Before the
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of)
)
The Merger of the) Docket No. UT-991358
Parent Corporations of)
Qwest Communications Corporation,)
LCI International Telecom Corp.,)
USLD Communications, Inc.,)
Phoenix Network, Inc. and)
U S WEST Communications, Inc.)

REBUTTAL TESTIMONY OF R. STEVEN DAVIS

ON BEHALF OF

QWEST COMMUNICATIONS CORPORATION,

LCI INTERNATIONAL TELECOM CORP.,

USLD COMMUNICATIONS, INC., and

PHOENIX NETWORK, INC.

[Non-Confidential Version]

FEBRUARY 22, 2000

I. INTRODUCTION AND QUALIFICATIONS

PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION WITH QWEST COMMUNICATIONS INTERNATIONAL INC.

A. My name is R. Steven Davis. My business address is Qwest Communications International Inc., 555 Seventeenth Street, Denver, Colorado 80202. I am employed by Qwest Communications International Inc. ("Qwest") as Senior Vice President of Government Affairs.

Q. HAVE YOU PREVIOUSLY TESTIFIED IN THIS DOCKET?

A. No. Previously Paul Gallant, Senior Policy Counsel for Qwest, provided direct testimony in this docket on behalf of Qwest on August 31, 1999. I have reviewed that testimony, agree with it, and am prepared to adopt it as my own.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. For the past 19 years, I have been employed by AT&T in various positions involving regulatory, litigation, antitrust and marketing legal activities. Since 1995, I served as AT&T's Vice President, Law and State Government Affairs. In that position, I was responsible for all state and local regulatory and legislative matters affecting AT&T. I attended the University of Kansas, where I received both my juris doctorate and a bachelor of science. I am a member of the bar in Texas, Missouri and Kansas.

Q. PLEASE DESCRIBE YOUR CURRENT DUTIES FOR QWEST.

A. I direct Qwest's federal and state regulatory and legislative affairs. A key area of my current responsibilities is the regulatory activities necessary to complete the merger of Qwest with U S WEST.

Q. PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY.

A. The purpose of my statement is to respond to certain statements made in the direct testimony filed by Glenn Blackmon, Kathleen Folsom, David Griffith, Suzanne Stillwell, and Maurice Twitchell for the Staff of the Washington Utilities and Transportation Commission ("WUTC Staff"), Michael Brosch for the Public Counsel Section of the Attorney General of Washington ("Public Counsel"), Charles Ward for AT&T Communications of the Pacific Northwest, Inc. ("AT&T"), Stacey Stewart, Dr. Bridger M. Mitchell, and Sarah J. Goodfriend for McLeodUSA Telecommunications Services, Inc. ("McLeod"), Terry Moya for Covad Communications Company ("Covad"), Jo Gentry for Rhythms Links, Inc. ("Rhythms"), and Rex Knowles for NEXTLINK Washington, Inc. ("Nextlink").

MERGER BENEFITS

Q. THE OTHER PARTIES ALLEGE THAT THE COMMISSION SHOULD REQUIRE QWEST/U S WEST TO MAKE CERTAIN COMMITMENTS AS A CONDITION OF THE MERGER'S APPROVAL. 1/ DO YOU THINK CONDITIONS ARE NECESSARY?

A. No. Conditions are not necessary to ensure that the merger is in the public interest because the merger itself will create numerous pro-consumer and pro-competition benefits, assuring that the combination of these two companies is in the public interest. As described more fully below, the merger will create compelling incentives for the new firm to obtain Section 271 approval. That approval will mean that all telephone services markets in Washington are open to competition, to the benefit of all Washington telephone service users.

This merger is founded on the conclusion by both Qwest and U S WEST that, by combining our resources, we can better serve our customers. Changes in technology and in the factors needed to be a successful telecommunications company in the long term compel this conclusion. Indeed, Qwest believes so strongly in the wisdom of this merger that it is willing to take the difficult step of divesting its in-region interLATA services now to position itself to achieve these benefits in the future.

