0037

 1 BEFORE THE WASHINGTON

 UTILITIES AND TRANSPORTATION COMMISSION

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 3 In the Matter of the Notice of )

 Transaction and Application of )

 4 )

 CENTURYLINK ) Docket No. UT-170042

 5 )

 For an Order Declining to Assert)

 6 Jurisdiction Over, or in the )

 Alternative, Expedited Approval )

 7 of the Indirect Transfer of )

 Control of Level 3 )

 8 Communications, LLC, Broadwing )

 Communications, LLC, Wiltel )

 9 Communications, LLC, Global )

 Crossing Telecommunications, )

10 Inc., and Level 3 Telecom of )

 Washington, LLC to CenturyLink, )

11 Inc. )

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 SETTLEMENT HEARING

13

 VOLUME II, PAGES 37 - 104

14

 ADMINISTRATIVE LAW JUDGE GREGORY J. KOPTA

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16 9:27 a.m.

17 May 25, 2017

18 Washington Utilities and Transportation Commission

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19 Olympia, Washington 98504-7250

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 ALSO PRESENT:

13

 Jing Roth

14 Corey Dahl

 Mark S. Reynolds

15 Michael J. Balhoff (via phone)

 Kristie C. Ince (via phone)

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 1 EVIDENTIARY HEARING

 2 VOLUME II: INDEX

 3 EXHIBITS

 4

 5 NO. DESCRIPTION ADMITTED

 6 JP-1 Joint Parties Settlement Agreement 41

 7 JP-2C Attachment A to Settlement

 Agreement (Confidential) 41

 8

 JP-3 Attachment B to Settlement

 9 Agreement 41

10 JT-1T Jing Roth, Corey Dahl, Mark

 Reynolds & Kristie Ince Joint

11 Testimony in Support of Settlement

 Agreement 41

12

 MSR-1T Mark S. Reynolds Direct Testimony 41

13

 MJB-1T Michael J. Balhoff Direct

14 Testimony 41

15 MJB-2 Summary of Experience 41

16 MJB-3 Investor Presentation 41

17 MJB-4 Investor Call Transcript 41

18 KCI-1T Kristie C. Ince Direct Testimony 41

19

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 1 OLYMPIA, WASHINGTON, MAY 25, 2017

 2 9:27 a.m.

 3

 4 P R O C E E D I N G S

 5

 6 JUDGE KOPTA: All right. Let's be on the

 7 record in Docket UT-170042, short-captioned In the

 8 Matter of the Notice of Transaction and Application of

 9 CenturyLink.

10 Today is Thursday, May 25th. We are here

11 for a hearing on the proposed settlement agreement

12 between the parties.

13 I'm Gregory J. Kopta, the administrative law

14 judge who is presiding at this proceeding. We will be

15 joined shortly by the commissioners. In the meantime,

16 we will postpone appearances until the commissioners

17 join us, as well as swearing in the witnesses.

18 But we want to, at this point, admit the

19 exhibits. I have provided an exhibit list. All parties

20 have stipulated to the admission of all of the exhibits

21 on the list, and, therefore, all of those exhibits are

22 admitted into the record.

23 (All exhibits were admitted.)

24 JUDGE KOPTA: And unless there's anything

25 else that we need to discuss before the commissioners

0042

 1 come in, we are off the record.

 2 (Brief pause in the proceedings.)

 3 JUDGE KOPTA: All right. Let's be back on

 4 the record. I am now joined on the bench by Chairman

 5 Danner and Commissioners Rendahl and Balasbas.

 6 And we will now take appearances from the

 7 parties, beginning with the Company.

 8 MS. ANDERL: Thank you, your Honor. Good

 9 morning Chairman Danner, Commissioners. I'm Lisa

10 Anderl, and I'm in-house counsel for CenturyLink. Do

11 you want my --

12 JUDGE KOPTA: No, that's sufficient.

13 MS. ANDERL: -- all of the dog tag

14 information, or just that?

15 JUDGE KOPTA: That's sufficient.

16 MS. ANDERL: Thank you.

17 JUDGE KOPTA: Mr. Trinchero?

18 MR. TRINCHERO: Thank you, your Honor. Mark

19 Trinchero on behalf of Level 3 Communications.

20 JUDGE KOPTA: And for Commission staff?

21 MS. CAMERON-RULKOWSKI: Jennifer

22 Cameron-Rulkowski, Assistant Attorney General.

23 JUDGE KOPTA: And Public Counsel?

24 MR. BRYANT: Armikka Bryant, Assistant

25 Attorney General.

0043

 1 JUDGE KOPTA: Thank you. We have the

 2 witnesses empanelled. I will ask them at this point,

 3 including those who are on the bridge line, to stand and

 4 raise their right hand.

 5 (All witnesses sworn.)

 6 JUDGE KOPTA: You may be seated. All right.

 7 Counsel, do you want to introduce your

 8 witnesses?

 9 MS. ANDERL: Yes, your Honor. I can either

10 do it directly or through questions. We have, for the

11 Company, Mark Reynolds here on the stand. And

12 Mr. Balhoff, Mike Balhoff, on via phone.

13

14 Mr. Reynolds and Mr. Balhoff both filed

15 direct testimony, which has already been admitted into

16 the record, and Mr. Reynolds is sponsoring the joint

17 settlement testimony on behalf of the Company.

18 JUDGE KOPTA: All right.

19 And for Staff?

20 MS. CAMERON-RULKOWSKI: For Staff, we have

21 Jing Roth. And Jing Roth filed joint testimony in

22 support of the settlement, and that's Exhibit No. JT-1T.

23 JUDGE KOPTA: Thank you.

24 And Public Counsel?

25 MR. BRYANT: For Public Counsel, Corey Dahl

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 1 is testifying. Mr. Dahl also submitted joint testimony

 2 in his Exhibit JT-1T.

 3 JUDGE KOPTA: All right. Thank you,

 4 Mr. Bryant.

 5 MR. TRINCHERO: And your Honor, on behalf of

 6 Level 3 Communications, we have Kristie Ince on the

 7 bridge line.

 8 JUDGE KOPTA: All right. Thank you.

 9 Ms. Ince and Mr. Balhoff, are you on the

10 bridge line?

11 MS. INCE (via phone): We are -- I am.

12 MR. BALHOFF (via phone): I am.

13 JUDGE KOPTA: Great. Thank you. All right.

14 This is a multi-party settlement in which

15 all parties have participated, so there's no

16 cross-examination. We will just have questioning from

17 the commissioners.

18 So I will turn to them and see which of you

19 would like to begin questioning.

20 CHAIRMAN DANNER: Sure. All right. Good

21 morning. First of all, I just want to make sure, what

22 is the standard for approval of this -- of what's before

23 us today? Is it a public interest standard? Is it a

24 net benefit standard? Is it a no-harm standard?

25 JUDGE KOPTA: That might be a question --

0045

 1 CHAIRMAN DANNER: That might be a question

 2 for Counsel.

 3 MS. ANDERL: Yes, your Honor. I believe we

 4 covered that in testimony. I'll try to do it from

 5 memory.

 6 My understanding and recollection of the

 7 rules that apply are that the Commission shall approve

 8 the transaction unless they find it inconsistent with

 9 the public interest. It's an odd little double-negative

10 but --

11 CHAIRMAN DANNER: Okay. So -- and that's

12 why I'm asking the question, because I just -- I didn't

13 recall the odd double-negative in the standard.

14 JUDGE KOPTA: Well, just for clarification,

15 the rule does say that the Commission will approve it if

16 it's lawful, supported by an adequate record and

17 consistent with the public interest. That's what our

18 rule states.

19 MS. CAMERON-RULKOWSKI: And I could jump in

20 and let you know that it's WAC 480-143-170, and the

21 exact language is, "If upon the examination of any

22 application and accompanying exhibits, or upon a hearing

23 concerning the same, the Commission finds the proposed

24 transaction is not consistent with the public interest,

25 it shall deny the application."

0046

 1 CHAIRMAN DANNER: Okay.

 2 COMMISSIONER RENDAHL: So this is the --

 3 this is the settlement standard.

 4 MS. CAMERON-RULKOWSKI: This is the standard

 5 for approving the merger. And then the general

 6 settlement standard, the Commission generally looks at

 7 the public interest.

 8 COMMISSIONER RENDAHL: So the settlement --

 9 the merger standard, though, my understanding was that

10 it's a net benefit to the customers of the company.

11 MS. ANDERL: Your Honor --

12 COMMISSIONER RENDAHL: And so --

13 MS. ANDERL: -- I think that that is true

14 for gas and electric, but it has not been designated as

15 such for telecommunications transactions.

16 COMMISSIONER RENDAHL: All right. So my

17 understanding is that the standard in 80.12.020 was set

18 in 2009, right? And so that 80.12.020 standard applies

19 to all companies in Title 80, not just gas and electric.

20 That was my understanding. So maybe we need a little

21 discussion from counsel on this, but --

22 MS. ANDERL: Sure.

23 COMMISSIONER RENDAHL: -- we're also

24 approving a settlement, and the settlement standard is

25 public interest supported by evidence not contrary to

0047

 1 law, correct?

