EXHIBIT ___ MSR-2RT

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the matter of, Joint Application of Qwest Communications International Inc. and CenturyTel, Inc. for Approval of Indirect Transfer of Control of Qwest Corporation, Qwest Communications Company, LLC, and Qwest LD Corp.	Docket No. UT-100820

REBUTTAL TESTIMONY

OF

MARK S. REYNOLDS

ON BEHALF OF

QWEST CORPORATION

NOVEMBER 1, 2010

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION WITH QWEST CORPORATION.

A. My name is Mark S. Reynolds and my business address is 1600 7th Ave., Room 1506, Seattle, Washington, 98191. I am employed by Qwest Corporation as Assistant Vice-President Public Policy and Regulatory Affairs for Qwest Corporation ("Qwest") and other Qwest regulated companies.

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Q. ARE YOU THE SAME MARK REYNOLDS THAT FILED DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. I am providing rebuttal testimony that concerns certain recommendations made by Washington Utilities and Transportation Commission Staff ("Staff") witness Mark Vasconi regarding the proposed merger between CenturyLink, Inc. and Qwest Communications International, Inc. (the "merger"). Specifically, I will address Staff's proposed merger conditions sponsored by Mr. Vasconi that deal with Alternative Form of Regulation plans ("AFOR") for Qwest and CenturyLink and rate and service caps preceding the implementation of a single AFOR for both companies. My testimony also responds to similar conditions raised by the Department of Defense and All Other Federal Executive Agencies ("DOD/FEA") witness Charles W. King regarding extension of Qwest's AFOR and price caps for basic business rates.

Q. WHAT ARE MR. VASCONI'S CONCERNS REGARDING THE AFORS AND WHAT DOES HE PROPOSE?[1]

A. Mr. Vasconi explains that Qwest's currently effective AFOR expires on November 30, 2011, and will require the Commission to begin a review of the Qwest AFOR on February 28, 2011. Further, Mr. Vasconi testifies that CenturyLink is required to file an AFOR within five years of the closing date of the CenturyLink/Embarq merger as part of the settlement in Docket UT-082119. Given the current procedural timeline for the review of the merger in this docket, Mr. Vasconi expresses his concerns that an Order in this proceeding will not have been issued by the time the review of the Qwest AFOR is scheduled to begin. Also, Mr. Vasconi believes that post-merger, there should be a single AFOR for combined companies in order to fully reflect any financial and operational changes. In order to allow these financial and operational changes to be fully realized, Mr. Vasconi proposes in Staff's Condition No. 3 that the current Qwest AFOR be extended for three years, until 2014, when Qwest and CenturyLink would be required to file one AFOR under which the CenturyLink ILECs and Qwest would be treated as one entity. This AFOR would address rate design issues for residential and business services and intrastate access charges, presumably on an integrated basis.[2]

Q. DOES STAFF PROPOSE ANY OTHER CONDITIONS THAT SUBTEND THIS AFOR CONDITION?

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[1] DOD/FEA Witness Charles W. King at, Docket UT-100820, Testimony of Charles W. King, Exhibit No._(CWK-1T), 25:23-25, recommends, "The Commission extend Qwest's present AFOR until the synergies from the merger have been realized. At that time, the Commission can examine the merged company' overall revenue needs." In addressing Mr. Vasconi's similar proposal in Staff Condition No. 3, my testimony also addresses this recommendation by Mr. King.

[2] Docket UT-100820, Testimony of Mark J. Vasconi, Exhibit No._(MJV-1T), "Condition No. 3" at 16:12-30, 17:1-7.

A. Yes. Staff's Condition Nos. 29 and 30 prohibit CenturyLink ILECs and Qwest from increasing rates for residential and business basic exchange services and residential service bundles for three years and require that the service elements included in residential bundled service offerings remain unchanged for one year.[3] Mr. Vasconi's rationale for these conditions is that he is concerned that the merged entity may attempt to recover costs associated with the merger through rate increases or service changes for these services.[4]

Q. ARE MR. VASCONI'S CONCERNS ASSOCIATED WITH STAFF CONDITIONS 3, 29, AND 30 WELL FOUNDED?

A. No. The current forms of regulation that apply to the companies' rates and operations are based on various statutes, rules, and Commission proceedings and represent the level of regulation that the Commission deems appropriate for each type of service.