1/ See Knowles at 18-20; Moya at 19-29; Ward at 10-12; Gentry at 13-23; Brosch at 5-7; Blackmon at 4-5; Folsom at 2-9; Griffith at 17-18; Stillwell at 18-21; Stewart at 27-29; Goodfriend at 3-4; Mitchell at 30-33.

WILL THE MERGER ITSELF CREATE INCENTIVES FOR U S WEST TO SATISFY SECTION 271?

A. Yes. Intervenors and Public Counsel ignore, or simply dismiss out of hand,2/ Qwest and U S WEST's prior testimony demonstrating the increased incentives for the merged company to enter the interLATA market as soon as possible. By ignoring these incentives, the intervenors and Public Counsel overlook an important benefit of the merger – that consumers in Washington will have greater choice in the local and long distance telephone markets more quickly than they would absent this merger.

Q. WOULD YOU PLEASE DESCRIBE THE INCENTIVES TO SATISFY SECTION 271 AGAIN?

A. Yes. Customer demand will create strong financial incentives for the combined company to obtain Section 271 certification as soon as possible. Qwest believes that many consumers want to buy their entire package of telephone services – long distance, local and advanced – from one provider. Currently, U S WEST cannot provide such end-to-end service because it cannot provide interLATA service. Similarly, until Section 271 approval, the combined company will not be able to provide interLATA service. But, when the combined company satisfies Section 271, then it can provide end-to-end service, thus negating its ability to serve this critical segment of the market.

2/ *See, e.g.*, Knowles at 12; Stewart at 12; Mitchell at 18; Brosch at 6, 24. In contrast, Staff acknowledges that "Qwest will pursue 271 approval with more vigor than has the current management of U S WEST, because Qwest is better positioned to realize the benefits of entry into the interLATA long distance market." Blackmon at 14-15.

Today, Qwest serves between two and four percent of the interLATA market nationwide. Revenues attributable to this market share within the U S WEST region alone are approximately **[CONFIDENTIAL]**. Within Washington, Qwest's interLATA revenues are estimated at **[CONFIDENTIAL]**, based on first quarter 2000 estimates annualized. Qwest will divest this business pre-merger, but post-271 approval, it anticipates winning back a much larger share. In fact, if the combined company achieved only a 20 percent market share post-merger, as some have predicted,3/ revenues would be in excess of **[CONFIDENTIAL]**. Of that, the potential revenues in Washington with a 20 percent market share would be approximately **[CONFIDENTIAL]**. This alone is the tremendous incentive to satisfy Section 271 expeditiously.

Moreover, as discussed more fully below, a substantial portion of Qwest's revenues come from large, national business accounts that demand service both outside and within the U S WEST service territory. It is a significant competitive disadvantage for Qwest to be unable to serve all of these customers' telecommunications needs.

Q. NEVERTHELESS, INTERVENORS AND STAFF CLAIM THAT, POST-MERGER, QWEST MAY NOT ATTEMPT TO GAIN SECTION 271 RELIEF

3/ Bell Atlantic, which, in New York, has just become the first RBOC to satisfy Section 271, expects to achieve a 25 percent interLATA market share. *See* Brigite Greenburg, "Bell Atlantic Gets Long Distance OK: FCC Approval Makes Bell Atlantic First Regional Telephone Company to Offer Long Distance Service," December 22, 1999, Associated Press.

BECAUSE THE COMBINED COMPANY COULD BE MORE PROFITABLE SERVING AS AN ILEC. 4/ DO YOU AGREE?

No, for three reasons. First, U S WEST is now, and will continue to be post-merger, an ILEC that is required to open its local exchange market pursuant to Section 251 of the 1996 Telecommunications Act. Thus, local competition will emerge regardless of the merger, resulting in lost customers and lost revenues to post-merger Qwest. The only way to offset this lost revenue is through gaining access to the interLATA market. As noted above, the potential revenues available to the combined company from competing in the interLATA market outweigh the inevitable local market losses.