 2 MS. ANDERL: Yes.

 3 MS. CAMERON-RULKOWSKI: Your Honor, if I can

 4 add, RCW 80.12.020, which is Order required to sell

 5 merge, et cetera, the -- in that Section 1, the last

 6 paragraph, I believe that's what you're referring to,

 7 and that reads, "The Commission shall not approve any

 8 transaction under this section that would result in a

 9 person, directly or indirectly, acquiring a controlling

10 interest in a gas or electric company without a finding

11 that the transaction would provide a net benefit to the

12 customers of the company."

13 COMMISSIONER RENDAHL: Thank you.

14 CHAIRMAN DANNER: Okay. Thank you.

15 MS. ANDERL: Ms. Cameron-Rulkowski advised

16 me that she was going all electronic this morning, no

17 paper, and I see that it's working to everyone's benefit

18 that she can access these statutes.

19 CHAIRMAN DANNER: All right. Well, thank

20 you for that preliminary matter.

21 A question for Mr. Reynolds. On page 3 of

22 your direct testimony, you indicate that the transaction

23 will improve services to enterprise customers and the

24 financial condition of the combined company. And then

25 you say, with respect to the residential customers, that

0048

 1 the merger will not adversely harm these consumers.

 2 So the question is, is it possible -- I

 3 mean, you're using the modifier "adversely" with the

 4 word "harm," and I'm just wondering, is it possible

 5 there will be harm to residential consumers in the

 6 Company's view? I mean, why did you say "adversely

 7 harm" as opposed to "harm"?

 8 MR. REYNOLDS: Poor wording.

 9 CHAIRMAN DANNER: Okay. So there's no

10 significance in your -- to that addition?

11 MR. REYNOLDS: No. And in fact, you know,

12 all of our commitments and all of our regulations that

13 govern us as a regulated entity in this state will

14 continue after the transaction's over. We still have

15 UTC obligations to support the residential and business

16 customers that have exchange services in this state, so

17 nothing changes there.

18 CHAIRMAN DANNER: Okay. So we're -- you're

19 proposing the Company will take on considerable new debt

20 to finance this acquisition. And so what I'd like you

21 to address is, how can we be assured there will be no

22 harm or adverse harm to residential customers when the

23 Company -- when the Company essentially admits that it's

24 going to be taking on this new debt?

25 MR. REYNOLDS: Well, I think a lot of

0049

 1 that -- and I might defer to Mr. Balhoff here in a

 2 minute to talk a little bit about the run rate synergies

 3 that this transaction accompanies. And our run rate

 4 synergies, after everything is paid, are still double

 5 the increased debt burden or interest on the debt.

 6 And we do not expect any impact on any of

 7 our services; in fact, we expect just the opposite.

 8 With the revenue growth, the run rate synergies, we

 9 think that this will be accretive to our net cash flow.

10 Level 3 comes with significant net operating loss

11 credits that we can use against revenues in future

12 years. And it's really quite -- I'm not saying it's

13 ironclad, but it's about as close as you can get in a

14 transaction like this.

15 Also involved is the $2 billion revolving

16 credit facility, and CenturyLink has carried such a

17 facility with it from the last transaction, and that's

18 a -- that's a safety net on top of all of the financials

19 that I just shared with you.

20 You know, I do not think residential service

21 will be impacted by this. The type of transaction that

22 it is is that -- it's the marrying of an enterprise-only

23 company, a fiber-based company that does not sell to

24 residential exchange service customers, and really the

25 enterprise portion of CenturyLink, those -- those two

0050

 1 entities are merging. Our regulated exchange service

 2 should remain untouched during this entire transaction

 3 in the years that follow.

 4 CHAIRMAN DANNER: Okay. So I think what I'm

 5 driving at, and I'd just like to have this in the

 6 record, is that I don't -- these -- a lot of the

 7 efficiencies you're talking about, and essentially a lot

 8 of that's going to be job cuts, right?

 9 MR. REYNOLDS: It will be job cuts maybe, to

10 a certain extent, but I don't think it will -- it will

11 affect the operations, per se. Level 3 is right-sized

12 to serve its enterprise customers. CenturyLink is

13 right-sized to serve its residential business and

14 enterprise customers. Those are critical functions to

15 maintain the service levels as they currently exist.

16 I think the synergies are going to be found

17 in duplicate systems, HR systems, back office systems,

18 payroll, accounting systems, and that's typically where,

19 you know, the type of synergies that we're talking about

20 are achieved during a transaction like this.

21 CHAIRMAN DANNER: Okay. So my concern, and

22 what I'm driving at is, I don't want to -- I need to be

23 comfortable that you're not going to be moving the

24 investment over to the enterprise side at the expense of

25 the residential customers.

0051

 1 Are the residential customers going to

 2 continue to receive the service that we have

 3 historically required? Are these job cuts that you're

 4 talking about, are they going to -- is this going to be

 5 at the expense of residential, while the enterprise,

 6 which is probably the area the company is more focused

 7 on, moves forward?

 8 MR. REYNOLDS: Well, we take our obligation

 9 to satisfy our regulations, our service quality metrics

10 very seriously, and there is teeth in most of those

11 obligations both at the FCC level and the state if we

12 miss our metrics. And so we have all the incentive in

13 the world to continue to offer the same level of service

14 to our residential and business exchange service-type

15 customers.

16 I would add one thing relative to the state

17 of Washington. Level 3 employs approximately 105

18 employees in the state of Washington. CenturyLink

19 employs probably 1500 to 2000 employees. I'm assuming

20 that Level 3 is pretty right-sized and that there is

21 really no back office operations, per se, in the state

22 of Washington.

23 And I know that for CenturyLink, we do have

24 some supporting administrative operations, but most of

25 those operations are located in Monroe or Denver,

0052

 1 Colorado. And I think that's where you'll see, you

 2 know, the right-sizing and ensuring that we don't have

 3 duplicate functions occurring, and the majority of the

 4 synergies will come from those areas.

 5 MR. BALHOFF: Commissioner, this is Mike

 6 Balhoff representing CenturyLink also. The estimates

 7 with respect to head count synergies are less than

 8 one-third of the entire synergies that were expected,

 9 and that included the network capital expenditures that

10 are expected out there, so just to provide some detail.

11 CHAIRMAN DANNER: Okay. So if we approve

12 this merger and we begin running into service problems

13 for residential customers, like delayed installs or

14 service deterioration, what are the tools that -- I

15 mean, are we going to continue to have the tools to

16 enforce --

17 MR. REYNOLDS: Absolutely. I don't think

18 anything changes there. And I'll go back, you know,

19 roughly contemporaneous with the CenturyLink acquisition

20 of Qwest, we had, you know, some service issues. Staff

21 called us in, we took a look at it, we explained many of

22 them as being weather related. And those that didn't,

23 we've -- you know, we essentially put processes in place

24 to improve service quality in those areas.

25 I see it functioning the same way, and, you

0053

 1 know, the Commission has authority over service quality.

 2 They can call us in and, you know, we will react to fix

 3 whatever issues that we have.

 4 CHAIRMAN DANNER: Okay.

 5 COMMISSIONER RENDAHL: Just to follow up on

 6 that line of questions, Mr. Reynolds and Mr. Balhoff,

 7 first you, Mr. Balhoff, in your Exhibit MJB-4 -- do you

 8 have that in front of you?

 9 MR. BALHOFF: Yes, I do.

10 COMMISSIONER RENDAHL: Okay. And if you

11 turn to what's at the top right, it says Page 6, and at

12 the bottom of the page it's actually Page 10 of the --

13 of the transcript.

14 At the bottom, it talks about some of these

15 employee reduction and employee expenses or

16 employee-related costs. And just to clarify, what is

17 your understanding of where those employee-related cost

18 reductions will come from?

19 MR. BALHOFF: I have been informed that none

20 of those are going to be coming out of the ILEC

21 operations, that there are administrative and billing

22 and various other functions that are being provided, so

23 that when I indicate that the total head count

24 reductions are supposed to be less than one-third, my

25 understanding is it has nothing to do with the ILEC

0054

 1 operations.

 2 COMMISSIONER RENDAHL: Okay.

 3 And Mr. Reynolds, that's your understanding

 4 as well?

 5 MR. REYNOLDS: It is.

 6 COMMISSIONER RENDAHL: Okay.

 7 Mr. Balhoff, you also -- in your testimony,

 8 you indicate that the initial effect of the transaction

 9 on net leverage would increase the Company's traditional

10 target of 3 to 3.7 or more, but you have confidence that

11 that leverage will improve over a few years.

12 Is that a correct understanding of your

13 testimony?

14 MR. BALHOFF: Commissioner, that is correct.

15 COMMISSIONER RENDAHL: And so what happens

16 if you're wrong and the Company doesn't achieve its

17 financial objectives? How would this -- will this

18 affect the Company's service obligations to its

19 Washington ILEC customers?

20 MR. BALHOFF: Commissioner, I would expect

21 not, but let me provide a little bit of detail.

22 First of all, I was an analyst that followed

23 this company for an extended period of time when I was a

24 publishing sell-side analyst at Legg Mason, and I have

25 followed virtually every one of their transactions. And

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 1 they have, in every single instance, beaten the synergy

 2 estimates, so I would expect that that track record

 3 would be continued going forward.

