

**HIGHLY CONFIDENTIAL PER PROTECTIVE ORDER**

**IN UTC DOCKET UT-100820**

Responsive Testimony  
James A. Appleby

**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

**REDACTED SUPPLEMENTAL RESPONSIVE TESTIMONY**

**OF**

**JAMES A. APPLEBY**

**SPRINT NEXTEL CORPORATION**

**NOVEMBER 1, 2010**

**HIGHLY CONFIDENTIAL PER PROTECTIVE ORDER**

**IN UTC DOCKET UT-100820**

Supplemental Responsive Testimony  
James A. Appleby

**TABLE OF CONTENTS**

|      |   |    |
|------|---|----|
| I.   | Introduction and Purpose .....  | 1  |
| II.  | Summary of Testimony.....   | 1  |
| III. | The Merged Firm Will Enjoy Unwarranted Market Power Unless Its High Access Rates Are Reduced.....   | 3  |
| IV.  | The Merged Firm’s Market Power is Not Limited to Voice Services .....   | 13 |
| V.   | Merger Approval Should Be Conditioned On Competitors Being Able to Port Qwest/CenturyLink Interconnection Agreements Within The Merged Firm’s Entire Footprint..... | 23 |



**HIGHLY CONFIDENTIAL PER PROTECTIVE ORDER**

**IN UTC DOCKET UT-100820**

Supplemental Responsive Testimony  
James A. Appleby

1 typically seen in an ILEC-ILEC merger. In addition, the Merged Firm’s combined  
2 network is not just a voice network – it is a platform for the Merged Firm to provide  
3 many other non-voice products. Specifically, the combined network will enable  
4 significant revenue opportunities such as broadband internet service, internet protocol  
5 television, and Fiber-to-the-Cell (FTTC). This, plus the advantageous “owner’s  
6 economics” associated with the Merged Firm’s imposition of excessively high access  
7 charges on all competitors using its now hugely expanded network, increases its  
8 market power even more. Finally, the Merged Firm’s internal communications  
9 demonstrate it acknowledges and anticipates regulatory intervention to control its  
10 ability to wield market power.

11 **Q. Do you sponsor any exhibits with your testimony?**

12 A. Yes. I cite to a wide variety of the HSR documents Petitioners have designated as  
13 highly confidential pursuant to the Amended Protective Order. I attach the cover  
14 page and the relevant page(s) to this testimony as highly confidential exhibits to this  
15 testimony.



**HIGHLY CONFIDENTIAL PER PROTECTIVE ORDER**

**IN UTC DOCKET UT-100820**

Supplemental Responsive Testimony

James A. Appleby

1 [REDACTED] **[End Confidential**  
2 **Data].**<sup>3</sup>

3 **Q. You have testified that the Qwest IXC network provides the Merged Firm with**  
4 **both expense savings and revenue opportunities. Do Petitioners agree?**

5 A. Yes. Numerous internal documents discuss the incremental expense savings and  
6 revenue opportunities/synergies that are available with the CenturyTel and Embarq  
7 merger. The following section of testimony documents the Merged Firm's  
8 understanding of revenue opportunities and then the second of expense synergies that  
9 would result from this merger.

10 **Q. What are the revenue opportunities/synergies available to the Merged Firm?**

11 A. I discussed in my previous testimony that the Merged Firm will have increased sales  
12 opportunities in the residential and enterprise customer (business) market through  
13 bundled local and long distance voice service.<sup>4</sup> And as I discuss further in Section IV  
14 below, the expanded network opens up additional revenue opportunities to provide  
15 broadband and entertainment services either as stand-alone services or bundled with  
16 traditional local/long distance voice services.

---

<sup>3</sup> Qwest Production - Attachment 4 (c) – 31 Rating Agency Presentation, 4-20-10 (Exhibit No. \_\_\_\_ (JAA-10HC)).

<sup>4</sup> Appleby Responsive Testimony pp. 5-13.