Q. WHAT IS THE SECOND REASON THAT THE MERGED COMPANY WILL NOT SIMPLY CHOOSE TO REMAIN AN ILEC?

A. Pre-merger Qwest has constructed the most advanced, nationwide fiber optic network in existence. It currently has the capacity to carry more than all AT&T's and MCI WorldCom's networks combined, and it is underutilized, thus preventing Qwest from realizing the optimum return on this asset. Post-merger, this situation will get temporarily worse; the company will have a doughnut-shaped nationwide footprint with a 14-state hole. Inside the hole, the company will be unable to provide originating long distance, terminating 800, private line, and other prohibited interLATA services. 5/

4/ Blackmon at 15; Brosch at 24; Mitchell at 18-20.
5/ *See generally* 47 U.S.C. § 271 (listing of prohibited and permitted interLATA services).

As a consequence, Qwest will be seriously hampered in its ability to retain the out-of-region long distance business of its existing customers, to compete for new customers out-of-region, and to increase its nationwide business. Multi-location business customers generally purchase interLATA services on a nationwide basis. They typically solicit nationwide service proposals from multiple long distance carriers and negotiate price discounts. They also generally prefer dealing with a single provider and having service provisioned over a single integrated network. In the wholesale market, post-merger Qwest will be the only carrier's carrier with a nationwide network but without a nationwide offering.

In short, post-merger Qwest will lose all of its in-region interLATA business, and will suffer impacts in the out-of-region market from its inability to offer "one stop shopping" for interexchange service. Indeed, it is highly significant that no Regional Bell Operating company ("RBOC") to date has engaged in major interexchange service activity outside its region, even though such activity is permitted by the Telecom Act. This fact itself demonstrates the serious disadvantages inherent in offering interexchange services in competition with AT&T, MCI/WorldCom and Sprint without a national capability.

Q. WHAT IS THE THIRD REASON YOU MENTIONED?

A. The combined company will be able to enter the interLATA market immediately upon Section 271 relief with its own high capacity interLATA network. U S WEST has no such network today, either in-region or out-of-region. The post-merger company will not be required to incur the time and expense involved in constructing a facilities-based network of its own, nor will it have to depend on resale of other carriers' services.

Second, and more important, the fact that the combined company already will own an interLATA network increases the return that can be expected from an investment in work to accelerate satisfaction of Section 271. Pre-merger U S WEST would expect to incur a certain cost per unit (*e.g*. per-minute) of providing interLATA service (whether it purchased capacity from a different underlying carrier or built interLATA facilities itself). 6/

Post-merger the combined company will be in a different position than U S WEST pre-merger. The unit cost of providing in-region interLATA service will be lower, because the company already will own an operational interLATA network and the variable costs of using that network for incremental traffic are low, as discussed above. Anticipated margin and profits from interLATA entry by the combined company thus would be greater as a result of the merger, and the opportunity cost of delaying satisfaction of the Section 271 checklist would be greater, than it would be for pre-merger U S WEST.

In sum, intervenors, Staff and Public Counsel are wrong to dismiss the impact of the transaction on the Section 271 process. Until the merged company satisfies Section 271,

---

6/ This "unit cost" would take into account both operational costs and investment costs (if U S WEST chose to build facilities rather than lease them).

it cannot reap the financial benefits of its network investment in its own region, and its out-of-region activity will be hobbled compared to other national interexchange carriers.

ARE THERE ANY OBJECTIVE INDICATIONS THAT THE COMBINED COMPANY WILL PROCEED RAPIDLY TO OBTAIN SECTION 271 APPROVAL?

A. Yes, in anticipation of the merger, U S WEST has accelerated its efforts. On February 4, 2000, U S WEST filed a proposed process by which it would demonstrate it has met the Section 271 checklist.~~7~~/ Thus, the process has now begun.

