

The services provided to the affiliate business units constitute affiliate transactions which represent the primary mechanism available to achieve standardized operations of the United and Central Telephone Companies' business units.

Sprint has organized its various business lines into subsidiary business units with their own boards of directors and managers. The management group of each business unit is responsible for the attainment of certain corporate prescribed goals and objectives. Centralized corporate services offer the primary means of providing uniform direction to the subsidiary management groups in the achievement of their respective goals and objectives.

Sprint's local exchange operations consist primarily of business units that have been acquired from other telecommunications corporations or were independently managed prior to acquisition. In each instance, Sprint has found it necessary to ensure the goals and objectives of the new units are consistent with those of the corporate board of directors. The affiliate relationship approach provides the means to extend corporate priorities into newly acquired business units and achieve operational uniformity without direct managerial control of subsidiary affairs. The development of uniform policies, practices, procedures, products and programs provides the means to introduce new concepts into the subsidiary business units at approximately the same time. This facilitates operational integration and standardization of newly acquired subsidiaries in a manner not otherwise achievable.

Estimating fair market value for the carriers will be cost-prohibitive and unmanageable as the scope and scale of corporate services change in the future

The current set of corporate services have been established to support the achievement of prescribed goals and objectives outlined by the corporate board of directors. As goals and objectives are altered to reflect new business opportunities, changing legal and regulatory responsibilities or new corporate agendas the responsibility of the corporate staff will change to reflect its newly defined role. Such change could either broaden or narrow the scope of corporate involvement depending upon the particular situation.

The proposed introduction of a fair market value test for services would, in these conditions, require almost continuous examination of both the services being provided and their respective cost. The enormity of such an undertaking defies serious consideration when the relative benefit of doing so is highly questionable.

It is the opinion of Greenwich Associates that management must continue to have the flexibility to modify the complement of services it provides to its subsidiaries. Any effort to restrict management's discretion by subjecting its corporate service costs to artificial examination - either in advance or arrears - of its decisions is an unwarranted intrusion upon the private sector's freedoms of operation.

The current set of corporate services reflect an effort to leverage critical management talent throughout the subsidiary business units which will not be reflected in any calculation of fair market value.

The United and Central Telephone Companies are comprised of a number of small business units engaged in the local telecommunication business. The relatively small scale of operations (when compared to the Regional Holding Company business units) for these business units results in a large scope of responsibility for the SUMC staff and management. Financial conditions do not permit retention of highly specialized staffs to support narrowly defined areas of support. Subsidiary business requirements demand general managers capable of addressing many issues - not just one or two.

Management positions within the United and Central Telephone business units provide limited opportunity for specialized skill development. The limited need for specialists makes employment of such skilled resources by subsidiaries uneconomical and unjustifiable. The consolidation of certain planning, policy development and systems mechanization activities to corporate as staff responsibilities is a reflection of the need for such talent in the planning and management of the business, the limited availability of such expertise in the subsidiary business units and the need to leverage the available resources throughout the corporation.

It is the opinion of Greenwich Associates that the corporate staff provides critical talent to the subsidiary business units not otherwise available from within

their own organizational units and is not recognized by reliance upon EFMV principles to solely establish benefit.

Affiliate relationships provide the means to narrow the technological and managerial variance between business units.

SUMC provides services to a set of affiliate business units which vary in size, composition, technological and managerial capability. Most have been acquired through financial agreements from other parties in whatever state they then existed. Management continues to seek improvement in the technological and managerial proficiency of its business subsidiaries through broad application of knowledge, skills and talents developed within its subsidiary organizations. The goal has been to close any gaps which exist between the units simply because of size, composition or previous management priorities.

The commitment of management to advance the technological and managerial capability of the subsidiary business units is essential to achieve maximum benefit from new technologies and procedures. Technological standardization and managerial uniformity provide the basis for cost containment strategies and total quality management commitments.

It is the opinion of Greenwich Associates that SUMC - through its staff services - appropriately directs the improvement of its affiliate business units in areas which impact dramatically upon customer's expectations of service and service costs. This constitutes one of the major benefits of centralized staff organizations that cannot be derived through contracting with outside parties for support. In that situation, secondary benefit of the relationship accrues to the party who improves their relative experience and performance.