 4 With respect to how they would handle

 5 managing to the targets that they have, there are a lot

 6 of different variables or levers that the Company could

 7 pull, and those levers include the fact that the

 8 Company, as Mr. Reynolds has pointed out, has a $2

 9 billion revolver that they should be able to handle

10 shortfalls. They can manage discretionary spending,

11 such as new projects, or expansion into new markets,

12 research and development, advertising, personnel costs.

13 There are always capital expenditure issues.

14 And it's interesting, the data center sale that was

15 closed on May 1st, in that particular case, the Company

16 made quite clear that it was too capital intensive, and,

17 therefore, they wanted to manage their cash better, and

18 so that's another way to do it.

19 Obviously, if they fell short, they could

20 disconnect nonstrategic assets as they've done. They

21 could obviously just simply refinance their debt at

22 lower rates, which is exactly what's occurring at the

23 present where their rates were around 6.7 and now the --

24 I don't know what the blended rate's going to be, but

25 the new financings have generally been coming in in the

0056

 1 4 percent range, and in extreme circumstances, if push

 2 came to shove, that they have dividends that they're

 3 paying that they would not want to alter because those

 4 investors should get an appropriate return on their

 5 capital. But that remains a possibility, too.

 6 So I would be very, very surprised, with all

 7 the levers that they can pull, if they were not able to

 8 achieve the targets that they've indicated, and they've

 9 done so very consistently over the last 20 years.

10 COMMISSIONER RENDAHL: Thank you.

11 So Ms. Roth and Mr. Dahl, you've heard these

12 questions and the answers. In Section 5.1 of the

13 settlement, you've agreed to some provisions relating to

14 maintenance of the network. Can you describe why this

15 is -- why this was important to you all to include in

16 the settlement and, in particular, what you're going to

17 do if things differ from what you expect?

18 MS. ROTH: This is very important to Staff.

19 You just heard the Company says that the -- this

20 transaction doesn't impact ILEC, their expenditures for

21 network maintenance. So Staff will also have a report

22 every year to make sure they don't fall below the

23 average expenditures per line on yearly basis [sic].

24 What we will do, Staff will review the

25 information filed by the Company. And also in our

0057

 1 settlement conditions, we have also said the Company

 2 need to provide an explanation if they fall below that

 3 level of expenditure. We will also review that

 4 explanation, do some follow-ups.

 5 Our current plan is, if the Company's filed

 6 report fall below the average expenditures per month, if

 7 that cause sufficiently Staff's concern, we will inform

 8 the Commission. We also have rules today to make sure

 9 the Company has network reliability and safety.

10 COMMISSIONER RENDAHL: Okay.

11 And can you -- well, Mr. Dahl, do you have

12 anything to add to Ms. Roth's statements?

13 MR. DAHL: No. From the perspective of

14 Public Counsel, you know, network reliability and

15 service quality is obviously of great importance to

16 ratepayers, so we are mindful of that, which is why we

17 joined Staff on this particular commitment from the

18 Company. And we will you, know, work with Staff as

19 appropriate if we do see any inconsistencies or changes

20 in investments in the network.

21 COMMISSIONER RENDAHL: Okay.

22 And for all the panelists, why is this

23 measure for only three years? Why doesn't this go

24 beyond three years?

25 Ms. Roth, you're raising your hand.

0058

 1 MS. ROTH: I want to make sure they don't

 2 want to -- I said, I want to answer it.

 3 COMMISSIONER RENDAHL: You go ahead first

 4 and then they can add on if they want to.

 5 MS. ROTH: The three years is because of

 6 CenturyLink's AFOR. The AFOR expires in January -- I

 7 should say on January 9, 2021. So we will have a report

 8 coming in for two thousand seven -- well, I don't know

 9 if they're coming in 2017 or not, because it's the

10 date -- so 2018, 2019 and 2020.

11 COMMISSIONER RENDAHL: Okay.

12 So the various provisions in the settlement

13 that extends through the end of 2020 are set to sync up

14 with the timing on the AFOR, and should we want to --

15 should the Company seek to extend its AFOR, then we can

16 bring this issue up later?

17 MS. ROTH: You are correct.

18 COMMISSIONER RENDAHL: Okay.

19 Mr. Reynolds?

20 MR. REYNOLDS: I would also add that that

21 three-year period -- and Mr. Balhoff can weigh in as

22 well -- but that typically is the period of time to

23 evaluate the run rate synergies and it -- you know, is

24 the Company essentially coming together as planned.

25 So, you know, if we see anything during that

0059

 1 three-year period, there might be cause for concern,

 2 there might not be, you know, we'll have to explain that

 3 to the extent that this report shows that we're below

 4 average on our -- on our expenses.

 5 So I think three years was a reasonable

 6 period of time. It does sync up with the AFOR. It

 7 gives the Commission the ability, if there's anything

 8 there, when we're negotiating the next AFOR.

 9 COMMISSIONER RENDAHL: And just one -- just

10 clarification for the record. So the term "run rate

11 synergies" is used in the -- in the testimony, and you

12 all have used it this morning. And not being a

13 financial analyst, I had to actually look that up.

14 So to make sure it's in the record, can you

15 explain it for the record?

16 MR. REYNOLDS: You know, I think I might let

17 Mike Balhoff do that.

18 COMMISSIONER RENDAHL: Thank you.

19 MR. REYNOLDS: He gets paid the big bucks

20 for that.

21 MR. BALHOFF: I didn't hear about that.

22 The run rate is typically when you try to

23 normalize the financial figures, so sometimes costs are

24 too high and so you try to normalize for that.

25 And in this particular case, the way it is

0060

 1 being used is that the Company is assuming $975 million

 2 worth of annual benefits, or cash flow synergies, that

 3 it will be able to realize. So each year, $975 million.

 4 However, that will not really be realized in

 5 year one or year two, but the Company's indication at

 6 this particular time is that it should have realized

 7 80 percent of the operating run rates or operating

 8 synergies by year three. And it expects to realize

 9 100 percent of the 125 million capital expenditure

10 synergies by year three.

11 So to Mr. Reynolds' point, by that

12 particular point in time, we should have a pretty good

13 idea how the Company's performing on its synergies.

14 When we use run rate in that initial period and we say

15 3.7 times, we're assuming that they are realizing 975

16 million in order to generate that particular ratio, but

17 they will not realize it quite up to that point in time.

18 I should point out, however, from year one,

19 the Company expects to be cash flow accretive, so better

20 off per share as of the first year, and significantly so

21 by the second year. So during this three-year period,

22 we should have a much better idea of whether or not

23 they're actually on target to realize their synergies.

24 COMMISSIONER RENDAHL: Thank you very much.

25 Appreciate it.

0061

 1 MS. ANDERL: And Mr. Balhoff, I think you're

 2 talking clearly and slowly, but it is still -- I can

 3 tell from the court reporter's face -- a bit of a

 4 challenge to pick you up on just by phone. So if you

 5 can actually slow it down a little bit more and speak

 6 more directly into the handset, that would be great.

 7 Thank you.

 8 MR. BALHOFF: Okay. That would be great.

 9 COMMISSIONER BALASBAS: So Ms. Roth, I want

10 to follow up on the questions that Commissioner Rendahl

11 asked a minute ago about the reports that Staff will

12 receive over the next three years.

13 And while the report is looking for

14 maintenance expenses based on the most recent three-year

15 average, what -- what would happen if the report comes

16 in and the expenses are below the three-year average,

17 but there are no issues of service reliability or

18 network issues, and that's the Company's explanation,

19 what would Staff do with that explanation? And would

20 that be a cause -- as you say, something of concern?

21 MS. ROTH: So if the expenditure fell below

22 the average of the three years, Staff would be asking,

23 you know, why, but the Company's explanation could be

24 because of some technology breakthrough. And the

25 efficiency gains from that technology could be

0062

 1 sufficient that we don't have any concerns.

 2 COMMISSIONER BALASBAS: Okay.

 3 So would you agree, then, if the Company did

 4 report expenses coming in below that, and it's due to

 5 efficiencies without any service or network quality,

 6 that that is also in the interest of ratepayers?

 7 MS. ROTH: That's right.

 8 COMMISSIONER BALASBAS: Okay.

 9 Mr. Reynolds, do you have any comment to add

10 to that?

11 MR. REYNOLDS: No. I think Ms. Roth covered

12 it very well.

13 COMMISSIONER BALASBAS: Mr. Dahl, do you

14 have anything to add?

15 MR. DAHL: I don't.

16 COMMISSIONER BALASBAS: Okay.

17 My next question is for Mr. Balhoff, and

18 this goes to the financing of the -- the proposed

19 financing of the acquisition.

20 One of the pieces in the -- in the financing

21 is the pledge of Qwest Corporation stock to -- I

22 believe, if I understand correctly, that is to help the

23 guarantee of the debt; is that correct?

24 MR. BALHOFF: That is correct.

25 COMMISSIONER BALASBAS: So -- and in your

0063

 1 testimony, you stated that no ILEC assets are being

 2 pledged to the financing of -- or to help pledge to the

 3 financing of the acquisition.

 4 Isn't the pledge of the Qwest Corporation

 5 stock -- I mean, that's a big exception to that -- to

 6 that general statement?

