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May 9, 2006

Ms. Blanca Bayó, Director
Division of Administrative Services and
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32303

RE: Embarq Credit Agency Reports

Dear Ms. Bayó:

As required by Order No. PSC-06-0033-FOF-TP, issued January 10, 2006 in Docket No. 050551-TP, enclosed are copies of the press releases announcing the credit ratings recently assigned to Embarq Corporation and Embarq Florida, Inc., which will be separated from Sprint Nextel Corporation on May 17, 2006. All three credit rating agencies (Moody's Investor's Service, Fitch Ratings, and Standard and Poor's Ratings Services) assigned an investment grade rating to Embarq Corporation and Embarq Florida, Inc.

If you have any questions, or need additional information, please let me know.

Sincerely,

A handwritten signature in cursive script that reads "Susan S. Masterton".

Susan S. Masterton

Cc: Beth Salak, FPSC
Andrew Maurey, FPSC



Rating Action: Embarq Corporation

MOODY'S ASSIGNS Baa3 SENIOR UNSECURED RATING TO EMBARQ CORPORATION WITH A STABLE OUTLOOK. VARIOUS ACTIONS TAKEN ON RATINGS OF LOCAL OPERATING SUBSIDIARIES.

Approximately \$7.25 Billion of Debt Obligations Affected.

New York, April 25, 2006 -- Moody's Investors Service today assigned a Baa3 senior unsecured debt rating to Embarq Corporation, with a stable outlook, and took various other rating actions on the existing debt of its operating subsidiaries as outlined below. The Baa3 rating reflects the low investment grade business profile of the company supported by its stable, predictable financial profile.

As a local exchange carrier, Embarq holds a very high share in its markets due to its incumbency, although total market revenues have been steadily eroding due to competition from wireless and cable. Further, Moody's does not expect the market for the company's fixed line telephony products to grow, as growth in high speed data (DSL) fails to offset price erosion and other competitive factors. With \$7.9 billion of debt, as adjusted using Moody's standard adjustments for underfunded pensions and to capitalize operating lease obligations, supported by close to \$3 billion of OIBDA, leverage is modest at below 3 times and supports an investment grade rating. However, Embarq is a cash tax payer and in addition to servicing that debt, Embarq expects to pay common dividends totaling \$300 million per year. With capital expenditures expected to be approximately \$900 million per year, this reduces free cash flow (cash provided by operations less capital expenditures and dividends) to approximately \$500 million per year 6.5% of total adjusted debt, a weak level for the rating category. Nonetheless, Moody's expects Embarq to devote the majority of its free cash flow to debt reduction over the next two to three years in order to improve this ratio to above 7% over the intermediate term.

Embarq Corporation is the holding company for the local telecommunications division of Sprint Nextel Corp. (Baa2 senior unsecured) that will be spun out to shareholders midyear. Embarq controls 7.1 million retail access lines in 18 states. Embarq has experienced retail access line loss of approximately 4% per year of late, a level Moody's expects to accelerate in the coming years. Nonetheless, Embarq commands a dominant share in its markets and the expected erosion to revenue and profits will be modest and predictable.

The rating outlook is stable, reflecting Moody's opinion that the company is well positioned in the rating category due its predictable cash flows and good liquidity. While Moody's does not expect Embarq to carry large cash balances, the company will have access to at least \$500 million of borrowing availability under its revolving credit. The ratings are likely to come under pressure should Embarq not be able to improve the ratio of its free cash flow to debt to 7% or higher by year end 2007.

The senior unsecured debt of Embarq Corporation does not benefit from any upstream guarantees and is therefore structurally subordinated to the liabilities of its subsidiaries. Further, the indentures to the senior notes issued by Embarq do not contain any restrictions on change of control, and the lone restrictive financial covenant limits liens to less than 15% of Consolidated Net Tangible Assets. At December 31, 2005, there was \$665 million of reported debt at various local operating subsidiaries of Embarq. \$200 million of that amount is unsecured and \$465 million represents first mortgage bonds at 13 different subsidiaries.

Moody's rates the first mortgage debt of Sprint-Florida, United Telephone Company of Pennsylvania, and Central Telephone Company Baa1 due to the strong financial profile of those companies and the strong collateral coverage with debt to total assets at or below 16% at each of those issuers. Moody's also rates the unsecured debt of Carolina Telephone & Telegraph Company Baa1, notwithstanding the lack of collateral to support these debentures as Carolina T&T has one of the strongest financial profiles of any Embarq subsidiary and carries no secured debt. The senior unsecured debt of Centel Capital Corp. (guaranteed by Centel Corp.) is rated Baa2 reflecting its structural subordination to \$240 million of secured debt at its subsidiaries (Sprint-Florida and Central Telephone). Moody's has withdrawn the shelf rating for United Telephone Co. of Ohio and the rating on the MTN program at Central Telephone as no new debt is expected to be issued by these issuers.

