decreased by more than 34%

1 or 21,672 reports over this same time period. Further, Sprint Missouri's reported
2 result for 2004 are better than this statewide average for trouble reports per 100
3 lines and average installation intervals in days. Clearly, when viewed in context
4 ARMIS reporting does not support her claim that service quality has seriously
5 deteriorated.

6 **Q. Ms. Goldman on page 21 of her testimony discusses declines in capital**
7 **spending for Sprint Missouri and attempts to relate this trend to concerns**
8 **about service quality. How do you respond?**

9 A. First, for capital expenditures in Missouri, Ms. Goldman's starting point of 2000
10 is not representative of typical activity. In 2000, Sprint Missouri completed the
11 last year of an eight year modernization plan called TeleProgress in which all
12 remaining analog or first generation digital switches were converted to digital
13 switching, thousands of multi-party lines were converted to single-party lines, all
14 analog carrier was eliminated, interexchange facilities were upgraded, and other
15 improvements were made. A decline in capital spending was to be expected after
16 completion of TeleProgress. However, Sprint Missouri has continued a healthy
17 pace of investment in its network since that time. From 2001 through 2004,
18 capital expenditures have averaged \$32 million per year in Missouri, with 2004
19 expenditures being approximately 25% less than the annual average. The lower
20 amount in 2004 is no call for alarm. Capital expenditures will normally fluctuate
21 year by year based on such factors as changes in service addresses, changes in
22 usage, and the need to deploy new technology to increase efficiency and meet

1 customer demand for new services. Sprint Missouri as part of LHC will remain
2 committed to offering quality service and new services in its territory in Missouri.
3 As a demonstration of its commitment, Schedule MDH-2, lists some of the capital
4 projects currently being planned for Missouri in 2006.

5

6 **Q. Ms. Goldman on page 21 of her testimony also discusses declines in**
7 **maintenance expenses for Sprint Missouri as another trend that could**
8 **adversely impact service quality. Do you agree with her views?**

9 A. No. Maintenance expenses at the summary level examined by Ms. Goldman
10 contain multiple categories of expenses, several of which are not related to access
11 line growth or decline, as implied by Ms. Goldman. Schedule MDH-3, provides a
12 breakdown of maintenance into ordinary repair, rearrange & change, other plant
13 specific (which consists of general support assets), cost of equipment-inside wire
14 and cost of equipment sales. The expense recorded in the ordinary repair and
15 rearrange and change accounts are those generated by the frontline technicians in
16 support of service quality. An analysis of these expenses together reveals that
17 they decreased 14% (from \$20.7 in 2000 to \$17.8 in 2004), only 1% greater than
18 the 13% access line decrease since 2000. Rather than an area for concern, this
19 analysis instead reveals the benefits of a well trained employee group and the
20 benefits of increased efficiency through new tools and work methods.

21

1 **Q. On pages 21 and 22 of her testimony, Ms Goldman opines that declines in**
2 **staffing levels have created service quality concerns. Do you share her**
3 **opinion?**

4 A. No. As I explained earlier in my testimony, Sprint Missouri completed a massive
5 modernization program in 2000 and continues to deploy new technology in its
6 operations. Generally speaking, the deployment of advanced technology reduces
7 the need for labor-intensive activities. A simple example is how the use of digital
8 technology permits centralized and remote network monitoring, diagnostics and
9 repair, rather than on-site inspection, maintenance and repair of mechanical
10 switching equipment. Like any responsible business, Sprint Missouri will resize
11 and retrain its workforce as the use of new technology increases efficiency. The
12 end result will be superior and less costly service for consumers.

13
14 Further, in its comments regarding Staff's Recommendations, OPC suggests that
15 it is not the absolute number of employees that could impact service quality, but
16 the mix of the type and number of employees by job title and function that may be
17 an important consideration on the ability to maintain quality service. Sprint
18 Missouri agrees. Sprint Missouri believes that its mix of employees by job title
19 and function are at appropriate levels as evidenced by the fact that Sprint Missouri
20 consistently meets or exceeds the Commission's service quality standards. It
21 follows, then, that (all others pertinent factors remaining equal) Sprint Missouri
22 can be expected to continue meeting or exceeding the Commission's service

1 quality standards if Sprint Missouri has no plans to make significant changes in its
2 mix of employees by job title and function. Sprint has no such plans. Exhibit
3 MDH-4 illustrates Sprint Missouri's current mix of employees by job function in
4 Missouri. Exhibit MDH-5 illustrates Sprint Missouri's current mix of employees
5 in the company's combined customer service and network operations organization
6 in Missouri.

7
8 **V. CWA PROPOSED CONDITIONS**

9
10 **Q. On page 25-26 of her testimony, Ms. Goldman recommends nine additional**
11 **conditions to those contained in the Staff Recommendation and Rebuttal**
12 **Testimony filed on November 15, 2005. What is Sprint's general response to**
13 **these proposed conditions?**

14
15 **A.** First, it is important to note that Ms. Goldman responded to the conditions
16 originally proposed by Staff in its Recommendation and Rebuttal Testimony filed
17 November 15, 2005. At the time of her response, she did not have the benefit of
18 either Sprint's Reply to the Staff's Recommendation, the OPC Comments in
19 Response to the Staff Recommendation or, more importantly, the Joint Stipulation
20 and Agreement between the parties except for CWA, which was filed on
21 December 27, 2005. These filings may have alleviated most of her concerns.