**HIGHLY CONFIDENTIAL PER PROTECTIVE ORDER**

**IN UTC DOCKET UT-100820**

Supplemental Responsive Testimony  
James A. Appleby

1 **Q. Please explain the expense savings associated with the Merged Firm owning the**  
2 **Qwest IXC.**

3 A. As I have noted in my previous testimony, the Merged Firm will be able to generate  
4 savings on local termination costs.<sup>5</sup> The Merged Firm will also save money on long  
5 distance transport by moving traffic from a third party network onto the Merged  
6 Firm's network. And by merging with ILECs providing local termination facilities,  
7 the Merged Firm's interexchange carriers will save money on local termination costs  
8 by moving their traffic off of a third party's network onto its own network for  
9 termination to the customer. In both cases, the Merged Firm will own the network  
10 components and enjoy the economic benefits of that ownership.

11 **Q. What does the term "owner's economics" refer to?**

12 A. "Owner's economics" is a commonly used term referring to the economic benefit of  
13 network functions that are available only to the owner of the network facilities. The  
14 owner of network facilities, in this case the Merged Firm, incurs only the actual  
15 economic cost of the functions the network provides. All other companies  
16 unaffiliated with the Merged Firm using those network functions will continue to pay  
17 whatever wholesale rates the Merged Firm chooses to charge, one example being the  
18 bloated rates CenturyLink currently charges for switched and special access services.  
19 Qwest IXC will no longer incur the bloated access charges of the legacy CenturyLink

---

<sup>5</sup> *id*

**HIGHLY CONFIDENTIAL PER PROTECTIVE ORDER**

**IN UTC DOCKET UT-100820**

Supplemental Responsive Testimony  
James A. Appleby

1 ILECs but instead, as an affiliated company of the Merged Firm, will incur only the  
2 much lower actual cost of the legacy CenturyLink ILEC's network functionality. I  
3 explained this concept in my previous testimony but did not use the term owner's  
4 economics.<sup>6</sup>

5 **Q. Will the Merged Firm enjoy owner's economics with respect to long distance**  
6 **transport?**

7 A. Yes. The Merged Firm will realize owner's economics on the incremental amount of  
8 long distance traffic that it can move from third-party long distance transport  
9 providers currently handling it to the Qwest long distance transport network. These  
10 long distance transport savings are calculated by comparing the price the Merged  
11 Firm's entities pay other carriers for long distance transport versus Qwest's cost to  
12 carry the incremental traffic on its long distance transport network. When a company  
13 self-provisions, the economic cost is the actual cost the company incurs to provide the  
14 service to itself. On the other hand, when a company must purchase the function  
15 from another carrier, the actual cost is the price the company must pay the other  
16 carrier.

17 **Q. Will the Merged Firm also enjoy owner's economics with respect to the costs of**  
18 **local termination, namely switched access and special access services?**

---

<sup>6</sup> Appleby Responsive Testimony pp. 9-13



**HIGHLY CONFIDENTIAL PER PROTECTIVE ORDER**

**IN UTC DOCKET UT-100820**

Supplemental Responsive Testimony  
James A. Appleby

1 A. Yes. As previously noted, I discussed this topic in detail in my surrebuttal testimony.  
2 I explained how the Merged Firm can use its market power against all other  
3 unaffiliated providers.<sup>7</sup>

4 **Q. Do Petitioners acknowledge that as a result of the merger they will realize the**  
5 **economic benefits of reduced local termination and long distance transport costs**  
6 **you have identified?**

7 A. Yes. [Begin Confidential Data] [REDACTED]  
8 [REDACTED]  
9 [REDACTED]  
10 [REDACTED]  
11 [REDACTED]  
12 [REDACTED] [End  
13 Confidential Data].<sup>8</sup>

14 **Q. You noted earlier that the Merged Firm will have an increased sales opportunity**  
15 **in the enterprise market. Do the Petitioners agree?**

16 A. Yes. [Begin Confidential Data] [REDACTED]  
17 [REDACTED] [End

---

<sup>7</sup> Appleby Responsive Testimony p. 11

<sup>8</sup> CenturyLink Production - Attachment 4 (c) – 28 (Exhibit No. \_\_\_\_ (JAA-11HC)).