DIVESTITURE

Q. HOW WILL THE POST-MERGER COMPANY COMPLY WITH SECTION 271?

A. The Application already includes a commitment that, in order to comply with Section 271 of the Act, Qwest will discontinue providing prohibited interLATA services in U S WEST's 14-state region prior to the merger closing. Notwithstanding, AT&T suggests that the Commission should delay approval of the merger while it scrutinizes the details by which Qwest will bring itself into compliance with the Act.~~8~~/ AT&T provides absolutely no evidence that the manner in which Qwest divests its customer base in the U S WEST region will violate Section 271. Moreover, the divestiture is a novel question of law and public policy and is already the subject of discussion between Qwest and the Federal Communications Commission. Qwest is fully committed to taking all steps

---

~~1~~ 7/ See Docket No. UT-970300.
~~1~~ 8/ Ward at 28.

necessary to comply with divestiture requirements identified by the FCC.

Q. AT&T'S WITNESS CHARLES WARD ALLEGES THAT QWEST HAS YET TO PROVIDE ANY DETAILED PLAN FOR ITS DIVESTITURE. ~~9~~/ IS THIS CORRECT?

A. No. For the convenience of the Commission, on November 8, 1999 Qwest and U S WEST submitted, as a supplement to their joint application, a detailed summary of Qwest's current plans for in-region interLATA divestiture (the "Qwest Divestiture Plan"). Contrary to AT&T's assertions, that document does provide the required details regarding Qwest's plan to fully divest its in-region interLATA business, and confirms that post-merger, the company will comply fully with Section 271.

Q. WHAT ARE THE DETAILS OF THAT PLAN?

The Qwest Divestiture Plan embodies two over-arching principles: (1) minimize the impact of divestiture on customers, with a seamless transition and no increase in rates, and (2) comply fully with Section 271. Qwest anticipates selling its prohibited interLATA service offerings to one or more independent common carriers. In connection with the divestiture, the buyer will be technically and operationally capable of providing service in a timely fashion without customer disruption.

Qwest and the purchaser or purchasers will take the necessary steps to make the transition

9/ Ward at 30.

smooth and uneventful for customers. The purchasers will be obliged to assume all of Qwest's existing contractual obligations for the divested in-region interLATA telecommunications, and will commit not to raise rates for Qwest's tariffed customers for a certain time period. Thereafter, however, the purchasing carrier or carriers will have full rights to set their own rates for the divested services, and in every other respect will operate completely independently of Qwest.

As the Qwest Divestiture Plan demonstrates, Qwest is preparing to discontinue all of its prohibited interLATA service offerings within the U S WEST region. The service offerings to be divested include all relevant voice and data services offered to residential and business customers (including both retail and wholesale services). Specifically, Qwest anticipates divesting the following services:

- interLATA switched long distance service originating in the U S WEST region;
- interLATA 800 services terminating in the U S WEST region;
- interLATA private line voice and data services originating or terminating in the US WEST region that cross LATA boundaries;
- in-region interLATA calling card, prepaid phone card, and operator-assisted services; and
- the in-region interLATA transmission component of dial-up and dedicated Internet access services and Internet-based hosting services.

The sale of these services will be final and irrevocable, with no obligation or duty for the Buyer to allow Qwest to re-acquire the customers at any point. The Qwest Divestiture Plan includes a detailed legal analysis of the authority for the scope of the divestiture planned by Qwest. It also describes the support functions useful in meeting customer requirements that the purchaser or purchasers of the divested services may acquire from Qwest under arm's length contracts, and explains why Qwest may provide those functions consistent with Section 271 and other governing legal authority.

Q. WILL CUSTOMERS HAVE TO PAY THE PRESUBSCRIBED INTEREXCHANGE CARRIER (“PIC”) CHANGE CHARGE?

A. The customers will not be responsible for the PIC change charge in association with their transfer from Qwest to Buyer; such charges will be paid by Qwest and/or Buyer. Moreover, Qwest and/or Buyer will reimburse one PIC change charge for any customer changing carriers within 60 days of notice of the transfer of the customer's account to Buyer, provided that Qwest and/or Buyer will not reimburse charges separately paid and/or reimbursed by another carrier.