 7 MR. BALHOFF: No, that's not correct,

 8 Commissioner. The reality is that they're pledging the

 9 stock, but no assets. So when assets are pledged, it's

10 possible in a default to capture certain assets of the

11 company in order to resolve that particular obligation.

12 In this case, it would be the stock that could be

13 captured theoretically, but not the assets of the

14 company.

15 COMMISSIONER BALASBAS: So am I correct in

16 hearing your answer to that, that in the event of a debt

17 default, it would be the stock of Qwest Corporation,

18 none of the ILEC assets, so it aligns with sort of any

19 other assets of the company?

20 MR. BALHOFF: That would be correct. So it

21 would be like I invest in US West stock, I personally, I

22 could never capture, by virtue of that stock, the assets

23 of the corporation, but I could sell my shares, or I

24 could enlarge the number of shares that I have ownership

25 over.

0064

 1 But in this particular case, there would not

 2 be a seizing of the assets or a -- some sort of

 3 prejudice of the operations.

 4 CHAIRMAN DANNER: I just want to make sure I

 5 understand how that works. So if there's a bankruptcy

 6 that requires a sale or a change of control, how -- so

 7 the only thing that would be at issue there would be the

 8 stock and not the assets of the corporation?

 9 MR. BALHOFF: That would be correct. Again,

10 I want to step back and simply say that I have trouble

11 imagining a scenario in which the stock would actually

12 be conveyed to the lender in this particular case,

13 because there are so many different ways in which the

14 Company could resolve it.

15 So let me pick the extreme situation that I

16 mentioned earlier, and that is that the Company is going

17 to be paying approximately 2.3 billion in dividends to

18 equity shareholders. I would expect, if there were any

19 problem meeting the obligations, that the dividend would

20 be -- would be eliminated or would be curtailed

21 significantly.

22 And there are many different ways in which

23 the Company could manage that problem, including the

24 fact that there are other obligations associated with

25 other subsidiaries of Century, so I think that the

0065

 1 scenario associated with this would be extremely

 2 unlikely.

 3 CHAIRMAN DANNER: Yeah. We sometimes like

 4 to delve into worst-case scenarios here just to make

 5 sure we know what could arise, however unlikely.

 6 And I'm trying to imagine, in such a

 7 circumstance, what's the Commission's role? I mean, it

 8 would be a -- if there's a change in control, I would

 9 expect that would come before us as well.

10 Is that your understanding, Mr. Reynolds?

11 MR. REYNOLDS: Yes, it is.

12 CHAIRMAN DANNER: And Mr. Dahl and Mr.

13 Balhoff?

14 MR. BALHOFF: Yes.

15 MR. DAHL: Yes.

16 CHAIRMAN DANNER: Okay.

17 Mr. Dahl, I neglected when I was asking

18 Mr. Reynolds questions earlier, I wanted to get your

19 view on that, too. Is it your view that what's before

20 us today, if we approve it, is not going to adversely

21 harm or harm residential customers?

22 MR. DAHL: Based on our understanding, we

23 did retain an economist earlier as an analyst, and he

24 looked at the numbers, and it -- it seems to be

25 consistent.

0066

 1 CHAIRMAN DANNER: Okay.

 2 So you're not seeing that there would be a

 3 shift of resources towards the enterprise that would be

 4 at the expense of the residential customers or services?

 5 MR. DAHL: Not in my understanding.

 6 CHAIRMAN DANNER: Okay. Thank you.

 7 I now want to ask you about provision 5.2,

 8 the Major Outage Reporting. What -- what prompted you

 9 to put this provision in the settlement, Mr. Dahl or

10 Ms. Roth, or any of the three of you?

11 MS. ROTH: Well, major reporting is an

12 issue -- has been an issue for the Commission for a

13 while. As you know, in the 911 docket and the Simon

14 (phonetic) docket, we established a -- the Commission

15 established a communication plan.

16 Staff's recent experience with the outages

17 in CenturyLink exchanges are not as good as they should

18 be, so we would like to use this opportunity to make

19 sure that we clarify our rule, what it means to notify

20 Staff. In our rule, we say as soon as possible. We'd

21 like to clarify that to say, we would like to have a

22 phone call within 30 minutes.

23 CHAIRMAN DANNER: Okay.

24 So it actually doesn't say phone call, and

25 that was my next question. How is the communication

0067

 1 going to occur?

 2 MS. ROTH: Well, the settlement itself says

 3 notify the Commission staff. That word was used to try

 4 to capture possible future technology breakthrough like

 5 fax or some other way of communications that you and me

 6 do not know about today.

 7 In my testimony, we say we prefer a phone

 8 call because that's the most efficient way, and it makes

 9 sense, and most of the other company [sic] do so.

10 That's why it's in my testimony we say, we prefer a

11 phone call.

12 CHAIRMAN DANNER: Judge, I'm hearing some

13 noise.

14 JUDGE KOPTA: Yes. We're experiencing some

15 interference on the bridge line. I'm not sure why. If

16 you're not speaking, would you please mute your phone?

17 No, that's still not doing it.

18 CHAIRMAN DANNER: This might be a

19 CenturyLink problem.

20 MS. ANDERL: I don't think so.

21 MS. INCE: Would you like us to hang up and

22 call back in?

23 CHAIRMAN DANNER: Yeah. We're hearing a

24 pretty distracting scratching noise.

25 MS. INCE: Yeah, I'm hearing it.

0068

 1 JUDGE KOPTA: If everyone on the bridge line

 2 would please hang up and then call back in, then that

 3 might be helpful.

 4 MS. INCE: All right. Will do.

 5 JUDGE KOPTA: Thank you.

 6 CHAIRMAN DANNER: Let's give them a moment

 7 to call in.

 8 JUDGE KOPTA: We're off the record.

 9 (Brief pause in the proceedings.)

10 JUDGE KOPTA: Let's be back on the record.

11 CHAIRMAN DANNER: Okay.

12 So with regard to provision 5.2, why is

13 there a time limit on this provision? It extends only

14 through 2020. Is that also just due to the AFOR and

15 syncing it up with the AFOR?

16 MS. ROTH: Yes, we would like to see how the

17 Company have been doing, and it's possible during the

18 next three years we would ask the Commission to clarify

19 our rule to apply a standard to all the companies.

20 Also, we considered the AFOR, and six months

21 prior to the expiration date of January, the Company

22 issuing that settlement in the AFOR docket, the company

23 will petition the Commission for either continue or

24 discontinue negotiating another form of -- alternating

25 form of regulation [sic].

0069

 1 CHAIRMAN DANNER: Okay.

 2 And also with regard to 5.2.2, why isn't the

 3 Company required to make the confidential designation

 4 under WAC 480-07-160? Why are we doing this

 5 differently?

 6 MS. ROTH: Well, I can give a try, but maybe

 7 the attorney from CenturyLink can answer that.

 8 First of all, the NORS report filed at FCC

 9 are confidential, designated confidential. And it is

10 automated system, so if we want that -- we receive that

11 at the same time that FCC without going through, for

12 instance, Lisa Anderl's office to designate them each

13 page, you know, we want it at the same time as FCC, so

14 we would want to have basically exemption from the new

15 480-07- --

16 MS. CAMERON-RULKOWSKI: 160.

17 MS. ROTH: Exemption from that so Staff can

18 get the same time. Otherwise, it takes some time out of

19 this process before Staff receive the NORS report.

20 JUDGE KOPTA: We're having interference on

21 the bridge line again. And one of the problems may be

22 if someone is using a cordless phone. If you are using

23 a cordless phone, would you please hang up and either

24 use a landline or a cell phone, please? Thank you.

25 CHAIRMAN DANNER: So I'm trying to figure

0070

 1 out logistics of this. If it goes -- if the records

 2 center is to receive a document, are they going to know

 3 that this is confidential and treat it accordingly if

 4 it's not designated as such?

 5 MS. ANDERL: Your Honor, if I could maybe

 6 give this a try, because it was kind of a legal issue in

 7 terms of complying with the confidentiality rule. I

 8 think that that's addressed by virtue of the fact that

 9 it's actually not going to the records center, it's

10 going to the email that is designated in 5.2.2.

11 And we have separately agreed that we would,

12 if public records requests ever came for a document of

13 this nature, we could resubmit it with the appropriate

14 confidentiality designation once the time sensitivity is

15 gone, and we could also provide a redacted version, and

16 so kind of retroactively comply with the rule.

17 But Ms. Roth is correct that the mechanics

18 of designating it as confidential would interfere with

19 the automated submission and timing coincident with the

20 submission to the FCC, and that's why we've asked for an

21 exception to be made.

22 CHAIRMAN DANNER: Okay.

23 So even if it's not going to the records

24 center, though, it comes into us, it gets handed back

25 and forth with Staff. Does Staff have the knowledge --

0071

 1 are they going to know that this is confidential? And

 2 what happens if they share this information?

 3 MS. ROTH: Well, the NORS report filed at

 4 FCC is designated by the federal government

 5 confidential. We have been receiving those in our --

 6 JUDGE KOPTA: Once again, we're having

 7 problems with the bridge line. If this continues, I'm

 8 not sure what we're going to be able to do except to

 9 have only the witnesses participate on the bridge line.