**HIGHLY CONFIDENTIAL PER PROTECTIVE ORDER**

**IN UTC DOCKET UT-100820**

Supplemental Responsive Testimony  
James A. Appleby

1 **Confidential Data**].<sup>9</sup> The sales opportunity is primarily **[Begin Confidential Data]**  
2 [Redacted] **[End**

3 **Confidential Data**].<sup>10</sup> This is because **[Begin Confidential Data]** [Redacted]  
4 [Redacted] **[End Confidential Data]**.<sup>11</sup>

5 **Q. Do Petitioners recognize that this opportunity is based on the economic**  
6 **advantages associated with its ownership of an expanded local network?**

7 A. Yes. **[Begin Confidential Data]** [Redacted]  
8 [Redacted]  
9 [Redacted]  
10 [Redacted]  
11 [Redacted]  
12 [Redacted]  
13 [Redacted]  
14 [Redacted]  
15 [Redacted] **[End Confidential Data]**.<sup>12</sup>

16 **Q. Do Petitioners recognize this is a significant form of market power?**

<sup>9</sup> CenturyLink Production - Attachment 4 (c) – 21 Key Transaction Benefits and Consideration, 4-12-10 (Exhibit No. \_\_\_ (JAA-12HC)).

<sup>10</sup> CenturyLink Production - Attachment 4 (c) - 29 Wholesale Diligence Update 4-19-10 (Exhibit No. \_\_\_ (JAA-13HC)).

<sup>11</sup> CenturyLink Production - Attachment 4 (c) – 3 (Exhibit No. \_\_\_ (JAA-14HC)).

<sup>12</sup> CenturyLink Production - Attachment 4 (c) – 37 (Exhibit No. \_\_\_ (JAA-15HC)).

HIGHLY CONFIDENTIAL PER PROTECTIVE ORDER

IN UTC DOCKET UT-100820

Supplemental Responsive Testimony  
James A. Appleby

1 A. Yes. **[Begin Confidential Data]** [REDACTED]  
2 [REDACTED]  
3 [REDACTED]  
4 [REDACTED]  
5 [REDACTED] **[End Confidential Data]**.<sup>13</sup>

6 Q. You have testified that the accounting of costs and revenues within the Merged  
7 Firm means it will no longer be concerned with the access prices that the Qwest  
8 IXC will be charged by its affiliated ILECs. Do Petitioners internal  
9 communications support your testimony?

10 A. Yes. **[Begin Confidential Data]** [REDACTED]  
11 [REDACTED]  
12 [REDACTED]  
13 [REDACTED]  
14 [REDACTED]  
15 [REDACTED]  
16 [REDACTED]  
17 [REDACTED] **[End Confidential**  
18 **Data]**.<sup>14</sup> This of course follows from the fact that the Merged Firm's accounting will

<sup>13</sup> CenturyLink Production - Attachment 4 (c) – 21 (Exhibit No. \_\_\_ (JAA-16HC)).

<sup>14</sup> CenturyLink Production - Attachment 4 (c) – 22 (Exhibit No. \_\_\_ (JAA-17HC)).

**HIGHLY CONFIDENTIAL PER PROTECTIVE ORDER**

**IN UTC DOCKET UT-100820**

Supplemental Responsive Testimony  
James A. Appleby

1 completely offset the excessive access rates the Qwest IXC will pay to its ILEC  
2 affiliates with the revenues those excessive rates raise for the ILEC affiliates.

3 **Q. How has regulation failed to control the market power that the Merged Firm**  
4 **will possess?**

5 A. The market power of the Merged Firm arises from its control of local access facilities.  
6 These are the last-mile facilities that connect the local customer to its carrier of  
7 choice. Regulation has mandated that the ILECs provide wholesale services to other  
8 carriers to enable their customers connect to local customers in an ILEC's service  
9 territory. Among these services are switched access and special access services. In  
10 the monopoly-era, when the ILEC provided the local services for the customers in  
11 their service territories and other carriers provided the non-local services, the prices  
12 of switched and special access services were set by regulators far above their actual  
13 cost. Today, however, the monopoly era is over and carriers are competing with the  
14 ILECs for local services and the ILECs through their affiliates are competing with the  
15 other carriers for the non-local services. Unfortunately, regulation of these wholesale  
16 access services has not kept pace with the development of competition. The Merged  
17 Firm constitutes one company which will enjoy owner's economics with respect to  
18 both its local and long distance facilities while all other carriers continue to pay the  
19 Merged Firm's bloated access prices established before the development of  
20 competition. And once merged, the Merged Firm's market power will expand even

**HIGHLY CONFIDENTIAL PER PROTECTIVE ORDER**

**IN UTC DOCKET UT-100820**

Supplemental Responsive Testimony  
James A. Appleby

1 further unless the Commission imposes limits on the prices of its wholesale access  
2 services as a condition of its approval of the merger.