1 Certainly, no new or different conditions are necessary beyond those contained in
2 the Stipulation and Agreement between all parties in this case, other than CWA.
3 The transfer of control as proposed in Sprint's Application filed August 23, 2005,
4 and with the conditions and clarifications contained in the Joint Stipulation and
5 Agreement, fully complies with applicable laws, is not detrimental to the public
6 interest, and should be approved expeditiously.

7
8 **Q. Please review each of the proposed CWA conditions and provide Sprint's**
9 **response and note the testimonies that support that response.**

10 A. The conditions proposed by Ms. Goldman and Sprint's response follows:

11 *CWA Condition #1: LTD's bank and bond debt shall be free of any restrictions on*
12 *the use of LTD's discretionary cash flow.*

13 As clearly described in the Surrebuttal Testimony of Dr. Brian Staihr beginning
14 on page 3, nether LTD's bank or bond debt will be subject to any restrictions or
15 covenant mandating the use of discretionary cash flow as claimed by Ms.
16 Goldman. As such, there are no "flaws" in the cash flow analysis of Mr.
17 Dickerson. Therefore, this condition is unnecessary.

18
19 *CWA Condition # 2: LTD shall not be required to pay Sprint Nextel for its assets.*
20 *Any proceeds from bank or public debt shall be retained by LTD for its investment*
21 *purposes.*

1 As addressed by Dr. Brian Staihr beginning on page 11 of his testimony, LTD
2 Holding Company is a new company being created from Sprint's local telephone
3 operations assets. The assets are not being purchased by LTD Holding Company.
4 The assets are being transferred to existing stockholders as a separate investment.
5 As Dr. Staihr explains, the creation of this new company requires the creation of
6 new debt and equity to comprise a capital structure for the new company. Dr.
7 Staihr clearly demonstrates that the LTD Holding Company's proposed capital
8 structure is optimal.

9
10 *CWA Condition #3: Pension fund assets shall be allocated to fund fully LTD's*
11 *prospective pension liabilities and should be proportional to LTD's prospective*
12 *pension fund liabilities.*

13 The testimony of Kent Dickerson clearly demonstrates, page 10, that the existing
14 Sprint pension fund assets will be divided pursuant to the governing laws and IRS
15 regulations. Therefore, conditions related to pension funding are not required.

16
17 *CWA Condition #4: Sprint Missouri shall maintain a capital structure that*
18 *contains at least 65 percent common equity and Sprint Missouri shall be*
19 *prohibited from paying any dividend to its parent company that would reduce*
20 *Sprint Missouri's equity ratio to less than 65%.*

21 Ms. Goldman provides absolutely no support for this condition in her testimony
22 or any discussion of why Sprint Missouri's current equity percent is inadequate or

1 why 65% is preferable. She has provided no evidence that the current or
2 anticipated dividend policy between LTD Holding Company and Sprint Missouri
3 will not continue to produce a reasonable equity ratio.

4
5 *CWA Condition #5: Sprint Missouri shall not pay any dividend to its parent*
6 *company that exceeds more than 75% of Sprint Missouri's earnings attributable*
7 *to common equity.*

8 Again, Ms. Goldman provides absolutely no support for this restriction in her
9 testimony. She has provided no evidence that the current or anticipated dividend
10 policy between Sprint Missouri and its parent company will not continue to
11 produce adequate funding for Sprint Missouri operating needs

12 *CWA Condition #6: The Commission shall require Sprint Missouri to clear 95%*
13 *of out-of-service reports within 24 hours, or 90% of out-of-service reports cleared*
14 *within eight working hours with penalties for failure to .meet those standards.*

15
16 *CWA Condition #7: The Commission shall require Sprint Missouri to report*
17 *separately on trouble reports and repeat trouble reports.*

18
19 *CWA Condition #8: Sprint Missouri's reporting of service performance shall be*
20 *posted on the Commission website. Sprint Missouri shall be required to maintain*
21 *current employment levels for the next five years.*

1 As demonstrated earlier in this testimony, Ms. Goldman's claims of deteriorating
2 service quality are unfounded. Sprint Missouri fully complies with this
3 Commission's service quality standards (as noted by the Commission Staff
4 Rebuttal Testimony and by the Comments of the OPC) and has done so for a
5 number of years. Nothing in Sprint Missouri's history or any aspect of the
6 proposed separation justifies subjecting Sprint Missouri to unique service quality
7 measures. The Commission's current rules are more than adequate for monitoring
8 and maintaining adherence to service quality criteria in Missouri. Further, CWA
9 has established no justification for a freeze in employment levels and in doing so
10 suggests that Sprint Missouri not be allowed to operate as efficiently as possible.
11 Sprint Missouri has delivered quality service to its customers for years while
12 retaining the ability to adjust employment levels based on changing levels of
13 demand and the development of new work methods and tools.

14
15 *CWA Condition #9: LTD shall be required to engage in a competitive bidding*
16 *process to select vendors for its wholesale long distance and wireless services.*

17 The testimonies of Dr. John Mayo, at page 8, and Mr. Kent Dickerson, on page 7,
18 clearly show that the initial selection of Sprint as the wholesale vendor for long
19 distance and wireless is the best choice. Sprint brings unique advantages ranging
20 from the ability to utilize existing billing and support systems for long distance
21 and superior network coverage for wireless services. LTD Holding Company also
22 has the advantage of most favored nations contract provisions with a major

1 industry vendor of these services. Neither of the underlying contracts prohibits
2 LTD Holding Company from selecting new vendors in the future.

3

4 **VI. CONCLUSION**

5 **Q. Does This Conclude Your Testimony**

6 **A. Yes.**