10 So please, if you are using a cordless

11 phone, hang up; otherwise, mute your phone so that

12 hopefully we can get rid of that noise.

13 CHAIRMAN DANNER: All right.

14 So we have been doing that in the past. We

15 have not had an issue of this being shared outside the

16 building where it's not supposed to be shared if it's

17 confidential?

18 MS. ROTH: As far as I know, that's the

19 case.

20 CHAIRMAN DANNER: Okay.

21 And even under the current system, which has

22 been working, again, thinking about unlikely scenarios

23 or worst-case scenarios, what is the Commission's

24 liability or the Company's liability if the information

25 is released?

0072

 1 MS. ROTH: Well, my counsel want to grab --

 2 CHAIRMAN DANNER: It might be a question for

 3 Counsel.

 4 MS. CAMERON-RULKOWSKI: So Chairman, this

 5 is -- this is always a possibility with confidential

 6 information, whether it's marked or not. I think that,

 7 in this case, the telecom staff is generally familiar

 8 with the NORS reports, and they know that they're

 9 confidential. And this is a risk that the Company, that

10 CenturyLink is willing to take.

11 MS. ANDERL: I was going to say -- thank

12 you -- that's correct. We understand that we may not

13 have the same claim of protection as if we were to

14 follow the letter of the rule in terms of the

15 designation, but, you know, in an effort to reach an

16 agreement and cooperate and provide the information in a

17 timely way, we would -- we want to see it done this way,

18 and we're willing to take a chance that it is shared.

19 Staff knows that it's confidential. NORS

20 reports have been shared with Staff previously. There's

21 nothing magical about the footer designation. If

22 information is not going to be properly handled, it's

23 not going to be properly handled whether there's a

24 footer on it or not, I think. But we trust Staff and

25 the Commission to preserve these appropriately.

0073

 1 I do think, as well, the sensitivity of the

 2 documents ages off. As they get older and the outage

 3 becomes further in the past, the degree of concern that

 4 we would have about it being released declines.

 5 COMMISSIONER RENDAHL: So your comfort level

 6 if -- so an outage occurs, the designated staff person

 7 will receive this NORS report at the same time as the

 8 Company files it with the FCC. Given that this

 9 settlement agreement is public, and if a member of the

10 press wanted to receive a copy of the NORS report after

11 it had been filed with the Commission, how would we

12 protect that if it hasn't been properly designated as

13 confidential? Do you think that the statute would

14 protect that and allow the Commission to go through the

15 process of requiring the ten-day review without having

16 it been designated as confidential under the statute?

17 MS. ANDERL: Yes, your Honor, because I

18 think -- we're not asking you to ignore your rule here.

19 We're asking for an exception -- an exemption from the

20 confidentiality rule so that the material would still be

21 considered confidential. I believe it's still going to

22 say "Confidential" on it. It's just not going to have

23 the citation to the WAC.

24 COMMISSIONER RENDAHL: So it wouldn't have a

25 footer, which is what the requirement is in the WAC, but

0074

 1 it would still be designated as confidential by statute

 2 and, hence, we would still follow the process.

 3 CHAIRMAN DANNER: So this wouldn't be a case

 4 where we'd be retroactively designated as confidential

 5 after we receive a request from public records

 6 because --

 7 JUDGE KOPTA: Again, we're going -- we may

 8 have to mute the bridge line if we cannot resolve this.

 9 So please -- it stopped now, so whatever somebody did

10 helped. Please continue to do that.

11 MS. ANDERL: Your Honor, can you mute the

12 bridge from right there?

13 JUDGE KOPTA: We can.

14 MS. ANDERL: Maybe everyone on could still

15 hear, they just couldn't be heard here. So maybe we

16 could unmute [sic] it if Mr. Balhoff or Ms. Ince get any

17 questions. Maybe it's the bridge.

18 (Brief pause in the proceedings.)

19 CHAIRMAN DANNER: All right. Let's proceed

20 at this point.

21 So my question was, this is a different

22 case -- this is not the same case, then, if we had a

23 document that was not designated as confidential and

24 then we get a public records request and then we, after

25 the fact, designate it as confidential?

0075

 1 MS. ANDERL: Yeah, that's right. And when I

 2 said retroactively, that was probably a poor choice of

 3 words.

 4 CHAIRMAN DANNER: I think I said it first.

 5 MS. ANDERL: Well, then it was a great

 6 choice of words.

 7 JUDGE KOPTA: So the document would be

 8 marked as confidential, it just would not have the

 9 citation to the rule; is that correct?

10 MS. ANDERL: That's my understanding, yes.

11 JUDGE KOPTA: And is this -- would it be

12 submitted to Commission staff simultaneously with its

13 submission to the FCC?

14 MS. ANDERL: Yes. That's what we're trying

15 to achieve here, so that we can have our automated

16 system file it with the FCC and file it with Staff at

17 the same time without having to pass through my office

18 to have the little blurb put on it.

19 JUDGE KOPTA: Given that there's not as much

20 of a time sensitivity to having a redacted copy, could

21 you at least comply with that aspect of the rule and

22 subsequently provide a redacted copy?

23 MS. ANDERL: Sure. Yeah, I think we could.

24 JUDGE KOPTA: We like to keep waivers of our

25 rules limited to what is really necessary for the

0076

 1 purposes that are identified. So I'm thinking that that

 2 is one that is not necessary to waive given the time

 3 sensitivity basis on what you're asking for the waiver.

 4 MS. ANDERL: Yeah. As long as the redacted

 5 version didn't have to be submitted simultaneously, we

 6 could comply with that within a couple of business days.

 7 JUDGE KOPTA: Okay.

 8 COMMISSIONER RENDAHL: And who is the

 9 regular designated staff person, or is that going to

10 change over time?

11 MS. ROTH: For now, we may have a name,

12 Rebecca Beaton on Staff. The reason we left that, it

13 could, you know, change to -- over time, it could be

14 somebody else. We have a -- the Commission maintain a

15 list of emergency contact staff. If you go down the

16 list, Rebecca, then me, and then other staff. I have

17 that list if the Bench needs it.

18 COMMISSIONER RENDAHL: Okay. No, I just

19 appreciate it.

20 MS. ROTH: Okay.

21 CHAIRMAN DANNER: Okay.

22 And just, again, following up on the

23 outages, you -- Mr. Reynolds, you heard Ms. Roth say

24 that there have been some problems with outage reporting

25 recently. How can we -- I mean, we have this provision

0077

 1 here, but how can we be comfortable that we're not going

 2 to continue to have these problems? I mean, the fact

 3 that we -- you know, we have these new provisions, are

 4 they going to be followed?

 5 MR. REYNOLDS: Yes. To the best of our

 6 ability, we have a standard outage reporting system that

 7 serves all of our jurisdictions. And I know that

 8 there's been a very heightened sensitivity in the state

 9 of Washington due to the statewide 911 outage and some

10 other major outages, and I think, thus, Staff's interest

11 in ensuring that they get immediate notification.

12 And to the extent that we discover something

13 that we can correct, we've sat down with Staff and

14 negotiated a different way to do things. For example,

15 we had an outage about a year and a half ago that

16 originated in The Dalles, Oregon, but also served out of

17 that switch were PSAPs in the state of Washington. And

18 we timely issued an outage report to the state of

19 Oregon, and the state of Washington did not receive one.

20 When we sat down with Staff and we went

21 through, you know, the process that the Company went

22 through, we found a way that, for any Oregon switch

23 outage that affects Washington PSAPs, they will now get

24 a major outage report in the timeframe that's been

25 agreed upon.

0078

 1 So it's an evolving thing, but I think that,

 2 with this particular provision, and with some of the

 3 other steps we've taken to tighten up our outage

 4 reporting, I think we're definitely on the right track.

 5 We may discover something new, and if we do, we'll

 6 correct it.

 7 CHAIRMAN DANNER: Okay.

 8 And again, Mr. Dahl, that's -- you're

 9 comfortable that this provision will be adhered to?

10 MR. DAHL: Yeah. We agreed to the

11 settlement as it stands, and understand that having the

12 Commission aware of these major outages is in the public

13 interest.

14 CHAIRMAN DANNER: All right. Thank you.

15 JUDGE KOPTA: Follow-up?

16 CHAIRMAN DANNER: Yes.

17 JUDGE KOPTA: So in the event that there's a

18 problem, the 30-minute time limit, if it's -- if the

19 Company doesn't meet it, if this is just a violation of

20 a Commission order, then the maximum penalty is a

21 thousand dollars.

22 Is that enough of an incentive for the

23 Company to comply with this aspect of the settlement

24 agreement in Staff's view? I'll ask you first.

25 MS. ROTH: Yes. It's per occurrence, per

0079

 1 customer, per line, so it add up [sic].

 2 JUDGE KOPTA: So you would consider the lack

 3 of a notification in this settlement agreement to apply

 4 to each customer or each PSAP that's affected?

 5 MS. ROTH: Each PSAP, Commission, 911

 6 office, yes.

 7 JUDGE KOPTA: Is that how the Company

 8 interprets the agreement?

 9 MR. REYNOLDS: To tell you the truth, I

10 hadn't really thought about it. Staff and the Company

11 have gone back and forth about how the penalty

12 assessment has been applied, but we've always found a

13 way to either settle or essentially pay the penalty

14 that's been assessed.