3 **Q. What are the potential consequences to the retail market if the Merged Firm's**  
4 **market power is unchecked?**

5 A. The Merged Firm must provide quality, timely and reasonably-priced wholesale  
6 services to other carriers to ensure a balanced competitive retail market. If the  
7 Merged Firm is allowed to leverage its market power at the expense of its wholesale  
8 customers, this will have a detrimental effect on retail competition.

9 **Q. What is Sprint's proposed merger condition for access service in this merger?**

10 A. The merger condition Sprint requests with respect to access rates is:

11 1) No later than 30 days after the closing date of the merger, all legacy  
12 Century Link ILECs in Washington (CenturyTel, Embarq ILECs) must  
13 reduce their intrastate switched access rates to mirror the intrastate access  
14 rates and rate structure of the Qwest ILEC in Washington; and

15 2) No later than 120 days after the closing date of the Merger, all  
16 CenturyLink ILECs in Washington (CenturyTel, Embarq and Qwest  
17 ILECs) must reduce their intrastate switched access rates to mirror the  
18 interstate switched access rates and rate structure of Qwest.

**HIGHLY CONFIDENTIAL PER PROTECTIVE ORDER**

**IN UTC DOCKET UT-100820**

Supplemental Responsive Testimony  
James A. Appleby

1 **Q. If the Commission agrees with these conditions, would Washington be the only**  
2 **state in which the Merged Firm’s intrastate rates are reduced?**

3 A. No. CenturyLink explained that its access revenues will be impacted by past  
4 regulatory and legislative rulings in the states of Virginia, New Jersey, Missouri,  
5 Washington, Kansas, Michigan and Wisconsin. Access revenues will be reduced by  
6 these mandated rate reductions by **[Begin Confidential Data]** [REDACTED]  
7 [REDACTED] **[End Confidential Data]**.<sup>15</sup> There  
8 are also regulatory rulings pending in at least two other states, Pennsylvania and  
9 Arizona that may reduce the subsidies embedded in the Merged Firm’s intrastate  
10 access rates even further. Many other states have recognized the need to lower the  
11 bloated CenturyLink intrastate switched access rates. The condition Sprint requests  
12 would be consistent with activities in other states.<sup>16</sup>

13 **IV. THE MERGED FIRM’S MARKET POWER IS NOT**  
14 **LIMITED TO VOICE SERVICES**

15 **Q. How should the Commission view the Merged Firm’s expanded local and long**  
16 **distance network?**

---

<sup>15</sup> Qwest Production - Attachment 4 (c) – 44 (Exhibit No. \_\_\_ (JAA-18HC)).

<sup>16</sup> As noted in Appleby Responsive Testimony p. 26, the FCC has addressed access rates in merger proceedings before. The FCC’s interstate switched access rate benchmark also recognizes that larger ILECs should have lower access rate levels. 47 C.F.R. § 61.3 (qq). Bell Operating companies rates are set at \$.0055, middle-size ILECs are \$.0065, and the smaller price cap carriers rates are set at \$.0095.

**HIGHLY CONFIDENTIAL PER PROTECTIVE ORDER**

**IN UTC DOCKET UT-100820**

Supplemental Responsive Testimony  
James A. Appleby

1 A. The network is not just providing local and long distance voice service as it did in the  
2 past, but providing that and the transmission of all other data necessary to provide  
3 internet, video, and entertainment services. This transition cannot be ignored if the  
4 public interest is to be served. The financial viability of the ILEC holding companies  
5 cannot be evaluated by examining the trend in local access lines, as ILECs often ask  
6 Commissions to do. The Commission must take into consideration all of the services  
7 currently provided, as well as the future revenue opportunities associated with  
8 services that will be provided, on the network. The Commission must reject  
9 antiquated thinking that is no longer relevant to the provision of telecommunication  
10 and data services, such as the need for high switched access rates for ILECs that I  
11 discussed above.

12 **Q. Do Petitioners recognize that the Merged Firm will continue to be the dominant**  
13 **provider of landline service within its service area?**

14 A. Yes. Petitioners internal communications show **[Begin Confidential Data]** [REDACTED]  
15 [REDACTED]  
16 [REDACTED]  
17 [REDACTED] **[End Confidential Data]**.<sup>17</sup> It is also important to note that in its

---

<sup>17</sup> CenturyLink Production - Attachment 4 (c) – 10 (Exhibit No. \_\_\_ (JAA-19HC)).

