

Exhibit No. _____
Witness: Kent W. Dickerson
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 KENT W. DICKERSON

ON

BEHALF OF

SPRINT NEXTEL CORPORATION

PUBLIC VERSION

JANUARY 5, 2006

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

2 A. My name is Kent W. Dickerson. My business address is 6450 Sprint Parkway,
3 Overland Park, Kansas 66251. I am currently employed by Sprint United
4 Management Company as Director – Cost Support. I have been offered and have
5 accepted the position of Director – Cost Support with LTD Holding Company
6 upon completion of the separation transaction.

7

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

9 A. I received a Bachelor of Science degree from the University of Missouri – Kansas
10 City in 1981 with a major in Accounting. In 1984, I passed the national exam and
11 am a Certified Public Accountant in the State of Missouri. From 1981 to 1983, I
12 was employed as a Corporate Income Tax Auditor II for the Missouri Department
13 of Revenue. From 1983 to 1985, I worked for Kansas Power and Light (now
14 Western Resources) in the Tax and Internal Audit areas. I joined United
15 Telephone Midwest Group in September, 1985 as a Staff Accountant in the
16 Carrier Access Billing area. Thereafter, I moved through a progression of
17 positions within the Toll Administration and General Accounting areas of the
18 Finance Department. In 1987, I was promoted into the Carrier and Regulatory
19 Services group as a Separations/Settlement Administrator performing Federal and
20 Intrastate access/toll pool settlement, reporting and revenue budgeting functions.
21 I was promoted to Manager - Pricing in June, 1989 where I performed FCC
22 regulatory reporting and filing functions related to the United Telephone -

1 Midwest Group Interstate Access revenue streams. In 1991, I was promoted to
2 Senior Manager - Revenue Planning for United Telephone - Midwest Group.
3 While serving in this position, my responsibilities consisted of numerous FCC
4 regulatory reporting and costing functions. In 1994, I accepted a position within
5 the Intrastate Regulatory operations of Sprint/United Telephone Company of
6 Missouri where my responsibilities included regulatory compliance, tariff filings,
7 and earnings analysis for the Missouri Company's intrastate operations. Since
8 December 1994, I have set-up and directed a work group which performs cost of
9 service studies for retail services, wholesale unbundled network elements cost
10 studies, and state and federal Universal Service Fund cost studies.

11

12 **Q. What are the duties and responsibilities of your present position?**

13 A. My work includes developing and implementing cost study methods which
14 conform with Total Service Long Run Incremental Cost ("TSLRIC") and Total
15 Element Long Run Incremental Cost ("TELRIC") methodologies. I am
16 responsible for written and oral testimony, serving on industry work groups, and
17 participating in technical conferences related to TSLRIC/TELRIC costing
18 methodology, filing of studies within 18 individual states that comprise Sprint's
19 Local Telephone Division (LTD) and providing cost expertise to Sprint's
20 participation in regulatory cost dockets outside of the LTD territories.

1 future repayment of debt is Ms. Goldman able to produce the mathematical result
2 underlying her conclusion. The reality is that the increased cash available, as
3 demonstrated in my testimony being adopted from Mr. Harper's Direct
4 Testimony, could be put to numerous uses, only one of which is the repayment of
5 debt.

6
7 The increased cash flow benefits resulting from LTD Holding Company's
8 proposed mix of debt and equity financing are indeed the *****BEGIN HIGHLY**
9 **CONFIDENTIAL** [REDACTED] **END HIGHLY CONFIDENTIAL***** shown
10 in adjustments No.1 and No. 2 on Exhibit MDH-6 of the Direct Testimony that I
11 have adopted. Ms. Goldman's Response to Staff Testimony offers no objection or
12 correction to this mathematical result. Rather, Ms. Goldman attempts to add a
13 discretionary and yet-to-be determined future outcome, whereby she assumes
14 LTD Holding Company chooses to use those increased cash flow benefits
15 resulting from the company's efficient debt and equity financing mix to repay
16 outstanding debt. As discussed more fully in the Surrebuttal Testimony of Dr.
17 Brian K. Staihr, this prospective company financing decision and outcome is far
18 from decided and is only one of several options LTD Holding Company will have
19 available at that future time. Dr. Staihr's Surrebuttal Testimony correctly points
20 out that it is entirely possible (and perhaps more likely) that LTD Holding
21 Company may choose to efficiently maintain its level of debt financing and

1 instead use the improved cash flow amount to make additional profitable
2 investments in its core business.