The affected ratings are:

Downgrades:

..Issuer: Central Telephone Co.

....Senior Secured First Mortgage Bonds, Downgraded to Baa1 from A3

..Issuer: Sprint-Florida, Inc.

....Senior Secured First Mortgage Bonds, Downgraded to Baa1 from A3

..Issuer: United Telephone Co. of Pennsylvania

....Senior Secured First Mortgage Bonds, Downgraded to Baa1 from A3

Assignments:

..Issuer: Embarq Corporation

....Senior Unsecured Bank Credit Facility, Assigned Baa3

....Senior Unsecured Regular Bond/Debenture, Assigned Baa3

Outlook Actions:

..Issuer: Carolina Telephone & Telegraph Company

....Outlook, Changed To Stable From Negative

..Issuer: Centel Capital Corp.

....Outlook, Changed To Stable From Negative

..Issuer: Central Telephone Co.

....Outlook, Changed To Stable From Negative

..Issuer: Sprint-Florida, Inc.

....Outlook, Changed To Stable From Negative

..Issuer: United Telephone Co. of Ohio

....Outlook, Changed To Rating Withdrawn From Negative

..Issuer: United Telephone Co. of Pennsylvania

....Outlook, Changed To Stable From Negative

Withdrawals:

..Issuer: Central Telephone Co.

....Senior Secured Medium-Term Note Program, Withdrawn, previously rated A3

..Issuer: United Telephone Co. of Ohio

....Senior Secured Shelf, Withdrawn, previously rated (P)A3

Based in Overland Park, Kansas, Embarq Corporation is the fifth largest local telecommunications in the United States by access lines and generated over \$6.2 billion of revenue in 2005.

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FitchRatings

Rating Action Commentary

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Fitch Assigns 'BBB-' to Embarq Senior Notes & Bank Facility

Fitch Ratings-Chicago-April 25, 2006: Fitch Ratings has assigned a 'BBB-' issuer default rating (IDR) to Embarq Corporation (Embarq). Fitch has also assigned a 'BBB-' rating to the proposed \$3.1 billion senior unsecured credit facility and has assigned a 'BBB-' rating to the proposed issuance of three tranches of senior notes totaling approximately \$4.5 billion. The Rating Outlook is Stable.

Additionally, Fitch has removed the ratings of Carolina Telephone & Telegraph Company (CT&T) and Sprint – Florida, Inc. (SFL) from Rating Watch Negative. Fitch has assigned a 'BBB-' IDR to CT&T and SFL and has downgraded the rating assigned to CT&T's debentures to 'BBB-' from 'BBB+'. Fitch has downgraded the rating assigned to SFL's first mortgage bonds to 'BBB' from 'A-'. The Rating Outlook for all the ratings assigned to CT&T and SFL is Stable.

Embarq is a direct wholly owned subsidiary of Sprint Nextel Corporation (Sprint Nextel) and was created to facilitate the contemplated spin-off of Sprint Nextel's local telephone division and its North Supply business to Sprint Nextel shareholders. To affect the spin-off approximately \$2.1 billion of cash proceeds drawn from Embarq's credit facility together with the \$4.5 billion of senior notes are expected to be transferred to Sprint Nextel. Following the spin-off from Sprint Nextel, Embarq will be the fifth largest local telephone company and the largest independent non-RBOC in the United States. Embarq will offer telecommunications services to approximately 4.5% of U.S. households. As of the end of 2005 Embarq had approximately 7.35 million total access lines along with approximately

693,000 DSL lines in 18 states including large clusters located in Florida, North Carolina, Nevada and Ohio.

Fitch's ratings reflect the size and scale of Embarq as well as the company's relatively stable cash flows and strong liquidity profile. Access to liquidity is provided by the \$1.5 billion revolver, which will be in place until 2011. Fitch expects approximately \$1.0 billion of borrowing availability following the completion of the spin-off. Additionally, Embarq's liquidity position is supported by the nominal amount of scheduled maturities over the next five years. The ratings also incorporate Embarq's diverse service territory, which includes a mixture of small urban, regional commerce, and rural markets that in Fitch's opinion have favorable demographic profiles. Primarily due to the geographic diversity Embarq's operating profile, from Fitch's perspective, has less overall risk and provides a buffer to competition and technology substitution relative to the more urban focused operating profiles of the regional bell operating companies (RBOCs).