**HIGHLY CONFIDENTIAL PER PROTECTIVE ORDER**

**IN UTC DOCKET UT-100820**

Supplemental Responsive Testimony  
James A. Appleby

1 long-range plan, Qwest is forecasting [Begin Confidential Data] [REDACTED]  
2 [REDACTED] [End Confidential Data].<sup>18</sup>

3 **Q. Do the Petitioners recognize that additional non-voice services will help the**  
4 **Merged Firm to compete in the market?**

5 A. Yes. The Merged Firm believes [Begin Confidential Data] [REDACTED]  
6 [REDACTED] [End Confidential Data] in a competitive  
7 retail market.<sup>19</sup> Specifically, the addition of internet protocol television (“IPTV”)  
8 [Begin Confidential Data] [REDACTED]  
9 [REDACTED] [End Confidential Data].<sup>20</sup>

10 **Q. Generally, how have Petitioners’ ILECs transitioned their networks from**  
11 **providing only voice to also providing broadband and entertainment services?**

12 A. The ILEC copper network that was built to provide quality voice service was  
13 augmented with DSL technology over the past ten years to provide broadband  
14 services. This involved installing electronic components to the network to connect  
15 customers’ local loops to transport facilities that connect to the internet. The distance  
16 between the electronic device and the customer’s location determines the bandwidth  
17 or speed of the customer’s internet connection. As customers demanded faster

---

<sup>18</sup> CenturyLink Production - Qwest Long-Range Plan, March 23, 2010 (Exhibit No. \_\_\_\_ (JAA-20HC)).

<sup>19</sup> CenturyLink Production - Attachment 4 (c) – 59 (Exhibit No. \_\_\_\_ (JAA-21HC)).

<sup>20</sup> Qwest Production - Attachment 4 (c) – 42 (Exhibit No. \_\_\_\_ (JAA-22HC)).



**HIGHLY CONFIDENTIAL PER PROTECTIVE ORDER**

**IN UTC DOCKET UT-100820**

Supplemental Responsive Testimony  
James A. Appleby

1 internet connections and the ILECs identified other services such as video  
2 entertainment that can be provisioned over those broadband networks, the ILECs  
3 have extended fiber facilities closer to the customers (fiber to the node) and then  
4 installed electronics closer to the customers to connect that fiber to the copper loops.

5 **Q. Has the Merged Firm acknowledged the existing network in place will facilitate**  
6 **the latest transition to provide IPTV?**

7 A. Yes. CenturyLink explains [Begin Confidential Data] [REDACTED]  
8 [REDACTED]  
9 [REDACTED]  
10 [REDACTED] [End Confidential Data]<sup>21</sup> Similarly,  
11 the Network President of CenturyLink states [Begin Confidential Data] [REDACTED]  
12 [REDACTED]  
13 [REDACTED] [End Confidential Data].<sup>22</sup>

14 **Q. Do the retail customers view Qwest solely as a provider of local voice service?**

15 A. No. Qwest tracks the trends of what service packages the customers are purchasing.  
16 In its analysis, Qwest tracked what product package the new customers (1-30 days in  
17 tenure) purchased. Of those customers, [Begin Confidential Data] [REDACTED]  
18 [REDACTED]

<sup>21</sup> Qwest Production - Attachment 4 (c) – 42 (Exhibit No. \_\_\_ (JAA-23HC)).

<sup>22</sup> CenturyLink Production - Attachment 4 (c) – 28 (Exhibit No. \_\_\_ (JAA-24HC)).

**HIGHLY CONFIDENTIAL PER PROTECTIVE ORDER**

**IN UTC DOCKET UT-100820**

Supplemental Responsive Testimony  
James A. Appleby

1 [REDACTED] **[End Confidential Data]**.<sup>23</sup>

2 Based on this data, **[Begin Confidential Data]** [REDACTED]

3 [REDACTED]

4 [REDACTED] **[End Confidential Data]**. Clearly, the customers of

5 Qwest do not view Qwest as only a voice provider or as the only voice provider in the

6 market. In fact, the customers view Qwest as a broadband provider as much as they

7 view it as a voice service provider based on their purchase decisions.