3 **Q. Do companies commonly choose to maintain efficient levels of debt in their**
4 **overall financing mix over long periods of time?**

5 A. Yes. The evidence of this is easily seen in the analysis and report done by
6 Houlihan, Lokey, Howard & Zukin (“Houlihan Lokey”) as sponsored by witness
7 Kevin P. Collins. The Houlihan Lokey “Report to Sprint Nextel Corporation” at
8 page 68, attached Mr. Collins’ Direct Testimony, shows the ratio of equity to total
9 capital for the six (6) comparable companies that Mr. Collins used in his overall
10 analysis. This data demonstrates the comparability of LTD Holding Company’s
11 proposed debt and equity financing to those of six (6) comparable companies.
12 The data on page 68 demonstrates the real world outcome of companies choosing
13 to maintain an efficient use of both debt and equity financing versus seeking only
14 to repay debt in the near term as assumed in Ms. Goldman’s flawed argument.

15

16 **II. LTD Holding Company’s Complete Telecommunication Service Portfolio**

17

18 **Q. In the Direct Testimony that you adopted, it discussed how the LTD Holding**
19 **Company plans to use commercial agreements to purchase wholesale long**
20 **distance and wireless services from Sprint Nextel Corporation (Sprint**
21 **Nextel) and thereby enable Sprint Missouri, Inc. (Sprint Missouri) to offer a**
22 **full portfolio of telecommunication services. The testimony of Ms. Goldman**

1 **concludes these long distance and wireless wholesale commercial agreements**
2 **will result in customer harm. Do you agree with Ms. Goldman's claim of**
3 **"customer harm" and Ms. Goldman's associated recommendation that LTD**
4 **Holding Company be required to engage in a competitive bid process?**

5 A. No, I do not. In fact, the opposite is the case. Our customers in Missouri
6 obviously will be advantaged by Sprint Missouri's ability to sell a full portfolio of
7 telecommunication services including long distance and wireless. Ms. Goldman's
8 Response to Staff Testimony offers absolutely no support for the illogical
9 assertion of customer harm resulting from those customers having the option to
10 purchase long distance and wireless services (in addition to voice, data and video)
11 from Sprint Missouri.

12
13 **Q. How have the long distance and wireless wholesale commercial agreements**
14 **been structured to ensure LTD Holding Company is getting the best**
15 **available pricing?**

16 A. Both of these commercial agreements contain an important and beneficial feature
17 whereby the LTD Holding Company is assured the best available wholesale
18 prices offered by Sprint Nextel. This is accomplished via language in both
19 commercial agreements which are Most-Favored Nation ("MFN") low price
20 guarantees. There is no basis in fact for Ms. Goldman's claim of customer harm.

1 **Q. Beyond the ability to secure low price guarantees through MFN contract**
2 **provisions, what additional factors were considered in LTD Holding**
3 **Company's negotiations of the long distance and wireless wholesale**
4 **commercial agreements?**