Fitch's ratings recognize the ongoing pressure within Embarq's core voice services business stemming from technology substitution and broadband displacement. Fitch expects access lines losses as well as the erosion of core voice service revenue to continue for the foreseeable future as the wide scale launch of telephony service by the cable multiple system operators is expected to further elevate the competitive pressure within Embarq's service territory. By the end of 2006 a significant portion of households within Embarq's service territory will have access to a cable telephony service. The core voice services generate a large portion of the company's overall revenue base highlighting the lack of revenue and service diversity inherent in Embarq's current operating profile. Additionally, the ratings reflect the lack of growth opportunities available to Embarq to mitigate the expected erosion of voice service revenues. Fitch acknowledges that Embarq has experienced rapid growth from DSL, however Fitch believes the growth from DSL alone will not be sufficient to offset the expected declines in voice revenue.

Fitch believes that Embarq's credit protection metrics are appropriate within the rating category. Pro forma for the spin-off transaction as of Dec. 31, 2005, Embarq's outstanding indebtedness totaled \$7.25 billion including approximately \$665 million of legacy local telephone debt. Leverage on a debt to EBITDA basis, on a pro forma basis as of the end of 2005 was 2.5 times (x) while interest coverage was over 5.5x. Fitch anticipates leverage

to remain relatively stable over the short term as Fitch expects nominal amounts of debt reduction to keep pace with the expected erosion of EBITDA. In Fitch's opinion the \$300 million annual dividend Embarq expects to pay its shareholders affords the company with sufficient financial flexibility to invest in plant and growth opportunities balanced against Fitch's expectation of continued erosion of EBITDA and free cash flow. From Fitch's view point Embarq's dividend policy is within Fitch's investment grade expectations when balanced against lower overall leverage. Factors that could result in a negative rating action include but are not limited to an unfavorable change in the company's dividend policy and a greater than anticipated impact on access line losses from cable telephony.

The Stable Rating Outlook reflects Fitch's expectation that Embarq's credit protection metrics will be consistent over the next 12 to 24 months as well as Embarq's ability to generate relatively stable amounts of free cash flow. This expectation is balanced with the competitive operating environment stemming primarily from wireless substitution and competition from cable telephony service offerings. Fitch believes that a key strategy to mitigating competitive pressure is the company's service bundling offering. Embarq will enhance its service bundle with the expected launch of its wireless MVNO service. Fitch anticipates that Embarq's wireless business will be EBITDA dilutive over the near term. Fitch believes that a key to Embarq's service bundling strategy will be the level of integration the company is able to achieve between its wireline, wireless and video businesses.

Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, 'www.fitchratings.com'. Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site.



RESEARCH

Research Update: Embarq Corp. Assigned 'BBB-' Corporate Credit Rating With Negative Outlook

Publication date: 04-May-2006
Primary Credit Analyst: Eric Geil, New York (1) 212-438-7833;
eric_geil@standardandpoors.com

Credit Rating: BBB-/Negative/–

Rationale

On May 4, 2006, Standard & Poor's Ratings Services assigned its 'BBB-' corporate credit rating to Overland Park, Kan.-based Embarq Corp. The outlook is negative.

At the same time, a 'BBB-' rating was assigned to the company's proposed offering of \$4.485 billion unsecured notes consisting of three tranches due in 2013, 2016, and 2036. A 'BBB-' rating also was assigned to the company's proposed \$3.1 billion five-year unsecured credit facility.

Embarq will be comprised of the operations principally attributed to Sprint Nextel Corp.'s local phone division, and will be spun off to Sprint Nextel shareholders in a tax-free transaction on or about May 17, 2006. At that time, Sprint Nextel will receive about \$6.6 billion in consideration from Embarq consisting of the \$4.485 billion of notes and \$2.1 billion of cash financed by the bank facility.

The 'BBB-' ratings on unsecured operating company debt and the 'BBB+' ratings on secured operating company debt of Sprint Nextel are affirmed and removed from CreditWatch. These debt issues will become subsidiary obligations of Embarq Corp. following the spin-off. The subsidiary debt ratings had been on CreditWatch with negative implications since Aug. 4, 2005, because of our concern that the new local entity could receive a noninvestment-grade corporate credit rating.

Ratings on Embarq reflect the company's position as the dominant provider of local and long distance telecommunications services in its markets, the business's high margin, strong free cash flow characteristics, monthly recurring revenue from a sizable and geographically diverse customer base, and good growth potential from digital subscriber line (DSL) data services. Important to the ratings is an intermediate financial risk profile incorporating our expectations that Embarq will use a substantial portion of its discretionary cash flow for debt repayment to mitigate weak business trends in its residential voice business. Tempering factors include modestly declining revenue and cash flow from accelerating access line erosion fueled by wireless substitution and cable telephony competition, as well as limited product diversity compared with that of cable company competitors capable of offering a broader, more integrated bundle of services.