Q. MR. WARD IMPLIES THAT QWEST MUST DIVEST ALL OF ITS INTERNET-RELATED SERVICES. ~~10~~/ IS THAT ACCURATE?

A. No. The Commission should not be diverted by AT&T’s generic argument that Section 271 precludes Bell Operating Company (“BOC”) affiliates from providing Internet access services. Qwest will structure its information service offerings to comply with the FCC’s clear statement that BOC affiliates may, consistent with Section 271, provide in-region information services that do not “incorporate as a necessary, bundled element an interLATA telecommunications transmission component, provided to the customer for a single charge.” ~~11~~/ Qwest's continuing Internet access, web hosting, and other Internet-related service offerings will be structured similarly to the existing offerings of other BOCs and their

---

~~1~~ **10**/ Ward at 32.
11/ Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended, 11 FCC Rcd 21905, 21961-62, ¶ 115 (1996) (“Non-Accounting Safeguards Order”).

affiliates.

Q. MR. WARD CLAIMS THAT THE MERGED COMPANY WILL RETAIN QWEST'S FACILITIES, BUT WILL NOT USE THEM TO PROVIDE INTERLATA SERVICES, AND INDICATES THAT CONCERNS AT&T BECAUSE POTENTIAL COST INEFFICIENCIES. 12/ ARE HIS CONCERNS ACCURATE?

A. No. The assets retained by the merged company will be used for local or intraLATA services, to the extent allowed by state and federal law. To the extent required by law, access will be made available to AT&T or other competitors.

12/ Ward at 30-32.

Q. IS QWEST'S RETENTION OF SOME ASSETS AN INDICATION OF THE MERGED COMPANY'S INTEREST IN EXPEDITIOUSLY SATISFYING THE CHECKLIST IN SECTION 271?

A. Yes, because Qwest will have assets capable of providing interLATA service but not doing so, that is further incentive for the merged company to get approval to provide interLATA services under Section 271 of the Telecommunications Act as soon as possible.

Q. AT&T NOTES THAT QWEST WILL PROVIDE "UNSPECIFIED" CUSTOMER SERVICE SUPPORT AFTER DIVESTITURE. HOW WILL THIS WORK?

A. As an initial matter, Qwest clearly outlined the support services that it would be willing to provide after divestiture, if the buyer so requests. First, the buyer of Qwest's interLATA customer contracts may contract for the ability to lease ports on Qwest data switches. This would allow Qwest customers to be transitioned to the buyer without reprovisioning of their access connections, thereby eliminating the possibility of access-related outages or other disruptions. Second, the buyer may contract with Qwest for billing and collection services. This would allow customers to continue to receive a single bill for their in-region and out-of-region interexchange services. Third, the buyer may also contract with Qwest for customer care and provisioning functions. Finally, Qwest may provide various monitoring, trouble-shooting, maintenance and repair activities to the buyer.

I would reiterate that Qwest's undertaking of any of the foregoing functions would occur only if the buyer so desired. An agreement for Qwest to perform any of these functions would presumably reflect the buyer's determination that outsourcing one or more functions to Qwest would help make the buyer a stronger long distance competitor. Consequently, any provision of services by Qwest for the buyer would only strengthen the buyer's ability to compete effectively on price and service quality in Washington and elsewhere.

Q. IS QWEST CONTINUING TO MARKET AND SIGN UP NEW CUSTOMERS FOR INTERLATA SERVICES IN THE U S WEST REGION?

A. Qwest is continuing to market to and sign up new business customers for interLATA services. Qwest is not marketing to residential customers within the U S WEST region. As a matter of course, business customers sign contracts with Qwest that allow Qwest to assign the contracts to another carrier. In exchange, business customers usually have bargained for a fixed price for the specified term of the contract. Moreover, Qwest intends to notify both business and residential customers at least 30 days prior to the transfer of their accounts to the third-party buyer that the transfer is going to occur.

COMPETITIVE ISSUES

Q. INTERVENORS AND STAFF ALLEGE THAT QWEST PLANS TO IGNORE THE COMBINED COMPANY'S LOCAL TELEPHONE OPERATIONS IN THE U S WEST REGION. ~~13~~/ IS THIS ACCURATE?