5 **A.** Speaking first to the long distance commercial agreement, there were numerous
6 criteria which were considered in the decision to enter into the commercial
7 agreements with Sprint Nextel. Those important criteria included billing,
8 provisioning, network reliability, customer service, breadth of products as well as
9 pricing. Sprint Nextel's wholesale long distance product compares quite
10 favorably with competitive alternatives when all the necessary factors are
11 considered. Additionally, the objective of a near term seamless customer
12 experience associated with separating LTD Holding Company from Sprint Nextel
13 was yet another critical factor supporting the decision to contract this business
14 with Sprint Nextel. The current bundled local and long distance service purchases
15 across LTD Holding Company's serving area, (including Missouri), constitutes
16 *****BEGIN HIGHLY CONFIDENTIAL** [REDACTED] *****END HIGHLY**
17 **CONFIDENTIAL***** customers today. This necessitates requiring the
18 immediate capability to maintain consistency for those customers in terms of their
19 long distance and local service availability, pricing, ordering, provisioning,
20 billing, and customer service offerings. This key objective of ensuring a seamless
21 customer experience was yet another driver in the overall logical and financially
22 sound decision to contract the wholesale purchase of long distance and wireless

1 with Sprint Nextel. Thus, contrary to unsupported and inflammatory conclusions
2 of Ms. Goldman, the customers of Sprint Missouri, through LTD Holding
3 Company, stand to benefit most from the chosen course of action planned.

4
5 Moving now to the wireless commercial agreement, there is an obvious over-
6 riding issue that was logically considered, namely, the degree to which a potential
7 wholesale wireless provider's geographic service availability matches the
8 geographic serving area of LTD Holding Company's local customer base
9 (including Sprint Missouri). By comparing the wireless network coverage areas
10 of Alltel, Cingular, T-Mobile, Verizon to that of Sprint Nextel, it was recognized
11 that Sprint Nextel was best in class for this most critical of all issues (that being
12 the ability to offer wireless service to LTD Holding Company's local customers).
13 Sprint Nextel's wireless network coverage equates to a potential LTD Holding
14 Company customer market which exceeds that
15 LTD Holding Company serving area. Additionally, Sprint Nextel is the
16 acknowledged industry leader in Mobile Virtual Network Operator ("MVNO")
17 wholesale service arrangements as well as the leader in data service product
18 availability and innovation. These facts, along and with the MFN low price
19 guarantees, ensure customers benefit resulting from Sprint Missouri's ability to
20 market long distance and wireless products to those customers. I urge the
21 Commission to reject CWA's requested condition to delay these benefits by
22 requiring an unnecessary and ill-advised competitive process at this time.

1
2 **III. Asset Assignment to LTD Holding Company**

3
4 **Q. Starting at page 6, line 12 of her Amended Confidential Response to Staff**
5 **Testimony, Ms. Goldman presents an argument wherein she concludes the**
6 **applicant's proposed asset assignment to LTD Holding Company is not "fair**
7 **and equitable". Do you agree?**

8 **A.** No I do not. In fact, LTD Holding Company will receive all the assets reasonable
9 and necessary for it to continue the quality service provided across its eighteen
10 (18) state territory (including Missouri) today.

11
12 The error in Ms. Goldman's conclusion of inequitable asset allocation is rooted in
13 her flawed comparison of LTD Holding Company assets to the total balance sheet
14 of Sprint Nextel post merger. This overly simplistic comparison fails to consider
15 that the vast majority of the Sprint Nextel post merger balance sheet is either
16 newly created intangibles (including Goodwill associated with recording the
17 recent merger of Sprint and Nextel), or wireless assets, including those newly
18 contributed wireless assets from Nextel. This is easily seen in Ms. Goldman's
19 CWA Exhibit 4 at page 2 of 3 which shows total Sprint assets of \$41 billion as of
20 December 21, 2004 prior to merger with Nextel. This \$41 billion in assets rose to
21 the \$101 billion used in Ms. Goldman's erroneous comparison only as a result of
22 the recent merger between the wireless interests of Sprint and Nextel and the

1 associated creation and recording of intangibles including Goodwill. In fact,
2 effectively the entire account balances for Intangibles of \$49.5 billion clearly have
3 no association with or use to the LTD Holding Company, its necessary assets or
4 its operation but rather are 100% attributable to wireless. (See CWA Exhibit 4, at
5 page 2 of 3, Total Net Intangibles which make up essentially half of the \$101
6 billion in total assets.)

