Agenda Date: March 20, 2012
Item Number: A1

Docket: UT-120128
Company Name: Qwest Corporation

Staff: William Weinman, Assistant Director - Telecommunications
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Recommendation

Approve the sale of Qwest Corporation d/b/a CenturyLink QC (Qwest or company) headquarters building and the land located at 1600 – 7th Avenue, Seattle, Washington, subject to the condition Qwest commits to share the $11.2 million gain from the sale with Washington customers in a manner to be determined at a later date. Commission staff will work with the parties, Qwest, the office of Public Counsel of the Attorney General (PC) and Department of Defense and all other Federal Executive Agencies (DoD/FEA), to explore other disbursement options and provide a recommendation to the commission.

Discussion

On January 27, 2012, Qwest filed an application with the commission pursuant to RCW 80.12 and WAC 480-143 requesting an order approving the sale of the land and building located at 1600 – 7th Avenue, Seattle Washington. On February 7, 2012, and February 8, 2012, Qwest supplemented the application by filing the Leaseback Agreement and the proposed journal entries. The company supplemented the application again on March 12, 2012, providing the First and Second amendments to Sale and Purchase of Real Property and the Reinstatement of and Third Amendment to Agreement for Sale and Purchase Agreement. On March 13, 2012, Qwest amended the application by providing a description of broadband deployment projects in selected unserved areas and fiber path projects the Company agreed to undertake for DoD/FEA in conjunction with the proposed sale.

Under RCW 80.12.020 and WAC 480-143-120, a public service company must secure commission approval prior to completing the sale of a property necessary or useful in the performance of its duties to the public. WAC 480-143-120 requires that applications include details of the sale as well as the company's current financial statements and copies of all transfer instruments. Pursuant to WAC 480-143-170 and WAC 480-143-180, the commission shall approve the application if the transaction in the public interest and that the property is no longer "necessary or useful."[1]

Qwest's application is complete, as it contains the documentation required by WAC 480-143-120. The documentation includes a detailed explanation of the sale, the company's current

[1] Although Qwest is currently under an Alternative Form of Regulation (AFOR) which limits the applicability of RCW 80.12 to transactions exceeding $15,600,000 (*see* Order 06, ¶ 50, Docket UT-061625), the value of this transaction is greater than $15,600,000, therefore, RCW 80.12.020 and associated commission rules are applicable.

financial statements, a signed sales and purchase agreement, a lease-back agreement and a copy of the proposed journal entries. The application also includes a detailed discussion of commitments that Qwest has made in order to ensure that the transfer is consistent with the public interest.

The office building that Qwest seeks approval to transfer has been owned and occupied by the company since 1976 and has been used by Qwest in providing telecommunications service in Washington, as well as other states. The building has 32 floors, and as Qwest's Washington work force has been reduced, Qwest's need for this space has substantially diminished. Qwest put the property up for sale and has entered into a sales agreement with the buyer for an amount of money specified in Qwest's confidential Agreement for Sale and Purchase of Real Property. Following the transfer, Qwest will lease back sufficient space to continue providing service to the public.

Qwest attests that the transfer of property is consistent with the public interest. It is no longer necessary for the company to own the property for its provision of services. The purchase price is at or above market value based on the company's advisors. The sale will improve the company's financial health, adding cash and eliminating the costs associated with owning and operating a large office building.

Qwest attempted to sell the building in 2008. The commission approved the sale, contingent upon several investment conditions, including fiber-to-the-node and digital subscriber line deployment as well as a contribution to Community Voice Mail.[2] The sale fell through due to the collapse in the capital markets at that time.

Because Qwest needs a finding from the commission that the transaction is in the public interest, representatives of Qwest, staff, PC, and DoD/FEA held extensive discussions about Qwest's filing. Parties discussed the amount of the sale proceeds that Qwest should share with Washington customers and the manner in which this gain on sale should be distributed back to customers.

The company agrees to share the proceeds from the sale with the Washington ratepayers. It applies the same methodologies in the case involving the sale of the Centralia Power Plant, Dockets UE-991255, *et al*. The commission approved the same method of allocating a share of gain in the company's previous building sale proceeding in Docket UT-081501. Staff has reviewed the filing and agrees the methodology used is consistent with the principle of equitable sharing of the gain on sale developed in Dockets UE-991255, *et al*. As a result, Qwest has agreed to share $11.2 million from the proceeds with Washington customers. The detailed calculation is shown in Confidential Attachment F in Qwest's March 13, 2013, amendment to the application.

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[2] *See In re Application of Qwest Corporation for Order Approving an Agreement for Transfer of Land and Building located at 1600 – 7th Avenue, Seattle, Washington to INGCAL 7th Avenue, LLC,* Docket UT-081501, Order 01 (Sept. 25, 2008).

The parties discussed options regarding how the $11.2 million should be distributed to Washington customers, focusing on two potential outcomes: Either providing bill credits to all current Qwest customers or deploying additional broadband service in currently unserved areas. Staff believes that the benefit of a customer bill credit may be relatively small and short term. In comparison, additional broadband deployment, as listed in the company's Attachment E of its March 14, 2012, amendment seems to yield a longer term tangible benefit for rural customers. All of the proposed broadband projects are in high-cost areas where there is no landline provider of broadband service (neither digital subscriber line nor cable high-speed Internet access) and the company has no plan to extend broadband services to these areas within the next three years. These projects are not included as part of the company's state-wide broadband build-out plan filed in the CenturyLink-Qwest merger proceeding. They will not be counted towards the company's broadband extension when the company applies for Connect America Fund Phase I projects in the near future.[3] The proposed projects would make broadband available to 3739 households. In addition, the company is reviewing a plan to build three fiber paths to the DoD/FEA's facilities to enhance national security.

The buyer's offer on the building expires March 23, 2012, and Qwest has informed staff the buyer will not extend the time of this offer. A special open meeting was scheduled on March 20, 2012, to approve the company's request before the offer expires. On March 13, 2012, staff was asked to review a proposed settlement to determine if there are other ways to distribute the gain to a broader customer base. Staff needs more time to explore alternatives other than bill credits or the proposed broadband deployment that would broaden the distribution to Qwest's customer base. Under these circumstances, the commission should approve the building sale and defer a decision on the distribution of the gain to a future date. The other parties have been informed of the change and have not raised any objections to this proposal.

Conclusion

Staff recommends that the commission approve the transfer and require the parties to submit a recommendation to the commission within 90 days of the effective date of the order on how to disburse the gain from the sale.

[3] Based on the information provided by the company, the average cost of providing broadband to each household in the proposed areas is substantially higher than the CAF Phase 1 support, which is $775 per location.