A. No. Qwest wanted to merge with U S WEST, in part, to obtain greater access to U S WEST's large customer base. U S WEST's customers represent a tremendous opportunity for growth

~~1~~ **13**/ *See* Moya at 7; Gentry at 7-9, 12 ; Mitchell at 12-15; Stewart at 2, 26; Folsom at 14.

for the post-merger company. It would be unwise for the combined company to treat them poorly for two reasons.

First, the number of U S WEST local telephone customers that have competitive alternatives will continue to increase due to requirements of Section 251 of the Act. The combined company must provide quality local service to those customers or risk losing their business completely.

Second, the combined company hopes to sell long distance and advanced services to all of U S WEST's local customers once the combined company receives Section 271 approval. If customers are displeased with the local service they are receiving from the combined company, they are far less likely to purchase long distance (or other services) from the combined company.~~14~~/ In sum, the combined company's success will depend significantly upon how well it treats U S WEST's existing local customers.

Q. THE INTERVENORS' WITNESSES ALLEGED THAT THE MERGER OF QWEST AND U S WEST WILL REDUCE COMPETITION IN THE SUPPLY OF HIGH-SPEED DATA ACCESS SERVICES IN THE U S WEST REGION. ~~15~~/ DO YOU AGREE?

14/ *See* Thomas Lee, "Executive faces static over U S WEST merger," The Seattle Times, Business Section, Feb. 13, 2000. Rex Mitchell, an analyst with Banc of America Securities, notes that the merged company "will have every incentive to keep service levels up."

15/ *See* Moya at 5, 8, 11; Ward at 21, 42; Mitchell at 26.

A. No. The merger does not raise competitive concerns with regard to the high-speed data market in the U S WEST region. Qwest resells DSL services of a number of providers – but not U S WEST – in several cities in the U S WEST region, including Seattle. Qwest's DSL resale business in this regard is trivial, and the loss of Qwest as a competitor to U S WEST in the DSL market will be far outweighed by the benefits of a more competitive DSL market that will result from accelerated Section 271 approval. Obtaining Section 271 approval ensures that DSL competitors (so-called DLECs) have the building blocks they need to compete aggressively against the combined company in the provision of DSL service. Moreover, more than 70 CLECs are certified in Washington, all of which could provide DSL services. Therefore, I would disagree with Dr. Mitchell's assessment that competition in the advanced services market will be diminished by this merger. This merger will actually *increase* competition in the advanced services market in Washington and elsewhere.

Q. WILL THE MERGER HAVE A POSITIVE IMPACT ON THE DEPLOYMENT OF ADVANCED SERVICES IN REGION?

A. Yes. Qwest and U S WEST currently own complimentary assets needed for the deployment of advanced services. U S WEST is an industry leader in the deployment of DSL technology, the necessary link to the consumers' premises. Qwest has the nation's finest fiber optic network, which will be used to transport those advanced services nationwide. Accordingly, post-merger, the merged company will not have to rely on purchasing parts of the relevant technology from others, thereby lowering the merged company's cost of providing DSL services and hastening their deployment within the U S WEST region.

Furthermore, the merged company will have to maintain a high quality public switched telephone network in order to provision advanced services because those services rely on the quality of the underlying network. Resellers and CLECs that use the company's facilities will benefit from the well-maintained network, as will Qwest/U S WEST's retail customers.

Q. BOTH AT&T AND MCLEOD ALLEGE THAT THE MERGER WILL REDUCE, AT LEAST FOR THE PERIOD OF DIVESTITURE, THE NUMBER OF LONG DISTANCE CARRIERS OFFERING LONG DISTANCE SERVICE OVER ITS OWN FACILITIES. ~~16~~/ SHOULD THE COMMISSION BE CONCERNED WITH A REDUCTION IN THE NUMBER OF LONG DISTANCE CARRIERS?