Q. PLEASE EXPLAIN WITH RESPECT TO STAFF CONDITION NO. 29.

A. Staff Condition No. 29 prohibits the CenturyLink ILECs and Qwest from increasing rates for retail residential basic exchange services for three years after the merger closing date.[5] Because both the CenturyLink ILECs' and Qwest's residential exchange services are currently under tariff, if either entity sought a rate increase

[3] Docket UT-100820, Testimony of Mark J. Vasconi, Exhibit No._(MJV-1T), "Condition Nos. 29 and 30" at 17:31-35, 18:1-9.

[4] Docket UT-100820, Testimony of Mark J. Vasconi, Exhibit No._(MJV-1T), at 11:4-13.

[5] Docket UT-100820, Testimony of Mark J. Vasconi, Exhibit No._(MJV-1T), at 17:31-35, 18:1-2; "**Condition No. 29 –** For three years following the date the transaction closes, CenturyLink ILECs and Qwest are prohibited from increasing rates for retail residential customers purchasing flat, measured service offerings or for residential service bundles. For one year following the date the transaction closes, service elements (e.g. call waiting, call forwarding, local service, etc.) contained in residential bundled service offerings at the close of the transaction shall remain in the service bundles without change."

for such services it would require a tariff filing that would be subject to suspension for investigation to determine that the proposed rate changes were fair, just, and reasonable, as the Commission deems warranted.

Condition No. 29 also prohibits the companies from increasing rates for residential service bundle offerings for three years after the merger closing date and restricts the companies from changing the elements (e.g. call waiting, call forwarding, local service, etc.) in residential service bundles for one year after the merger closing date. The Commission has previously granted the CenturyLink ILECs minimal regulation for the residential service bundles under the provisions of RCW 80.36.332 based on petitions by the companies that the services meet the condition required by the statute. Further, Qwest's residential service bundles are effectively deemed competitively classified under the provisions of its AFOR. In both cases, the Commission has ruled that the alternative form of regulation applied to these services is in the public interest.

Q. PLEASE EXPLAIN WITH RESPECT TO STAFF CONDITION NO. 30.[6]

A. Staff Condition No. 30 prohibits the CenturyLink ILECs and Qwest from increasing rates for retail business basic exchange services for three years after the merger closing date.[7] Because the CenturyLink ILECs' business exchange services are

[6] DOD/FEA Witness Charles W. King at, Docket UT-100820, Testimony of Charles W. King, Exhibit No._(CWK-1T), 25:27-29, recommends, " For the duration of the AFOR, for at least three years, the basic business rates of both CenturyLink and Qwest should be capped. If the cap lasts longer than three years, the caps should be adjusted for inflation." In addressing Mr. Vasconi's similar proposal in Staff Condition No. 30, my testimony also addresses this recommendation by Mr. King.

[7] Docket UT-100820, Testimony of Mark J. Vasconi, Exhibit No._(MJV-1T), at 18:4-9; "**Condition No. 30 –** For three years following the date the transaction closes, CenturyLink ILECs and Qwest are prohibited from increasing retail rates for basic business services. The basic business service rates that shall be capped at levels in place at the close of the transaction are single and multiple line business rates, and PBX and Centrex services."

currently under tariff, if it sought a rate increase for such services it would require a tariff filing that would be subject to suspension for investigation to determine that the proposed rate changes were fair, just, and reasonable, as the Commission deems warranted. Qwest business exchange services have either been directly competitively classified by the Commission in separate proceedings or have been effectively competitively classified by the Commission under the terms of its AFOR.[8] Consequently, the Commission has ruled that the alternative form of regulation applied to these Qwest business services is in the public interest.

Q. DO YOU AGREE WITH MR. VASCONI'S CONCERN THAT THE MERGED ENTITY MAY ATTEMPT TO RECOVER COST ASSOCIATED WITH THE MERGER THROUGH RATE INCREASES OR SERVICE CHANGES FOR THESE SERVICES?