7
8 As I explain further below, comparisons of asset book balances are not the best
9 test of whether LTD Holding Company is receiving the assets necessary and
10 logical for its operation. Even under the approach used by Ms. Goldman I would
11 point out that had she more logically compared the LTD Holding Company assets
12 of \$9.6 billion to the \$41 billion in total Sprint assets which existed just prior to
13 the merger with Nextel she would have computed a relationship of 23.4%. This
14 relationship is a very near match to the relative relationship of approximately 7.7
15 million LTD wireline customers to total Sprint customers of 29.2 million
16 (including 21.5 million Sprint wireless customers) equating to 26.4%.

17

18 **Q. Is the proposed asset assignment to LTD Holding Company reasonable and**
19 **adequate for it to continue the services and quality that it provides today?**

20 A. Absolutely. In fact the \$9.6 billion in assets assigned to LTD Holding Company
21 at separation are effectively the exact same assets used by the individual local
22 operating telephone companies (OTCs, e.g. Sprint Missouri) to provide service

1 today. All of the assets which appear on the individual balance sheets of the
2 individual OTCs will transfer with the LTD Holding Company upon separation.
3 Said differently there are no OTC assets which will remain with Sprint Nextel
4 upon separation. Thus it is impossible to support the erroneous conclusion
5 reached by Ms. Goldman. The assets proposed for assignment to LTD Holding
6 Company upon separation are in fact reasonable, equitable and all that are
7 necessary to continue the provision of high quality service and financial results
8 which underlie those assets today.

9 **IV. Pension Plan Assets and Liabilities**

10
11 **Q. Starting at page 16, line 19 of her Amended Response to Staff Testimony, Ms.**
12 **Goldman urges the Commission to set conditions whereby it would oversee**
13 **the allocation of existing pension plan assets and liabilities and that such**
14 **allocation be done to fully fund the LTD's prospective pension liabilities.**
15 **Has Ms. Goldman presented any evidence in her Response to Staff**
16 **Testimony that such regulatory oversight is appropriate or is necessary?**

17 A. No. The applicant's predecessor company, Sprint Corporation, has had a long
18 and well established track record concerning both its adherence to governing IRS
19 regulations and its commitment to employees through proper management and
20 funding of the pension plan for employees and retirees. The factual evidence of
21 this can be seen in Sprint Missouri's response to Data Request 26 of the CWA's
22 First Set of Data Requests to Sprint Nextel, which I have included as Exhibit

1 KWD-1 to this Surrebuttal Testimony. The response contains an independent
2 Actuarial Valuation Report of the Sprint Retirement Pension Plan dated July 2005
3 performed by Watson Wyatt Worldwide.

4
5 In referencing Exhibit KWD-1, I would first draw attention to the independent
6 actuaries' conclusion on page 1, which states "In our opinion, all methods,
7 assumptions and calculations are in accordance with requirements of the Internal
8 Revenue Code and ERISA, and the procedures followed and presentation of
9 results are in conformity with generally accepted actuarial principles and
10 practices." Looking next at page 6 of this report and the section titled "Funded
11 Ratios", the reader can see that all three of the pension asset to liabilities valuation
12 comparisons presented support a conclusion of a securely funded pension plan.
13 Ms. Goldman's vague references to the pension funding problems of Lucent and
14 Global Crossing clearly have no bearing or weight given the verifiable,
15 independent financial security of Sprint's pension plan assets and liabilities as
16 demonstrated in this independent actuarial review and report.

