

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Joint Application of)	DOCKET UT-082119
)	
EMBARQ CORPORATION AND)	SETTLEMENT AGREEMENT
CENTURYTEL, INC.)	
)	
For Approval of Transfer of Control of)	
United Telephone Company of the)	
Northwest d/b/a Embarq and Embarq)	
Communications, Inc.)	
)	
.....)	

1 This Settlement Agreement ("Agreement") is entered into between CenturyTel, Inc. ("CenturyTel"), Embarq Corporation ("Embarq"), Staff of the Washington Utilities and Transportation Commission ("Staff"), and the Public Counsel Section of the Washington Attorney General ("Public Counsel") (collectively the "Parties" or individually a "Party").

A. BACKGROUND

2 On November 24, 2008, Embarq and CenturyTel filed a joint application with the Washington Utilities and Transportation Commission ("Commission"), pursuant to Chapter 80.12 RCW and Chapter 480-143 WAC, for approval of an indirect transfer of control of Embarq's and CenturyTel's regulated Washington State operating subsidiaries.

3 In Washington, CenturyTel provides local service through its subsidiaries CenturyTel of Washington, Inc., CenturyTel of Inter Island, Inc., and CenturyTel of Cowiche, Inc. (collectively "CenturyTel ILECs"). CenturyTel provides long distance service in Washington through its subsidiary CenturyTel Long Distance, LLC. CenturyTel has two other non-ILEC operating entities certificated in Washington: CenturyTel Solutions, Inc. and CenturyTel Fiber Company II, d/b/a LightCore, a CenturyTel Company LLC. Embarq provides local and long distance service through its operating subsidiaries, United Telephone Company of the Northwest d/b/a Embarq ("United") and Embarq Communications, Inc. This Agreement refers to the proposed post-merger combined CenturyTel/Embarq entity as the "Merged Company" and the CenturyTel ILECs and United collectively as the "Merged Company ILECs."

4 Staff and Public Counsel appeared and have participated in the case, raising several issues in connection with the proposed transaction. The Parties now enter voluntarily into this Agreement to resolve the matters in dispute among them and to expedite the orderly disposition of this proceeding.

B. NATURE OF AGREEMENT

5 This Agreement is a "Full Settlement" within the meaning of WAC 480-07-730(1), and the Parties will present this Agreement to the Commission for its approval to resolve all issues in this docket raised by the parties to this Agreement.

C. POSITIONS ARE NOT CONCEDED

6 In reaching this Agreement, each of the Parties maintains the positions espoused throughout the proceeding. No Party necessarily accedes to any argument made by any other Party.

D. AGREEMENT SUBJECT TO COMMISSION APPROVAL

7 The Parties understand and agree that this Agreement in no manner binds the Commission in ruling on the pending proceeding until such a time as the Commission approves the Agreement. This Agreement is expressly subject to Commission approval except for ¶ 12 (Support of the Agreement) below. The Parties agree that if the Commission approves the Agreement without material change, this docket will be concluded.

E. AGREED CONDITIONS ON MERGER

8 The conditions agreed upon by the Parties are as follows:

1. Continuation of WUTC Docket No. UT-051291 Separation Conditions

The conditions approved by the Commission in WUTC Docket No. UT-051291 will continue to apply to United subject to their expiration under the terms of the Commission-approved settlement agreement in that case ("Separation Order").¹

A brief description of the impact of this Agreement on Separation Order conditions is provided below:

¹ *In the Matter of the Request of Sprint Nextel Corporation for an Order Declining to Assert Jurisdiction Over or, in the Alternative, Application for Approval of the Transfer of Control of United and Sprint Long Distance, Inc. from Sprint Nextel Corporation to LTD Holding Company, WUTC Docket No. UT-051291, Order 06, Approving and Adopting Settlement Agreement (March 14, 2006).*