A. No. As I have explained above, the various levels of regulation that currently apply to these services have been the subject of substantial deliberation by the Commission in prior proceedings or through the legislative process. Determinations have been made by the Commission based on a significant body of

[8] In the Matter of the Petition of Qwest Corporation for Competitive Classification of Business Service in Specified Wirecenters, Seventh Supplemental Order Denying Petition and Accepting Staff's Proposal, Docket UT-000883, December 18, 2000; In the Matter of the Petition of U S WEST Communications, Inc. for Competitive Classification of its High Capacity Circuits in Selected Geographical Locations, Eighth Supplemental Order Granting Amended Petition for Competitive Classification, December 21, 1999, Docket No. UT-990022; In the Matter of the Petition of Qwest Corporation for Competitve Classification of Basic Business Exchange Telecommunications Services, Docket UT-030614, December 22, 2003, Order No. 17 Granting Qwest's Petition for Competitive Classification of Analog Business Local Exchange Services; In the Matter of the Petition of Qwest Corporation for Competitive Classification of Digital Business Switched and Private Line Services and Vertical Features, Docket UT-050258, Approved by Washington Utilities and Transportation Commission at April 27, 2005 Open Meeting; In the Matter of the Petition of Qwest Corporation for an Alternative Form of Regulation Pursuant to RCW 80.36.135; Docket UT-061625, July 24, 2007, Order No. 06 Accepting Settlement and Approving Alternative Form of Regualtion, on Conditions

evidence that services that they believe are subject to effective competition require less regulation. Consequently, it would be very difficult for the companies to recover merger related costs because, for the currently tariffed services (i.e., residential exchange services for Qwest and CenturyLink ILECs and business exchange services for CenturyLink ILECs), the companies are required to file cost support for proposed rate changes that are subject to review and approval by the Commission. Regarding the flexibly priced services (i.e., residential service bundles and Qwest business exchange services), the companies provided significant evidence of competition for these services before receiving Commission approval for relaxed price regulation. In other words, the Commission was satisfied the market was sufficiently competitive to constrain the prices for the services.

Q. HAS COMPETITION IN THE MARKETS FOR THESE SERVICES DECLINED SINCE THE COMMISSION GRANTED RELAXED PRICE REGULATION?

A. No. On pages 16-23 of my Direct Testimony I provide evidence that competition has intensified significantly in the markets for these services.

Q. ARE THERE OTHER STAFF CONDITIONS THAT MITIGATE THE NEED FOR THE INVASIVE PRICE CAPS PROPOSED IN CONDITIONS 29 AND 30?

A. Yes. Staff Condition No. 5 requires that the post-merger companies must hold retail and wholesale customers harmless for increases in overall management costs that result from the transaction. Likewise, Staff Condition No. 6 explicitly details a number of merger-related costs that the post-merger companies must refrain from seeking recovery from Washington wholesale and retail customers. This provision also requires CenturyLink to record these merger-related costs in separate subaccounts in its accounting records and to provide annual reports on them to the Commission. Mr. Bailey's Rebuttal Testimony addresses Conditions 5 and 6.

Q. PLEASE ADDRESS MR. VASCONI'S PROPOSAL IN STAFF CONDITION NO. 3 THAT THE CURRENT QWEST AFOR BE EXTENDED FOR THREE YEARS, UNTIL 2014, WHEN QWEST AND CENTURYLINK WOULD BE REQUIRED TO FILE ONE AFOR UNDER WHICH THE CENTURYLINK ILECS AND QWEST WOULD BE TREATED AS ONE ENTITY.

A. Based on my testimony above regarding Staff Condition Nos. 29 and 30, such a proposal is totally unacceptable unless the price cap conditions are eliminated. This is because when Staff Condition Nos. 3, 29, and 30 operate in concert, the result is that the Qwest AFOR is extended for three years without much of the pricing flexibility granted under the AFOR. Qwest accepted the conditions of its AFOR as a complete package. In return for the pricing flexibility it gained under its AFOR, Qwest was willing to submit to provisions that it not deaverage retail rates, that it extend wholesale service quality provisions to its commercial agreements, that it augments its service quality and service guarantee programs, and that it spend $4 million in DSL deployment and ensure a certain percentage of DSL availability in its operating territory. Consequently, CenturyLink and Qwest cannot agree to an extension of Qwest's AFOR, because when coupled with the rate caps proposed in Staff Condition Nos. 29 and 30, the result is extending all of Qwest's AFOR commitments without any of the AFOR benefits.

Q. IF STAFF CONDITION NOS. 29 AND 30 WERE ELIMINATED, WOULD THE COMPANIES BE WILLING TO EXTEND QWEST'S AFOR?

A. The post merger company would not be opposed to the extension of Qwest's AFOR as long as all the provisions of the agreement remain intact, as addressed in my previous response. However, CenturyLink witness John Jones, in his rebuttal testimony, opposes the provisions outlined in Staff Condition No. 3 regarding a single AFOR for intrastate rate setting purposes that includes rate design for residential and business services and intrastate access charges.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.