15 I would add that the Company has not really

16 had a problem notifying PSAPs in recent history. And

17 what this is set out to do is to ensure that the

18 Commission is on the same footing as the PSAPs and the

19 FCC.

20 And there's an additional layer of

21 protection built in there because the NORS reports go

22 out automatically, and they're part of the requirement

23 that came about as a result of the big 911 outage. And

24 so, you know, that's an additional notification

25 protection in addition to our requirement to personally

0080

 1 contact Staff.

 2 So you know, we intend to comply. To the

 3 extent we don't, then it's at our peril.

 4 JUDGE KOPTA: So just from a legal

 5 perspective, Ms. Cameron-Rulkowski, if the Company were

 6 not to notify Commission staff within 30 minutes, would

 7 you consider that a violation not just of the settlement

 8 agreement but also of the rule that requires

 9 notification to the Commission in the event of an

10 outage?

11 MS. CAMERON-RULKOWSKI: Your Honor, I think

12 that would depend. It would definitely be a violation

13 of the settlement agreement, and then it's -- they're

14 always context-based. So I think it would depend if --

15 you know, did the Commission get notification in

16 40 minutes and that was a violation of the settlement

17 agreement, or did everyone else hear about it and the

18 Commission didn't hear about it until the next day? And

19 that probably wouldn't meet the rule and that would

20 probably be a violation under -- under the major outage

21 reporting rule.

22 JUDGE KOPTA: Okay.

23 I'm just sort of keying off of Ms. Roth's

24 testimony that the 30 minutes in the settlement

25 agreement is to give some time parameter to the "as soon

0081

 1 as possible" language in the rule.

 2 Is that how, from a legal perspective, you

 3 are viewing this aspect of the settlement agreement?

 4 MS. CAMERON-RULKOWSKI: So I would view that

 5 as the time obligation for the Company to notify the

 6 Commission. Does that answer your question? There are

 7 other notification requirements in the major outage

 8 rule.

 9 JUDGE KOPTA: Well, and that, again, sort of

10 leads me back to the question I had before. If this is

11 only notification to the Commission, then it's not

12 notification to anyone else, and so the maximum penalty

13 would be $1,000.

14 MS. CAMERON-RULKOWSKI: I think possibly --

15 I would disagree with Ms. Roth here, and I think that

16 probably is the case, that under this particular

17 settlement agreement, and any order approving it, that

18 it would just apply to notification of the Commission.

19 JUDGE KOPTA: So Ms. Roth, if that is

20 correct, is $1,000 enough of an incentive for the

21 Company to comply with this aspect of the settlement

22 agreement?

23 MS. ROTH: I think I'll agree with my

24 counsel. You know, $1,000, I want to say it's, you

25 know, just notify the Commission, but sometimes the

0082

 1 outages have -- you know, we say major outages, and the

 2 definition of major outages have multiple services and

 3 just not 911. It could be trunk. It can be switch. So

 4 yes, the major outage, the typical standard is 1,000

 5 customer [sic] over 30 minutes in duration, basically.

 6 That is the basic definition.

 7 So yeah, this provision is written, if they

 8 don't notify the Staff for 30 minutes, the Commission,

 9 they will be violating Commission rule. But it is a

10 Commission order. But in our rule, it says they must

11 notify as soon as possible all the PSAPs, the Commission

12 and everywhere else. I can't recall the rule, but I can

13 pull it up if you're interested.

14 JUDGE KOPTA: No, I'm -- at this point I'm

15 focused on the settlement agreement.

16 MS. ROTH: The settlement, right.

17 JUDGE KOPTA: And if the Commission is going

18 to adopt these provisions, then we would want to make

19 sure that everything -- it would have an effective way

20 of enforcing, and that's where my questions are coming

21 to.

22 And that's why I'm asking you, focused

23 solely on the settlement agreement --

24 MS. ROTH: Okay.

25 JUDGE KOPTA: -- whether that level of

0083

 1 potential penalty is enough to ensure that the Company

 2 will provide the 30-minute notification that's required

 3 under the settlement agreement.

 4 MS. ROTH: That's the intention that we're

 5 doing is notify the Commission. If they fail, we would

 6 say the violation of Commission order, but -- yeah, if

 7 that's what the settlement says. My mind goes through

 8 our rules of we can assess different type of penalties

 9 and per occurrence, per line, per customer.

10 But in addition to a major outage, there's

11 other ways, like, within two days they must give us a

12 report of whether an outage or not, complete and so

13 forth [sic], and we can -- you know, there's other

14 provisions in the rule.

15 This -- another thing is -- I want to add to

16 that is that CenturyLink does providing [sic] the NORS

17 report within 30 minutes at the FCC, so that's where our

18 30 minutes come from, so there's a base [sic] for it.

19 And I do not know what FCC does if they

20 don't get a NORS report within 30 minutes of major

21 outage. We could look into that. But that's our basis

22 with the 30 minutes, and we didn't think about the

23 penalty, thinking that the Company will do it.

24 JUDGE KOPTA: We're looking at

25 eventualities.

0084

 1 Mr. Dahl, is this Public Counsel's view as

 2 well, that this is sufficient?

 3 MR. DAHL: We support the settlement as it

 4 is, and I guess I don't have enough familiarity with the

 5 penalties and enforcement to speak up.

 6 JUDGE KOPTA: Mr. Reynolds, is it your

 7 understanding that this is an automated process where

 8 Commission staff would receive the report the same time

 9 as the FCC?

10 MR. REYNOLDS: That's my understanding. And

11 I guess I'd just like to add, to put it in perspective,

12 and with something that counsel for Staff said, is that

13 if we have violations in accordance with the rule and we

14 do not timely notify a PSAP and other emergency

15 management people, that's covered under the rule, and

16 the penalties there are stiff.

17 And so the public safety protection is

18 already in place. What we're trying to correct here is

19 notifying the Commission, because we understand Staff

20 and the commissioners get calls almost immediately after

21 a major outage occurs, but the public safety is

22 protected also by a whole other layer of protections in

23 the rule.

24 So I'd just put it into perspective. And

25 your question about, is $1,000 enough? It is for us. I

0085

 1 mean, we want to fix this. We don't want, you know, to

 2 have this be Groundhog's Day every time we have a major

 3 outage. So we are working hard internally to

 4 essentially accommodate this type of provision and make

 5 sure the Commission understands what's going on when

 6 it's happening.

 7 JUDGE KOPTA: All right.

 8 I don't want to belabor the point. It's

 9 just that this issue has been one that's been lingering

10 in other dockets over time, and so we are sensitive to

11 it.

12 MR. REYNOLDS: And so am I.

13 MS. ANDERL: And your Honor, your

14 question -- I just wanted to clarify -- the 5.2.1 and

15 5.2.2 are two separate things. And the NORS report is

16 an analysis of the outage, a description of what

17 happened, and it gets submitted to the FCC.

18 The phone call to Staff is going to be

19 something separate that is going to happen when we

20 think -- within 30 minutes after we think we've made a

21 determination that a major outage is occurring.

22 And so they're not the same thing, and maybe

23 you didn't intend to mix them up in your question, or

24 maybe I just misheard it, but I did want to make sure

25 that we understood that these were two separate things.

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 1 One's an email of the document and the other one is a

 2 phone call.

 3 JUDGE KOPTA: I appreciate the

 4 clarification, because I was unclear, based on the

 5 testimony, as to what was, in fact, provided within that

 6 30 minutes, and whether it was the NORS report or

 7 whether it was something different. So I think that's

 8 helpful to have that clarification.

 9 COMMISSIONER RENDAHL: So turning to another

10 topic, and that's Section 5.6 of the settlement

11 agreement, so the parties have agreed that -- or

12 CenturyLink's agreed to provide a dedicated project

13 manager to work on the 911 transition with the military

14 department and the successor vendor, and agrees to

15 continue with good faith negotiations.

16 Mr. Dahl, this is clearly something in your

17 testimony that you highlighted was important to Public

18 Counsel. And are there concerns that you have about the

19 progress of this transition that prompted you to make

20 sure this is in the agreement?

21 MR. DAHL: You know, we brought this issue

22 forward because we know the public is aware of this as

23 an issue, and it's in the public interest to bring money

24 to it, and included it in this settlement in order to

25 ensure that the Company continues to work in good faith

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 1 in the transition.

 2 COMMISSIONER RENDAHL: So do you have

 3 concerns right now about the transition?

 4 MR. DAHL: We believe that the terms that we

 5 have included in the settlement will help address any

 6 concerns moving forward.

 7 COMMISSIONER RENDAHL: So have you read the

 8 Amendment M to the contract?

 9 MR. DAHL: I have not.

10 COMMISSIONER RENDAHL: Okay.

11 So Mr. Reynolds, can you give us an update

12 of what's going on with this contract?

13 MR. REYNOLDS: Yes. It's my understanding

14 that, I believe, along about the end of this month,

15 May 31st through early June, all the parties will meet

16 to sit down and finalize an Amendment M, which

17 essentially will be a scope of work, a transition plan

18 and a timeline, and that that really has -- is what has

19 been lacking in this whole process. We feel somewhat

20 hamstrung not being able to move forward with the

21 transition because we don't have the road map to

22 complete it, and so I think things are moving ahead.