Embarq served 7.26 million switched access lines in 18 states as of March 31, 2006, making it the largest local phone company behind the regional Bell operating companies. The company had about 777,000 DSL customers and is currently realizing strong 30%-40% customer and revenue growth from this service, which is the primary means of mitigating competitive pressure on the core voice business. Embarq also is bundling direct to home (DTH) satellite TV services provided under a resale agreement from EchoStar and plans to offer Embarq-branded wireless

services using wholesale network services purchased from Sprint Nextel.

Despite solid DSL growth, overall revenue is declining by a low single-digit rate because of erosion of residential access lines stemming from new households forgoing wireline services in favor of wireless during the past few years, and more recently, from cable companies rolling out attractive bundled video, data, and voice packages. In the 2006 first quarter, cable telephony supplanted wireless as the largest contributor to line erosion and Embarq estimates that this rival voice service will be available to about 88% of its customers by year-end, up from a current level of about 45%. This could accelerate line erosion of 4.9% in the 12 months ended March 31, 2006, and 3% in the year-earlier period. Resale of DTH could enhance customer retention, but as is characteristic of such resale arrangements, will never provide meaningful direct cash flow, even at subscriber levels substantially above the current sub-2% penetration of residential customers.

In the first quarter of 2006, local telephone revenue sagged 2% year over year as the effects of declining access lines more than offset the benefits of DSL revenue growth, while EBITDA was essentially flat, likely due to cost control measures. The EBITDA margin on local services (excludes the roughly EBITDA break-even product distribution business) is in line with peers, in the mid- to upper-40% range. A steeper revenue decline is likely for full year 2006, assuming access line losses of up to 7.5% (based on company guidance) from accelerating cable telephony deployment by major cable companies in Embarq's service footprint. This and higher recurring overhead expenses as an independent company and one-time transition costs likely will trim EBITDA profitability. Any discounting intended to slow customer losses could weigh on revenue per customer and also weaken profitability.

Embarq's proposed capitalization, solid discretionary cash flow, and planned \$300 million annual dividend equaling roughly 40% of estimated free operating cash flow suggest a low investment-grade risk profile. Pro forma debt to EBITDA for 2005 was about 2.6x, or roughly 2.8x treating unfunded pension and other postretirement employee benefit obligations as debt. Even with low single-digit revenue and EBITDA erosion, discretionary cash flow after \$800 million to \$900 million in recurring capital expenditures and the \$300 million dividend, should facilitate moderate debt reduction. Given the business uncertainty and potential further revenue erosion Embarq faces, we expect the company to apply much of its discretionary cash flow to debt repayment to avoid an increase in the debt to EBITDA ratio.

Liquidity

Embarq will have solid liquidity from discretionary cash flow, an expected \$200 million cash balance at the time of the spin-off, and about \$1 billion in undrawn revolving credit, which will be fully available, based on the 3.75x total debt to EBITDA covenant. However, a full draw on the revolver without a corresponding increase in EBITDA to keep debt to EBITDA below 3x could pressure the rating. We do not anticipate any material use of the revolving credit for acquisitions or other investments in the near term. Debt maturities are negligible until 2011 when the \$1.6 billion bank term loan and any amount outstanding on the \$1.5 billion revolving loan mature.

Outlook

The outlook is negative. Uncertainty about the severity and duration of the competitive impact from cable telephony on customers, revenue, and cash flow could weigh on the ratings for the next two years until cable

companies complete their telephony rollouts and the competitive environment settles. While Embarq's discretionary cash flow should facilitate debt reduction and credit improvement in the face of modest EBITDA declines, a more severe mid-single digit EBITDA decline may not suggest an investment-grade business profile and resulting credit deterioration could trigger a downgrade. Conversely, if access line erosion stabilizes to the 3%-4% area and the company is able to reduce debt to EBITDA from the current upper 2x area, the outlook could be revised to stable.

Ratings List

Embarq Corp.

Ratings Assigned

Corporate credit rating	BBB-/Negative/--
\$4.485 bil aggregate notes	BBB-
\$1.6 bil unsecd term loan due 2011	BBB-
\$1.5 bil unsecd rev loan due 2011	BBB-

Ratings Affirmed And Removed From CreditWatch Negative
To From

Carolina Telephone & Telegraph Co. Senior unsecured debt	BBB-	BBB-/Watch Neg
Centel Corp. Senior unsecured debt	BBB-	BBB-/Watch Neg
Centel Capital Corp. Senior unsecured debt	BBB-	BBB-/Watch Neg
Central Telephone Co. First mortgage bonds	BBB+	BBB+/Watch Neg
Sprint-Florida Inc. First mortgage bonds	BBB+	BBB+/Watch Neg

Complete ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation bar, select Find a Rating, then Credit Ratings Search.

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