17
18 As I explained above, Ms. Goldman has failed to demonstrate that a condition is
19 required because the factual circumstances of these other instances are not
20 applicable or relevant to LTD Holding Company, particularly in light of our
21 historical track record. Nonetheless, I have also included in Exhibit KWD-2 to
22 this Surrebuttal Testimony, to further support our position that the condition

1 requested by Ms. Goldman -- *i.e.*, regulatory conditions that impose additional
2 Commission oversight regarding the allocation of pension assets and liabilities --
3 is unnecessary and inappropriate on a prospective basis. Exhibit KWD-2 is an
4 affidavit signed by the LTD Holding Company's Chief Financial Officer --
5 Designee Mr. Gene M. Betts. This Senior Officer of the LTD Holding Company
6 reiterates the applicant's commitment to an equitable allocation of pension plan
7 assets and liabilities that complies with all applicable governing laws and rules
8 and continues the legacy of a financially secure pension plan for LTD Holding
9 Company employees and retirees. I believe that Exhibit KWD-2 allows the
10 Commission to proceed with the requested separation transaction approval
11 without the need for the condition requested (but not otherwise supported) in Ms.
12 Goldman's Response to Staff Testimony.

13
14 **Q. Mr. Bett's affidavit states that Sprint Nextel's spinoff of pension plan assets**
15 **and liabilities will comply fully with the Internal Revenue Service Section**
16 **414(l). Are you familiar with Section 414(l) and if so can you please**
17 **summarize its requirements?**

18 A. Yes, I would be glad to do so. The title of Section 414(l) is descriptive and
19 helpful in and of itself and reads as follows, "Merger and consolidations of plans
20 or transfers of plan assets". As this title implies this IRS code governs the
21 transfers of pension plan assets and liabilities between plans such that each
22 resulting plan receives a level of assets and liabilities which ensures that each plan

1 participant will receive the pension benefit he or she was entitled to immediately
2 before the merger, consolidation or transfer. A company's compliance with this
3 governing IRS requirement is reviewed and evidenced by the company's filing
4 with the IRS a Form 5310-A which describes the assignment of plan assets and
5 liabilities in compliance with applicable regulations including 414(l). It is helpful
6 to further note that this report will be prepared by the independent actuarial firm
7 of Watson Wyatt Worldwide. Thus Mr. Bett's affidavit evidences Sprint Nextel's
8 commitment to conduct the plan assets and liabilities transfers and associated
9 filings with the IRS in compliance with governing laws, rules and regulations. No
10 further oversight or conditions are necessary.

11

12 **Q. Would CWA's requested condition to assign pension plan assets based on**
13 **prospective pension liabilities comply with the governing IRS regulation**
14 **414(l) you just explained?**

15 A. No it would not. The fact that CWA continues to request such an approach
16 indicates a lack of understanding for the subject matter and further evidences why
17 this issue is best left to the combined expertise and oversight of the IRS and
18 Watson Wyatt Worldwide.

19

20 **Q. Have these same assurances and explanations you provide in this Surrebuttal**
21 **Testimony been previously communicated to CWA in other states associated**
22 **with proposed separation transaction?**

1 A. Yes. I provided these same information items and assurances in my testimony in
2 Pennsylvania. It is noteworthy that this information was satisfactory to CWA
3 such that they withdrew their originally requested condition relative to pension
4 plan asset assignment from the Pennsylvania case (effectively the same condition
5 CWA now requests in Missouri). I have included the applicable section of the
6 Pennsylvania Public Utilities Commission hearing transcript as Exhibit KWD-3 to
7 this Surrebutal Testimony. Mr. Scott Rubin provided legal representation for
8 CWA at the Pennsylvania hearing and his statement reads as follows:

9 “Mr. Rubin: Thank you, you Honor. As an initial matter, CWA has
10 considered the testimony of Mr. Dickerson this morning concerning the
11 pension issue and has reviewed that with CWA’s in-house pension experts
12 during the lunch break.

13 As a result of Mr. Dickerson’s representations today and the affidavit for
14 Mr. Bett’s that’s attached to Mr. Dickerson’s rejoinder, CWA will not be
15 contesting the applicants proposed pension allocation and will not be
16 seeking any commission action on that issue. “

17 I therefore urge this Commission to ignore the unnecessary and unworkable
18 condition for pension asset assignment put forth by Ms. Goldman.

19

20 **Q. Does this conclude your Surrebuttal Testimony?**

21 A. Yes.