8 **Q. What effect do the additional services have on the average revenue per user**  
9 **(ARPU)<sup>24</sup>?**

10 A. For Qwest, the mass market ARPU has increased from \$45.83 in the first quarter of

11 2005 to \$61.64 in the first quarter of 2010, a 34.5% increase.<sup>25</sup> In a similar period,

12 legacy Embarq reported consumer ARPU increasing from \$49.60 in the first quarter

13 of 2005 to \$56.71 in the first quarter of 2009, a 14.3% increase.<sup>26</sup> CenturyTel to my

14 knowledge has never reported such information publicly and does not report the post-

15 merger data for legacy Embarq areas either. In discovery, however, CenturyLink

16 revealed its consumer ARPU for all ILEC areas will approximate **[Begin**

17 **Confidential Data]** [REDACTED] **[End Confidential Data]** in 2010, and legacy Embarq has

---

<sup>23</sup> CenturyLink Production- Attachment 4 (c) – 4 (Exhibit No. \_\_\_ (JAA-25HC)).

<sup>24</sup> ARPU is the average revenue per user in a given month.

<sup>25</sup> Qwest quarterly public financial statements.

<sup>26</sup> Embarq quarterly public financial statements.

HIGHLY CONFIDENTIAL PER PROTECTIVE ORDER

IN UTC DOCKET UT-100820

Supplemental Responsive Testimony  
James A. Appleby

1 increased its ARPU to approximately [Begin Confidential Data] [Redacted] [End  
2 Confidential Data] increase from 2005.<sup>27</sup>

3 Q. What is the ARPU by service sold?

4 A. CenturyLink revealed it is currently generating [Begin Confidential Data] [Redacted]  
5 [End Confidential Data] for a combination local and long distance voice services,  
6 [Begin Confidential Data] [Redacted] [End Confidential Data] for broadband internet  
7 service, and [Begin Confidential Data] [Redacted] [End Confidential Data] on the  
8 limited number of customers that have purchased IPTV.<sup>28</sup> The Merged Firm  
9 forecasts broadband penetration to grow [Begin Confidential Data] [Redacted]  
10 [Redacted] [End Confidential Data],<sup>29</sup> and its penetration in IPTV markets to reach [Begin  
11 Confidential Data] [Redacted] [End Confidential Data].<sup>30</sup> Clearly, the Merged Firm  
12 has opportunities to increase ARPU given Qwest's acknowledgment that [Begin  
13 Confidential Data] [Redacted] [End  
14 Confidential Data]<sup>31</sup> and [Begin Confidential Data] [Redacted]  
15 [Redacted] [End Confidential Data].<sup>32</sup>

<sup>27</sup> Qwest Production - Attachment 4 (c) – 53 (Exhibit No. \_\_\_ (JAA-26HC)).

<sup>28</sup> Qwest Production - Attachment 4 (c) – 44 (Exhibit No. \_\_\_ (JAA-27HC)).

<sup>29</sup> *Id.*

<sup>30</sup> CenturyLink Production - CenturyLink HSR No. 23, IPTV Quartz Review Sensitivities, April 15, 2010 (Exhibit No. \_\_\_ (JAA-28HC)).

<sup>31</sup> CenturyLink Production - Attachment 4 (c) – 1 (Exhibit No. \_\_\_ (JAA-29HC))

<sup>32</sup> CenturyLink Production - Attachment 4 (c) – 3 (Exhibit No. \_\_\_ (JAA-30HC)).

HIGHLY CONFIDENTIAL PER PROTECTIVE ORDER

IN UTC DOCKET UT-100820

Supplemental Responsive Testimony  
James A. Appleby

1 **Q. Did the Petitioners' higher revenues contribute to higher profit margins in the**  
2 **mass markets?**

3 A. Yes. Qwest's profit margin on mass market revenues increased from [Begin  
4 Confidential Data] [REDACTED] [End Confidential Data] from 2007 to 2009.<sup>33</sup>

5 **Q. What other facts about broadband high speed internet service are important for**  
6 **the Commission to understand when evaluating the financial strength of the**  
7 **Merged Firm?**

8 A. The cost of Qwest's high-speed internet service in 2009 was [Begin Confidential  
9 Data] [REDACTED] [End  
10 Confidential Data].<sup>34</sup> This type of cost efficiency will clearly drive margin  
11 improvements, especially if the Merged Firm is able to penetrate the broadband  
12 market more deeply, as it forecasts it will.