23 We successfully, you know, negotiated

24 meetings to sit down and explain our side of the story,

25 and the State has had an opportunity to discuss what

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 1 they want, and now that there's an actual meeting set up

 2 to essentially give us what we need to help -- to help

 3 complete the transition. You know, I think we're

 4 satisfied that things are moving forward at a decent

 5 pace, so --

 6 COMMISSIONER RENDAHL: So is there a hard

 7 stop under your contract right now as to when

 8 CenturyLink ceases service, or is it when the other --

 9 the successor is up and running?

10 MR. REYNOLDS: I believe we negotiated a

11 continuation to support the system. The last thing in

12 the world we would do is pull the plug on public safety,

13 so that's not going to happen. There may be some back

14 and forth discussions that we need to negotiate

15 continuation of providing services, but even if there

16 was a hard stop, we wouldn't honor it, you know. We're

17 not going to leave the public high and dry.

18 COMMISSIONER RENDAHL: Thank you.

19 COMMISSIONER BALASBAS: So Mr. Reynolds,

20 just following up on that, the meetings that you

21 referenced for next week, do you expect to come out of

22 these meetings with a finalized and signed Amendment M?

23 MR. REYNOLDS: We are very hopeful that we

24 will.

25 COMMISSIONER BALASBAS: And if not, do you

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 1 have a timeline in mind when you would like to have

 2 Amendment M finalized?

 3 MR. REYNOLDS: We would have liked to have

 4 had it finalized last year, but to the extent that we're

 5 making progress now, we're very hopeful that we can

 6 close this thing out at the end of the month.

 7 CHAIRMAN DANNER: Okay.

 8 So it sounds from your testimony that we

 9 don't need to be concerned up here that 911 services at

10 any point will cease prior to a handoff?

11 MR. REYNOLDS: That's correct.

12 CHAIRMAN DANNER: Okay.

13 And we can be confident that, when there is

14 a handoff, that services will continue to be provided.

15 MR. REYNOLDS: And that's really, I think,

16 what's taken a long time in the planning. The new

17 vendor has a different system and different model, and

18 it requires working out exactly how that handoff takes

19 place in a flawless and seamless manner, such that the

20 public is not impacted.

21 And even though I know that the State's been

22 frustrated, we've been frustrated, the last thing either

23 one of us want to do is endanger the public.

24 COMMISSIONER RENDAHL: So is any member of

25 the UTC staff involved in overseeing any of this

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 1 process?

 2 MR. REYNOLDS: Not to my knowledge.

 3 COMMISSIONER RENDAHL: Okay.

 4 Ms. Roth, I know we have representatives --

 5 MS. ROTH: Yes, but we're not involved in --

 6 we're not at the table.

 7 COMMISSIONER RENDAHL: Okay. Thank you.

 8 CHAIRMAN DANNER: And also just when -- when

 9 the successor is in place and operating the 911 system,

10 our jurisdiction, does it cease or does it continue

11 after that time?

12 MS. ROTH: We have a letter from AG's

13 opinion [sic] that's issued to the new successor. We do

14 have oversight on this new successor, correct, Counsel?

15 MS. CAMERON-RULKOWSKI: I believe that's

16 correct.

17 COMMISSIONER RENDAHL: Is that something we

18 could have in the record?

19 MS. CAMERON-RULKOWSKI: Certainly. We could

20 provide that pursuant to a bench request or however you

21 would like to have it come in.

22 CHAIRMAN DANNER: Okay.

23 Would there be any objections from anybody

24 if that were -- you don't know what letter we're talking

25 about?

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 1 MS. ANDERL: I do not. I can't imagine that

 2 I would object to it. I wouldn't mind seeing it before

 3 it was filed, but if counsel for Staff wants to file it

 4 in this docket, I would not object.

 5 MR. TRINCHERO: No objection.

 6 COMMISSIONER RENDAHL: Is that a formal AG's

 7 opinion or is it a letter opinion, do you know?

 8 MS. ROTH: I believe -- I'm looking at Mark

 9 Vasconi. I believe it's sended [sic] to the successors

10 by Steve King's signature.

11 COMMISSIONER RENDAHL: So it's a Commission

12 letter, not a --

13 MS. ROTH: Not an AG opinion. But it is

14 based on an AG opinion, I believe.

15 COMMISSIONER RENDAHL: All right.

16 Well, I think --

17 CHAIRMAN DANNER: Well, that means somewhere

18 there's an AG opinion.

19 MS. CAMERON-RULKOWSKI: Based on AG advice,

20 internal and formal AG advice.

21 CHAIRMAN DANNER: Okay.

22 Maybe we should gather the documents and

23 share them with the parties and go from there.

24 COMMISSIONER RENDAHL: I think it would be

25 useful to have that letter in the record, if the parties

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 1 don't object, but they don't seem to object, at least,

 2 to have something in the record.

 3 MS. ROTH: That letter is addressed to the

 4 newcomer, it's not a party to this case, so the

 5 successor. So just so you know, the letter is intended

 6 for -- so, like, the new 911 provider knows the

 7 Commission have jurisdiction authority, they must follow

 8 our rule as well.

 9 COMMISSIONER RENDAHL: No, I understand

10 that, but I think it's relevant to the topic in this

11 settlement.

12 MS. ROTH: Yeah, I just wanted to clarify

13 that.

14 JUDGE KOPTA: So is there a separate

15 document coming from the AG's office to the Commission

16 with the legal advice?

17 MS. CAMERON-RULKOWSKI: So I think what we

18 would -- what we would file in this docket would be that

19 letter from Steve King addressed to the new provider.

20 JUDGE KOPTA: All right. We'll that make

21 that Bench Request No. 1.

22 And while we're on that, section 5.6, again,

23 my concern is enforcement. How will the Commission

24 determine whether CenturyLink is providing sufficient

25 support personnel to complete tasks assigned by the

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 1 Washington military department to CenturyLink?

 2 Mr. Reynolds?

 3 MR. REYNOLDS: I believe that the response

 4 that CenturyLink filed last night speaks to the effort

 5 that we're putting in to ensure that that transition

 6 goes smoothly and that at no time customers are in

 7 peril.

 8 If the Commission -- it is a private

 9 contract negotiation, and I'm uncertain as to what

10 authority the Commission has over that with its

11 overriding authority. I guess I would defer to my

12 counsel.

13 JUDGE KOPTA: Well, again, the concern that

14 I have is that, if this is going to be a provision in

15 the settlement agreement, we need to find some way to be

16 able to enforce it, so I'm questioning how we can do

17 that.

18 CHAIRMAN DANNER: So I guess my question to

19 you is, it would appear that we would have some

20 enforcement under this settlement if we were to

21 determine that you were not continuing good faith

22 negotiations. At the same time, we are comforted by the

23 fact that 911 services will continue until there

24 actually is an agreement reached and a succession -- a

25 successor operating the 911 system.

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 1 So in your view, would that be sufficient?

 2 MR. REYNOLDS: Well, it would certainly be

 3 sufficient to protect the public safety. And I don't

 4 think the public safety at any time up to this point or

 5 in the future is going to be in peril. These parties

 6 will get this right or they won't go forward. And I've

 7 got a feeling that everything is going to be worked out

 8 ultimately.

 9 To the other part of your question of

10 exactly how do you enforce this particular provision,

11 because this is a provision that I understand offers our

12 good faith effort to continue this process, to continue

13 to work, I think we provided some information to you.

14 And you know, I'll leave it to counsel as to what more

15 assurances we could provide if the Commission somehow

16 deems that we're not negotiating in good faith.

17 CHAIRMAN DANNER: Well, personally, my

18 concern is that we don't have a cessation of 911

19 services, and that's the primary concern. However, if

20 this takes, you know, longer or shorter, I guess, you

21 know, you've made a commitment to continue in good faith

22 negotiations, but we're not at the table, so I'm not

23 sure how we enforce that.

24 So my concern, then, is really just making

25 sure that, whether these talks go slow or whether they

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 1 go fast, that the public is not endangered by lack of a

 2 911 system.

 3 MR. REYNOLDS: And I think you have our

 4 commitment that won't happen.

 5 MS. ANDERL: Yes. I think, your Honor, we

 6 represented in the letter that we filed yesterday that

 7 we have already extended the 911 contract with the State

 8 of Washington once, maybe twice, at the same rates as we

 9 had originally been providing service.

10 It is in our interest to see that this

11 transition goes both smoothly and as quickly as

12 possible, because we are no longer going to be the

13 vendor, and we would like to hand that off as soon as we

14 can, honestly, and not have a prolonged process.

15 But for as long as the process takes, under

16 the terms and conditions that we intend to negotiate in

17 Amendment M, that doesn't exist yet but is in draft

18 form, we will make sure that we do what we can on our

19 side to ensure a smooth transition. And we will not

20 cease providing 911 services until the successor vendor

21 tells us they're ready.

22 JUDGE KOPTA: And how will we know how

23 that's going, the relationship with the military

24 department?

25 MS. ANDERL: Well, if it is -- again, you

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 1 know, if we have a dispute with the military department,

 2 that is a private contract arrangement and there are

 3 remedies in that contract that the military can pursue

 4 on their own.