- a. With regard to the amortization of the directory sale, this Agreement has no impact on the terms associated with the Separation Order.
- b. With regard to the Separation Order's Recovery of Separation, Branding & Transition Costs condition, this Agreement has no impact.
- c. With regard to the Separation Order's service guarantee, this Agreement has the following impact: Until CenturyTel and Embarq combine their billing and customer care systems, the Separation Order's service guarantee condition is unchanged for United. Once the billing and customer care system is integrated, then the provisions of this Agreement take effect and supersede the Separation Order's service guarantee, and the new service guarantee will apply to the Merged Company ILECs. This Agreement's service guarantee section should be understood as a "different plan" under Section E.3 of the Separation Order's service guarantee.
- d. With regard to the Separation Order's Service Quality condition, this Agreement has no impact. The Milestone Reporting discussed below does not replace the Separation Order's Service Quality condition, nor does it alter in any way the Merged Company's obligation to comply with applicable Commission-approved service quality requirements.
- e. With regard to the Separation Order's Customer Notice condition, it is the Settling Parties understanding that these conditions are no longer in effect.
- f. With regard to the Separation Order's finance conditions, those conditions will continue to apply to United, with the caveat that post-merger, the financial evaluations and restrictions included in the Separation Order's provisions 6ai, 6aii, 6c and 6f that previously were based on Embarq Corporation will be based on the post-merger combined CenturyTel. All of the finance conditions from the Separation Order will apply to United until their expiration on May 17, 2010. At that time, United will become subject to the finance conditions contained in this Agreement. CenturyTel ILECs will be subject to the finance conditions contained in this Agreement for a period beginning at the close of the merger, and continuing for three

(3) years. The finance conditions for all Merged Company ILECs expire three (3) years from the close of the merger.

- g. With regard to the Separation Order's Affiliated Interest Agreement conditions, this Agreement has no impact, and these conditions continue to apply to United following the closing of this merger. The Affiliated Interest provisions of this Agreement apply for all of the Merged Company ILECs.
- h. With regard to the Separation Order's Broadband Deployment condition, this Agreement has no impact. The Broadband Improvement condition contained in this Agreement does not override or replace the Separation Order's Broadband Deployment condition.

2. Finance Conditions

- a. For three (3) years from the close of the merger, at any time when the condition in subsection 2.a.i exists, the Merged Company ILECs will limit payments of dividends on common equity distributed to CenturyTel, or any other subsidiary or affiliate of CenturyTel, in any year to an amount not more than 50 percent of net income in the prior fiscal year. The Merged Company ILECs will limit payment of dividends on common equity in any quarter, if dividends are distributed quarterly, to not more than one-fourth of the annual limitation amount.
 - i. The average market value of CenturyTel's common equity is less than 50 percent of the book value of CenturyTel's net debt. The average market value of CenturyTel's common equity will be calculated by multiplying the average stock price by the average number of fully-diluted common stock shares outstanding during the preceding 120 calendar day period. As used in this section, "net debt" means total long-term debt less cash. This test will be calculated prior to the determination of each declaration of dividends by the Merged Company ILECs, whether quarterly, special, or other.
- b. The Merged Company will not pledge the assets of the Merged Company ILECs to secure borrowing undertaken by it, or any other subsidiary, without approval of the Commission.

- c. For three (3) years after the close of the merger, the Merged Company ILECs will not advocate in any general rate case for a higher cost of capital as compared to what its cost of capital would have been absent the merger.

3. Service Guarantee

CenturyTel and Embarq agree that for a period of twelve (12) months following the projected date for conversion to the CenturyTel billing and customer care system, the Merged Company ILECs will provide bill credits in their service territories based on the same structure as those currently provided by United under the terms of the settlement agreement approved in the Separation Order. Automatic credits will be provided to customers for each repair and/or installation commitment missed due to reasons within the Merged Company ILECs' control. The credit will be a fixed \$15 for residential and \$25 for basic business (i.e., B1) customers. The Merged Company ILECs must have in effect, by the beginning of the conversion to the CenturyTel billing and customer care system, tariffs providing for these credits.

4. Merger Synergies

- a. CenturyTel and Embarq agree that the Merged Company ILECs will petition for an AFOR(s) pursuant to RCW 80.36.135, or the then current AFOR law or rule, no later than five (5) years from the close date of the merger.
- b. CenturyTel and Embarq agree that none of the Merged Company ILECs will file tariff revisions that would seek to increase stand alone residential local exchange service access line rates for one (1) year from the merger close date ("Stay Out Period"), except in the case of the occurrence of "Exogenous Events."
- c. "Exogenous Events" are defined as any orders, rules, or other actions, individually or in combination, by a governmental body that have an annual impact of \$1 million or more on either (a) CenturyTel of Washington, Inc. and CenturyTel of Inter Island, Inc. on a combined basis, (b) CenturyTel of Cowiche, Inc., or (c) United. An operating company (or in the case of CenturyTel of Washington, Inc. and CenturyTel of Inter Island, Inc., which utilize a combined revenue requirement) would be entitled to seek recovery of the financial impact of such Exogenous Events during the Stay Out Period in a general rate proceeding as defined by WAC 480-07-505 or in an AFOR. All other rates may be adjusted at any time pursuant to existing statutes and rules or in conjunction with an earnings review.

