

Agenda Date: June 14, 2012
Item Number: A4

Docket: UT-120128
Company Name: Qwest Corporation d/b/a CenturyLink QC

Staff: Jing Liu, Regulatory Analyst – Telecommunications
Betty Erdahl, Regulatory Analyst – Telecommunications
William Weinman, Assistant Director - Telecommunications

Recommendation

Approve Qwest Corporation d/b/a CenturyLink QC's (CenturyLink or company) proposed plan to disburse the gain from the sale of its headquarters building and the land located at 1600 – 7th Avenue, Seattle, Washington.

Discussion

On January 27, 2012, CenturyLink filed an application with the Washington Utilities and Transportation Commission (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. The petition was subsequently supplemented by additional documents on February 7, 2012, February 8, 2012, March 12, 2012 and March 13, 2012, respectively.

Under RCW 80.12.020 and WAC 480-143-120, a public service company must obtain commission approval prior to completing the sale of a property necessary or useful in the performance of its duties to the public. Pursuant to WAC 480-143-170 and WAC 480-143-180, the commission shall approve the application if the transaction is in the public interest and that the property is no longer necessary or useful.

The commission approved the company's application for the transfer of the property and sale of the land and building at its special open meeting on March 20, 2012. The commission's order requires that CenturyLink must distribute to Washington consumers a portion of the gain in the amount of \$11.2 million from the sale of the property. The commission ordered staff, in consultation with the company and other interested persons, to develop a proposal for distributing the gain to CenturyLink's Washington customers that is in the public interest and shall submit it to the commission within 90 days of the effective date of the Order. The commission will then determine how the gain is to be distributed and the extent to which any interest that may be accrued on the gain should be included.¹

Staff worked with the parties, CenturyLink, the Office of Public Counsel of the Attorney General (Public Counsel) and Department of Defense and all other Federal Executive Agencies (DoD/FEA) and the Community Voice Mail to explore options regarding how to distribute the gain from building sale to Washington customers. As staff stated in the previous memo, the parties agree that providing bill credits to all current CenturyLink customers will only have small and short-term benefits. In comparison, broadband deployment in unserved and underserved

¹ UT-120128, Order 01 (March 21, 2012), para. 19.

areas in Washington will yield longer term benefits that can promote broadband availability and enhance economic development in rural disadvantaged communities.

On June 4, 2012, CenturyLink filed a proposal of disbursing the gain from the building sale. The company commits to invest approximately \$11.1 million in broadband deployment in currently unserved and underserved areas over the next 24 months. As detailed in Attachment E of its June 4, 2012 filing, the company will extend broadband facilities to those communities where there is no broadband service available from either the company or a cable provider, or in limited instances, where the upgrade will increase internet access speeds and replace copper with fiber routes. Households in those areas will have access to broadband at speeds ranging from 256 kilobits per second to 40 megabits per second down and 20 megabits up. These proposed projects are not in the company's budgeted capital plans for deployment over the next three years. These projects are not and will not be included as part of the company's state-wide broadband build-out plan in the CenturyTel-Qwest merger proceeding. The projects will not be eligible for support from other sources such as Connect America Fund projects in the future. The company also agrees to make a contribution of \$100,000 to Community Voice Mail to support their work of providing voice mail service for low-income customers. Currently, Community Voice Mail serves about 7,000 customers.

Overall, the proposed projects would make broadband available to 4,022 households who would otherwise have little chance to have broadband in their communities. Staff believes that these broadband projects not only bring immediate benefits to residents in the areas but also paves the road for future broadband extension and upgrade in neighboring areas. The availability of broadband can have ripple effects in promoting digital literacy and economic development in rural Washington. Contribution to Community Voice Mail also helps broaden the base of beneficiaries from the building sale.

Docket UT-120128, Order No. 1 states "the extent to which any interest should be included and at what rate" will be considered with the disbursement of the gain. Staff has looked at this issue and considering that the construction will take place over 24 months, concludes it is appropriate to accrue interest. The customers should receive some consideration from the company for the time value of their money during the construction period of the broadband service build out. Staff recommends the commission require the company to compute interest on the unused funds at the existing prime rate of 3.25% compounded quarterly until the broadband construction projects are completed.

Staff and Public Counsel support the company's proposed plan for disbursing the gain from the building sale. DoD/FEA does not support the company's proposed plan for disbursing the gain to rural customers.

Conclusion

Staff recommends that the commission approve the company's proposed plan of disbursing the gain from the building sale. The company shall file annual reports on June 1, 2013 and June 1, 2014, detailing the facility build-out progress by each project. If the actual total cost is less than \$11.1 million, the company should consult the commission staff and the Public Counsel to plan for additional projects to spend the remainder of the building sale gains. Staff also recommends that the company compute interest at the existing prime rate of 3.25% compounded quarterly until the broadband construction projects are completed.