13 **Q. What percentage of Qwest households is covered by the Fiber-to-the-Node**  
14 **(FTTN) technology that makes higher-speed broadband and IPTV possible?**

---

<sup>33</sup> Qwest Production - Attachment 4 (c) – 59 (Exhibit No. \_\_ (JAA-31HC)).

<sup>34</sup> *Id.*

HIGHLY CONFIDENTIAL PER PROTECTIVE ORDER

IN UTC DOCKET UT-100820

Supplemental Responsive Testimony  
James A. Appleby

1 A. Qwest will have deployed FTTN to **[Begin Confidential Data]** [REDACTED]  
2 [REDACTED] **[End Confidential Data]** households in its local service areas by year-  
3 end 2010.<sup>35</sup>

4 **Q. How much incremental revenue is the Merger Firm forecasting from IPTV from**  
5 **2010 to 2013?**

6 A. The Merged Firm forecasts it will increase IPTV revenue from **[Begin Confidential**  
7 **Data]** [REDACTED]  
8 [REDACTED] **[End Confidential Data]**.<sup>36</sup> The Merged Firm plans to sell IPTV **[Begin**  
9 **Confidential Data]** [REDACTED] **[End Confidential Data]**.<sup>37</sup> This will  
10 be the second non-regulated product the Merged Firm offers over the local connection  
11 that was originally built to provide voice service that has a **[Begin Confidential**  
12 **Data]** [REDACTED] **[End Confidential Data]** ARPU than the original voice product.<sup>38</sup> As a  
13 result, the Merged Firm will have more than **[Begin Confidential Data]** [REDACTED] **[End**  
14 **Confidential Data]** the revenue it can collect on its network. Still, the Merged Firm  
15 argues it is entitled to burden all competing carriers with access charges that are far  
16 above the cost of the function provided.

17 **Q. Does CenturyLink plan to offer IPTV service in Washington?**

---

<sup>35</sup> Qwest Production - Attachment 4 (c) – 63 (Exhibit No. \_\_\_ (JAA-32HC)).

<sup>36</sup> Qwest Production - Attachment 4 (c) – 44 (Exhibit No. \_\_\_ (JAA-33HC)).

<sup>37</sup> *Id.*

<sup>38</sup> Qwest Production - Attachment 4 (c) – 53 (Exhibit No. \_\_\_ (JAA-34HC)).

HIGHLY CONFIDENTIAL PER PROTECTIVE ORDER

IN UTC DOCKET UT-100820

Supplemental Responsive Testimony  
James A. Appleby

1 A. **[Begin Confidential Data]** [REDACTED]  
2 [REDACTED]  
3 [REDACTED] **[End**  
4 **Confidential Data]**.<sup>39</sup>

5 **Q. The other big opportunity the Merged Firm has identified for future growth is**  
6 **Fiber-to-the-Cell site (FTTC). What did the Merged Firm disclose about its**  
7 **FTTC plans?**

8 A. Qwest only agrees to build FTTC **[Begin Confidential Data]** [REDACTED]  
9 [REDACTED] **[End Confidential Data]**.<sup>40</sup> Seldom do  
10 companies entertain business opportunities with paybacks beyond this timeframe. Of  
11 the estimated **[Begin Confidential Data]** [REDACTED] **[End Confidential Data]**  
12 that will have bandwidth requirements that justify FTTC deployment by **[Begin**  
13 **Confidential Data]** [REDACTED] **[End Confidential Data]**, Qwest already has contracts for  
14 **[Begin Confidential Data]** [REDACTED] **[End Confidential Data]**.<sup>41</sup> The Merged Firm  
15 targets cell sites that have **[Begin Confidential Data]** [REDACTED] **[End**  
16 **Confidential Data]** of special access services today, and a spend of **[Begin**  
17 **Confidential Data]** [REDACTED] **[End Confidential Data]** per cell tower per year.<sup>42</sup>

<sup>39</sup> CenturyLink Production - HSR No. 23 (Exhibit No. \_\_ (JAA-35HC)).

<sup>40</sup> Qwest Production- Attachment 4(c) – 63 (Exhibit No. \_\_ (JAA-36HC)).

<sup>41</sup> *id*

<sup>42</sup> Qwest Production - Attachment 4 (c) – 44 (Exhibit No. \_\_ (JAA-37HC)).