5. Recovery of Merger Branding & Transaction Costs

CenturyTel and Embarq agree that the Merged Company ILECs will not seek recovery from ratepayers, through intrastate regulated rates, of any merger, branding or transaction costs including, but not limited to, transaction costs (accounting, banker, legal advisor and other fees), severance costs associated with the merger and costs of developing, establishing, or changing branding. These amounts will be recorded separately and identified on the accounting records of the Merged Company ILECs.

6. Customer Notice

CenturyTel and Embarq commit to send notice to affected customers if either (or both) CenturyTel or United undergo a name change. Prior to any name change becoming effective in Washington, the Merged Company ILECs will work with Staff and Public Counsel on the content of a notice informing their customers of a name change, if applicable.

7. Transfer of Long Distance Customers

CenturyTel and Embarq agree that the Merged Company will send notice to customers, if any, that experience a change in their long distance carrier as result of the merger. The notice will be sent to customers a minimum of thirty (30) days before transfer and will commit to waiving any PIC change charges for a period of ninety (90) days should customers decide to change to a different long distance carrier.

8. Broadband Improvement

CenturyTel and Embarq agree that United will provision broadband to 2,200 residential lines which currently are not broadband capable over three (3) years, commencing upon the close of the merger. Annual progress on this condition will be apparent, as measured by the number of residential access lines that become DSL enabled. An annual report will be provided to the Staff and Public Counsel specifying:

- a. The number of lines enabled;
- b. The wire centers where those lines are located;
- c. The data speeds for each upgraded wire center, as measured by the maximum speed the upgraded equipment is capable of providing; and,

- d. The number of lines in the upgraded wire center capable of reaching the following downstream data speeds: Up to 1.5 megabits per second ("Mbps"); above 1.5 Mbps up to 3 Mbps; and, above 3 Mbps to maximum data speed.

9. Affiliated Interest

CenturyTel and Embarq agree that the Merged Company ILECs will comply with all applicable Commission statutes and rules regarding affiliated interest transactions, including timely filings of applications and reports.

10. One-Time Lifeline Pamphlet

The Merged Company ILECs will notify Lifeline and tribal agencies of a name change when and if it occurs. The procedure includes the following:

- a. Update all Lifeline materials to reflect the new name when it becomes final and approved for distribution;
- b. Update agency contact letters to reflect the name change message;
- c. Prepare a mailing list of all social service agencies on the Merged Company ILECs' Lifeline/Link-Up contact list and send notifications along with Lifeline applications and flyers;
- d. Update FYI Bulletin to reflect the message about the name change;
- e. Send a Lifeline Bill Message to existing Lifeline customers several months prior to and after the change; and,
- f. Edit Lifeline newspaper ad to reflect the name change.

11. Milestone Reporting

CenturyTel and Embarq agree to provide the Staff and Public Counsel with advance written notice of major system conversions impacting Washington customers and will work with Staff to identify these major conversions. Those major systems will include, but not necessarily be limited to, business office and trouble reporting call centers, maintenance systems that monitor central office and transport equipment, engineering systems, outside plant record systems, and billing systems.

12. Synergy Benefits

CenturyTel and Embarq agree that by entering into this Agreement, no party is prohibited from addressing synergy benefits in determining the appropriate revenue requirement in future earnings review and general rate cases.

CenturyTel and Embarq acknowledge that Staff and Public Counsel may seek, and the Merged Company will not oppose, an earnings review to the extent consistent with the then prevailing legal requirements applicable to AFORs.

F. EFFECTIVE DATE

9 This Agreement is effective upon Commission approval, without material change, of the Agreement and the closing of the merger. Notwithstanding the effective date of the Agreement as a whole, paragraph 12 below, which requires the Parties to support the Agreement, is effective on the execution date of the Agreement. The execution date of the Agreement is the date of the latest signature of a Party executing the Agreement.