 5 Should the Commission wish to have an active

 6 role, I would guess that either Staff or Public Counsel

 7 could, through their contacts at Military, keep track of

 8 what's going on. And should they have a concern, they

 9 could raise that to the Commission.

10 JUDGE KOPTA: Well, part of my question

11 comes from the fact that the parties are proposing to

12 put the Commission in the middle of that discussion

13 through paragraph 5.6.

14 Are we supposed to evaluate the sufficiency

15 of the support that CenturyLink provides, and whether

16 there are good faith negotiations, and whether you've

17 provided adequate notification to the military

18 department?

19 MS. ANDERL: I think if there were -- I

20 don't think you are obligated to do that sua sponte. I

21 think that if someone were to bring a complaint for

22 enforcement of paragraph 5.6, then you would be involved

23 in that way.

24 JUDGE KOPTA: And --

25 COMMISSIONER RENDAHL: So Mr. Dahl, maybe

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 1 you can explain what your thoughts are in terms of how

 2 the Commission would be -- how -- what is Public

 3 Counsel's plan in terms of monitoring the compliance

 4 with this provision of the settlement, and how do you

 5 suggest the Commission do so?

 6 MR. DAHL: I understand it the way that

 7 Ms. Anderl suggested, that if there are issues, there

 8 are mechanisms to bring a complaint forward. And that

 9 the terms of the settlement are narrow enough that, if

10 there are any issues outside the terms of the settlement

11 itself as it stands, there are other remedies outside

12 that could be --

13 COMMISSIONER RENDAHL: So is Public Counsel

14 planning to, along with Staff -- and maybe, Ms. Roth,

15 you have a perspective on this -- to monitor this, and

16 how do you plan to monitor the status of the contract?

17 MR. DAHL: I'm not sure.

18 JUDGE KOPTA: Okay.

19 Ms. Roth?

20 MS. ROTH: At this juncture, the Staff do

21 not have a plan to monitor the progress of this

22 negotiation. For the 22 years I've been at the

23 Commission, this type of contract have never been [sic]

24 filed for our approval. We never monitor it, it never

25 had an issue, it never get to the level that we're aware

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 1 of today. Of course, we'll do whatever the Commission

 2 tell us to do in their order [sic].

 3 CHAIRMAN DANNER: So Ms. Roth and Mr. Dahl,

 4 a question for you, in your view, is there any incentive

 5 for CenturyLink not to proceed as expeditiously as

 6 possible in getting these contracts developed and

 7 implemented and a successive plan in place?

 8 MR. DAHL: I mean, I think, as Mr. Reynolds

 9 indicated, it's, you know, in the interest of the public

10 and the Company and everyone involved to move forward as

11 fast as possible since the -- you know, the public

12 relies on its service.

13 CHAIRMAN DANNER: Well, we've got a

14 commitment that the service won't be -- won't be

15 affected, that 911 service will continue, so public

16 safety is not the issue here. It's just that we have a

17 provision here that CenturyLink will continue its good

18 faith negotiation for a reasonable transition.

19 My question to you is, do you see any

20 incentive that CenturyLink has not to do just what it's

21 saying in this contract, or in this paragraph 5.6?

22 MR. DAHL: No.

23 MS. ROTH: I do not know. I have not --

24 Staff has not investigated this issue, and we're not

25 familiar with the original contract. There's the

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 1 contract and then there's Amendment M where Staff is

 2 not -- Staff didn't review that contract.

 3 CHAIRMAN DANNER: Okay.

 4 So you -- all right.

 5 MS. ROTH: Well --

 6 CHAIRMAN DANNER: Thank you.

 7 JUDGE KOPTA: You've referenced the letter

 8 that you filed with the Commission in response to the

 9 military department's comments. That is not part of the

10 evidentiary record in this case. Do you want the

11 Commission to rely on any portion of that letter?

12 MS. ANDERL: Well, your Honor, I was

13 assuming that at some point we would talk about what

14 evidentiary status the letter from the military

15 department might have. And I think my answer to your

16 question depends on how the Commission intends to treat

17 the military department's letter.

18 JUDGE KOPTA: Well, I'm referring to the

19 discussion that we just had in which you were

20 referencing certain commitments that the Company was

21 making in terms of its dealings with the military

22 department. And if you simply referenced the letter,

23 then we don't have anything other than what we discussed

24 in this hearing today. So that's why I'm asking if

25 you're asking us to rely on any portion of that letter.

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 1 MS. ANDERL: I think I only referenced the

 2 letter to say that we said in the letter, and I now said

 3 in this -- in the proceeding that we had already

 4 extended the contract for 911 service on the same terms

 5 and conditions and the same rates with Military at least

 6 one time already, just as a way to tell you that we

 7 could have already said the contract's up, but we're not

 8 going to do that. So I don't think you need to rely on

 9 the letter for that.

10 JUDGE KOPTA: Okay.

11 And while we're talking about evidentiary

12 issues, the settlement agreement does refer to Amendment

13 M. Would the Company have any objection to providing

14 that to the Commission once it has been executed?

15 MS. ANDERL: We do not object to doing that.

16 We will do that as a compliance filing.

17 JUDGE KOPTA: All right.

18 I think that would be helpful since it is

19 referenced in the September agreement so that we know

20 exactly what it is that we are looking at in terms of

21 the terms of the settlement.

22 MS. ANDERL: Yes. I think typically these

23 contracts being with public entities are public record.

24 I don't think there are going to be any terms that are

25 confidential. There may be -- the pricing may be

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 1 confidential, but I don't even think that is, so -- but

 2 we'll treat it appropriately and we'll file it, and if

 3 there needs to be redactions, we'll do that.

 4 JUDGE KOPTA: All right.

 5 But given that it is not yet in existence,

 6 we won't make it a bench request, but we will take

 7 administrative notice after you've filed it.

 8 MS. ANDERL: Thank you, your Honor.

 9 CHAIRMAN DANNER: One more question.

10 Regarding paragraph 5.5, Customer Notice of

11 Merger, basically CenturyLink will issue a press

12 release, which, of course, with the state of journalism

13 today, may or may not be covered in the media.

14 But regardless, the question I have is, how

15 does any of this affect the residential or business

16 consumer? Are they going to see any change in their

17 service? Are they -- without seeing the press release,

18 are they even going to know that this has happened?

19 MR. REYNOLDS: No.

20 CHAIRMAN DANNER: Okay.

21 And so as far as they're concerned, the

22 phone -- they can still pick up the phone and get a dial

23 tone, and they have access to 911, and so if, in fact,

24 the News Tribune does not report that this merger has

25 taken place, then from the point of view of the

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 1 consumer, life just goes on?

 2 MR. REYNOLDS: That's correct. And the way

 3 that this acquisition is being put together, similar to

 4 the way that the Century and Qwest merger was put

 5 together, the operating companies will continue. And at

 6 such time as there may or may not be a name change, we

 7 would certainly notify our customers.

 8 But to our customers, both our enterprise

 9 customers that have contracts with Level 3 and with us,

10 the billing will remain the same, at least.

11 CHAIRMAN DANNER: In other words, a Level 3

12 customer gets a bill from Level 3, a CenturyLink

13 customer gets a --

14 MR. REYNOLDS: Yes, exactly. The contracts

15 are not altered, our regulatory obligations are not

16 altered, and it will be relatively transparent to the

17 public.

18 CHAIRMAN DANNER: Okay. I think that's all

19 I have.

20 JUDGE KOPTA: Okay. I have one more

21 follow-up.

22 There was a discussion earlier, I believe,

23 with Commissioner Balasbas and Mr. Balhoff about the

24 remote possibility that Qwest stock would somehow need

25 to change hands as a result of any default.

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 1 Is the Company willing to commit to

 2 notifying the Commission if that provision is triggered

 3 and a transfer is likely?

 4 MR. REYNOLDS: It's my understanding, and

 5 I'll let my counsel correct me if I'm wrong here, but

 6 it's -- my understanding is we really have no choice,

 7 that this Commission still retains authority over a

 8 change in control. And so to the extent we got to that

 9 point, this Commission would have authority over that

10 proceeding.

11 JUDGE KOPTA: And you would notify us of

12 that event happening?

13 MR. REYNOLDS: Yes.

14 MS. ANDERL: Yes.

15 JUDGE KOPTA: All right. Thank you.

16 I believe that concludes our questioning,

17 and unless there's anything further, we will take the

18 matter under advisement and enter an order in due

19 course.

20 Is there anything else that we need to

21 discuss on the record while we are here today?

22 Then we are adjourned. Thank you.

23 MS. CAMERON-RULKOWSKI: Thank you.

24 (Hearing concluded at 11:00 a.m.)

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 1 C E R T I F I C A T E

 2

 3 STATE OF WASHINGTON )

 ) ss.

 4 COUNTY OF KING )

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 6

 7 I, ANITA W. SELF, a Certified Shorthand Reporter

 8 in and for the State of Washington, do hereby certify

 9 that the foregoing transcript is true and accurate to

10 the best of my knowledge, skill and ability.

11 IN WITNESS WHEREOF, I have hereunto set my hand

12 and seal this 9th day of June, 2017.

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17 ANITA W. SELF, RPR, CCR #3032

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