**HIGHLY CONFIDENTIAL PER PROTECTIVE ORDER**

**IN UTC DOCKET UT-100820**

Supplemental Responsive Testimony  
James A. Appleby

1 With paybacks likely guaranteed as a result of **[Begin Confidential Data]** ■  
2 ■ **[End Confidential Data]** and **[Begin**  
3 **Confidential Data]** ■ **[End Confidential Data]**<sup>43</sup> of the market addressed to  
4 date in Qwest's service area, the Merged Firm can use its near monopoly market  
5 share of local access facilities to continue to dominate the wireless backhaul market  
6 into the future.

7 **Q. Is wireless backhaul essential to today's wireless services industry and to the**  
8 **continued development of wireless data services?**

9 A. Yes. Wireless services are only truly wireless for a very small portion of the end-to-  
10 end communications path, from the customer's handset to the wireless cell tower.  
11 After that point they usually traverse landline facilities. In addition, wireless  
12 customers are demanding more and more bandwidth for the services that today's  
13 smart phones can provide - email, texting, and streaming mobile video - and to meet  
14 this demand wireless carriers are augmenting the bandwidth between their cell sites  
15 and the mobile carriers' first switching location. Wireless carriers rely on special  
16 access for these connections. The Merged Firm's investment in FTTC means more  
17 opportunity for it to raise revenues from the captive wireless carriers in this market.  
18 And while we are not asking for the Commission to regulate special access rates our

---

<sup>43</sup> Qwest Production - Attachment 4(c) - 63 (Exhibit No. \_\_\_ (JAA-38HC)).

**HIGHLY CONFIDENTIAL PER PROTECTIVE ORDER**

**IN UTC DOCKET UT-100820**

Supplemental Responsive Testimony  
James A. Appleby

1 point is once again, the market power the Merged Firm has as a result of the  
2 substantial service opportunities its ubiquitous network creates.

3 **Q. Please summarize this section of your testimony.**

4 A. The Merged Firm is not just a provider of voice services. The customers of the  
5 Merged Firm demonstrate this with their purchase decisions. The Merged Firm has  
6 **[Begin Confidential Data]** [REDACTED] **[End Confidential Data]** the potential  
7 revenue it can generate from many its retail customers. The Merged Firm also has  
8 significant opportunities to provide wholesale services such as FTTC into the future.  
9 All of these changes demonstrate the Commission should recognize the regulation of  
10 the ILEC must change. Specifically, continuing to permit the Merged Firm to burden  
11 all competing carriers with high switched access rates is not necessary financially,  
12 and is anti-competitive. If the Commission is inclined to approve the merger, it  
13 should order Sprint's proposed limitations on the Merged Firm's access charges as a  
14 condition of its approval.

15 **V. MERGER APPROVAL SHOULD BE CONDITIONED**

16 **Q. In your responsive testimony<sup>44</sup> you explained the significant returns the equity**  
17 **shareholders of CenturyLink have received over time. Did the Merged Firm's**

---

<sup>44</sup> Appleby Responsive Testimony pp. 26-30



**HIGHLY CONFIDENTIAL PER PROTECTIVE ORDER**

**IN UTC DOCKET UT-100820**

Supplemental Responsive Testimony  
James A. Appleby

1        **discovery responses provide further clarity as to the returns of the CenturyLink**  
2        **shareholders?**

3        A. Yes. CenturyLink demonstrated that it returned more than **[Begin Confidential Data]**  
4        **██████████ [End Confidential Data]** of the cumulative free cash flows to shareholders  
5        during the period from 2004 to third quarter 2009. A total of **[Begin Confidential**  
6        **Data] ██████████ End Confidential Data]** was shared with shareholders, **[Begin**  
7        **Confidential Data] ██████████ [End Confidential Data]** in dividends and **[Begin**  
8        **Confidential Data] ██████████ [End Confidential Data]** in stock repurchases  
9        occurred during the period.<sup>45</sup> This history demonstrates retail and wholesale  
10       customers are not likely to benefit unless the Commission prescribes conditions on  
11       this merger, should it be approved.

12       **Q. Does this conclude your testimony?**

13       A.     Yes.  
14

---

<sup>45</sup> Qwest Production of Attachment 4(c) – 73 (Exhibit No. \_\_\_ (JAA-39HC)).