G. FILING OF THE AGREEMENT

10 The Parties agree to use the following procedures to seek Commission approval of the Agreement. Within one (1) business day of the date of execution of the required narrative of this proceeding that accompanies this Agreement ("Narrative"), Embarq and CenturyTel will file this Agreement and the Narrative with the Commission on behalf of the Parties. The transmittal letter will recommend that the Commission accept the settlement as the resolution of all issues in the case.

H. AGREEMENT APPROVAL PROCEDURES

11 The Parties understand the Commission has discretion, consistent with applicable law, to determine the appropriate procedures for deciding whether it will approve this Agreement. Pursuant to WAC 480-07-740(1), the Parties urge the Commission to approve the Agreement.

I. SUPPORT OF THE AGREEMENT

12 All Parties agree to use their best efforts to support the Agreement as a settlement of all contested issues in the pending proceeding. If the Commission so desires, the Parties will provide supporting witnesses to sponsor the Agreement at a Commission hearing and recommend that the Commission issue an order adopting this Agreement as the resolution of this proceeding and to provide such other evidence or briefing that the Commission may require pursuant to WAC 480-07-740(2). No Party to this Agreement or their agents, employees, consultants or attorneys will engage in any advocacy contrary to the Commission's prompt consideration of this Agreement. Nothing in this Agreement, however, requires any Party to support a material modification to this Agreement, if one is made by the Commission.

J. PROCEDURE IF THE COMMISSION PROVIDES LESS THAN FULL APPROVAL

13 In the event the Commission rejects this Agreement, the provisions of WAC 480-07-750(2)(a) shall apply. In the event the Commission accepts the Agreement upon conditions not proposed herein, each Party reserves the right, upon written notice to the Commission and the Parties within five (5) days of the Commission's Order, to state its

rejection of the conditions and withdrawal from the Agreement. In such event, the Parties immediately will request the prompt convening of a prehearing conference for purposes of establishing a procedural schedule for the completion of the case pursuant to WAC 480-07-750(2)(a). The Parties agree to cooperate in the development of a schedule that concludes the proceeding at the earliest possible date taking into account the needs of the Parties.

K. THE AGREEMENT AS PRECEDENT

14 The Parties have entered into this Agreement to avoid further expense, inconvenience, uncertainty and delay. Nothing in this Agreement (or any testimony, presentation or briefing supporting the Agreement) shall be, 1) cited or construed as precedent or as indicative of a Party's position on a resolved issue, or 2) asserted or deemed to mean that a Party agreed with or adopted another Party's legal or factual assertions in this proceeding. The limitations in this paragraph shall also not apply to any proceeding to enforce the terms of this Agreement or any Commission order adopting this Agreement in full.

15 Because this Agreement represents a compromise position of the Parties, no conduct, statements or documents disclosed in the negotiation of the Agreement shall be admissible as evidence in this or any other proceeding. This paragraph does not apply to non-privileged, publicly available documents.

L. ENTIRE AGREEMENT

16 The Parties acknowledge that this Agreement is the product of negotiations and compromise and shall not be construed against any Party on the basis that it was the drafter of any or all portions of this Agreement. This Agreement constitutes the Parties' entire agreement on all matters set forth herein, and it supersedes any and all prior oral and written understandings or agreements, on such matters that previously existed or occurred in this proceeding, and no such prior understanding or agreement or related representations shall be relied upon by the Parties.

M. INTEGRATED AGREEMENT

17 The Parties recommend that the Commission approve this Agreement with no material changes. The Parties have agreed to this Agreement as an integrated document.

N. MANNER OF EXECUTION

18 This Agreement is considered executed when all Parties sign the Agreement. A designated and authorized representative may sign the Agreement on a Party's behalf.

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The Parties may execute this Agreement in counterparts. If the Agreement is executed in counterparts, all counterparts shall constitute one agreement. A faxed signature page containing the signature of a Party is acceptable as an original signature page signed by that Party.

DATED this 22nd day of April, 2009

ROB MCKENNA
Attorney General

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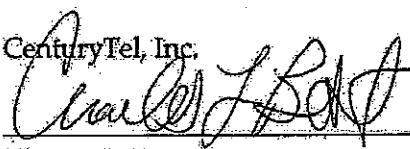
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Settlement Agreement


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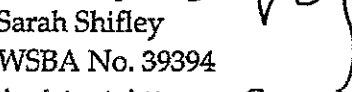
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