The estimated fair market value of services is extremely difficult to measure objectively, changes significantly over time and is easily misrepresented by interested parties

In contrast to physical assets which are tangible - and the relative merits of which can be readily determined in the market - it is far more difficult to measure the worth of professional and technical services than is suggested by the FCC in Docket 93-251. The very imprecise nature of services leaves professional and technical services highly susceptible to individual interpretation. This single fact severely

limits the utility of any valuation to transactions other than the one for which it was originally done.

Conventional valuation methodologies have generally subjected physical assets to three primary tests in the conduct of establishing their relative worth -

Comparability - the relative similarity in physical condition and utility as other items represented to be identical

Availability - the relative ability to substitute a comparable asset for the subject without extraordinary cost or effort

Capability - the technical properties and functional utility of the subject asset in meeting the need of the acquiring party

In each instance, the physical properties of the asset are readily discernible to the valuing party. The physical presence of the asset, therefore, reduced the need for assumption and discount in the valuation process.

In contrast, services have no physical properties, no visible state and, therefore, no easily discernible value to the beholder. A suitable set of professional and technical services with which to compare the subject service is virtually impossible to assemble in the highly fluid and relatively undisciplined services market. Without an accepted base of services for comparison with the subject service, a conclusion regarding relative worth is impossible to draw without stepping across the line of professional responsibility and integrity.

Similarly, the relatively low entry barrier to the professional and technical services field presents the evaluating party with an almost infinite number of service substitutes. The relative market volatility created by free entry and exit of professional service firms and practitioners precludes any semblance of long-term pricing discipline amongst the participants. Without adequate controls on entry-exit of the market we have no effective governor on "market price".

The very limited set of entry-exit controls on services further proscribes the ability of an appraising party to effectively gauge professional competency. This is

extremely critical when one considers the fact that one's employment of any professional is predicated upon the assumption that an individual - or firm - is sufficiently competent and capable to satisfy one's needs.

It is the opinion of Greenwich Associates that any proposed changes to the regulatory treatment of services offered under the terms of the Service Agreement between Sprint United Management Company and its affiliate business units is unwarranted and unnecessary. The family of services provided are needed and necessary to fulfill the duties and obligations of the subsidiary companies; they do not duplicate - in full or in part - services performed by the subsidiary companies themselves; they represent competent and capable subject matter experts and decision support systems that may not otherwise be available to subsidiary management.

Similarly, we submit that any effort by the FCC to establish any service cost thresholds, boundaries, targets or guidelines for affiliate services is equally unwarranted and unnecessary. We believe that any such proposed threshold, boundary, target or guideline is arbitrary, capricious and totally without merit. The current regulatory processes offer sufficient opportunity for the public to review actual costs incurred for affiliate services and determine their appropriateness without the establishment of artificial points of judgment.

Finally, we ask for the Commission to reconsider its extension of EFMV to affiliate services. While it may seem to some parties a potential method of calculating the relative efficiencies of centralized staff organizations it is a highly unworkable and unreliable process. It is our opinion that it will prove to be of extremely limited value to either improved regulation or improved management decision making.

Overall, it is the opinion of Greenwich Associates that the managerial relationship between the subsidiary business units and the corporate staff reflects prudent and proper management. Furthermore, the relationship reflects a mutually beneficial arrangement on the part of all individuals and organizations and is consistent with structures employed by the corporation's industry peers. We find no reason for the FCC to suggest increased oversight is necessary to preserve the public interest or promote any structural change in the affiliate relationship that currently exists. Any consequent change to the current relationship should reflect a

change in corporate strategy or business interest - not the expressed desires of some portion of the regulatory community.

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Mr. Mann is a Managing Vice President of Greenwich Associates - a management consulting firm specializing in telecommunications industry issues. Mr. Mann holds a B.A. from Graceland College, M.A. and Ph.D. from the University of Missouri. He has lectured extensively on issues of affiliate relationships and has authored several articles including "Affiliate Interests: Strategic Imperative or Regulatory Impediment?", "Directory Publishing: Affiliating for Advantage" and "Restoration in the Midst of Revolution: Affiliate Interests and the Information Highway". Additionally, Mr. Mann has testified in a number of state regulatory proceedings on issues of organization design and affiliate relationships.