A. At last count, the FCC determined that there are more than 600 long distance carriers operating in the United States. ~~17~~/ More than 400 long distance carriers are certified to offer long distance service in Washington. Therefore, AT&T and McLeod cannot rationally argue that the temporary elimination of Qwest from the long distance market (i.e., prior to Section 271 approval) is likely to harm Washington consumers by restricting their choices in the long distance market.

Q. AT&T AND NEXTLINK CLAIM THAT QWEST AND U S WEST ARE RETREATING FROM A COMMITMENT MADE BY JOSEPH NACCHIO TO

~~1~~ 16/ Mitchell at 26-27; Ward at 54-56.

17/ *See Long Distance Market Shares Fourth Quarter 1998* at 4, Industry Analysis Division, Common Carrier Bureau, Federal Communications Commission, March 1999.

DEVOTE FUNDS FOR "SERVICE DEVELOPMENT." ~~18~~/ ARE HIS CLAIMS ACCURATE?

A. No. Mr. Nacchio has said that some of the $5.3 million dividend retained in the years 2000 through 2005 will be reinvested in the combined company for service development. Washington customers will benefit from these investments because any new service will be aggressively marketed to customers in Washington and throughout the U S WEST region as well as in out-of-region markets.

Beyond that, the company has not determined precisely where or how it will spend the funds available as a result of the dividend reduction. The lack of precise plans at this point regarding investment of the dividend revenues does not in any way reflect a retreat from Mr. Nacchio's vision for the combined company, which is to deploy combined company funds in a manner that allows it to be a full-service provider of telecommunications and Internet-related services in the U S WEST region as well as in a number of out-of-region cities. Qwest's response to AT&T's data request is consistent with this view.

Q. AT&T CLAIMS ALSO THAT QWEST AND U S WEST ARE RETREATING FROM A PURPORTED STATEMENT MADE BY JOSEPH NACCHIO THAT THE COMBINED COMPANY WOULD BE "LESS HOSTILE TO COMPETITION." ~~19~~/ IS THAT ACCURATE?

18/ Knowles at 13; Ward at 46.

~~1~~ 19/ Ward at 12-13.

A. No. Any statement made by Mr. Nacchio regarding the manner in which the combined company would deal with competitors would have been based on the increased incentives of the combined company to satisfy the Section 271 checklist. Qwest's answer to AT&T's data request made exactly that point, and Qwest firmly believes that the incentives of the combined company are aligned with the pro-competition goals of the Washington Utilities and Transportation Commission.

OPERATIONS AND SERVICE

Q: THERE HAVE BEEN QUESTIONS ABOUT QWEST, INC. EXECUTIVES' ABILITY TO MANAGE THE REGULATED AND NON-REGULATED ASPECTS OF THE COMBINED TELECOMMUNICATIONS COMPANY. ~~20~~/ IS THAT REPRESENTATION ACCURATE?

A. No. Although the post-merger management team has not yet been finalized, the leadership of the company will represent substantial background and expertise in both the traditional local phone business as well as other businesses. Qwest’s current management team exhibits an outstanding breadth of telecommunications experience with both ILECs and CLECs. For example, Qwest’s Chairman and Chief Executive Officer, Joseph P. Nacchio, worked for many years at AT&T both before and after divestiture. He was instrumental in shaping AT&T’s brand identity while directing its long distance profit centers as part of his career with the telecommunications giant. He also has been selected as one of *Time Digital* magazine’s top 50 information technology executives.

In addition to Mr. Nacchio’s extensive background in the telecommunications industry, numerous members of the Qwest Inc. management team have had multi-year careers in telecommunications companies such as Ameritech, AT&T, British Telecom, GTE, SBC, LCI, and Bell Atlantic. Importantly, management of the combined company will include current U S WEST officers who have substantial expertise in the operation of local telephone

~~1~~ **20**/ Ward at 6; Folsom at 11-12; Stillwell at 15.

networks. This combination of management talent from both companies will allow the combined company to serve Washington customers well and to operate effectively in a fast-changing telecommunications landscape.

Q. AT&T AND STAFF NOTE THAT THE FCC HAS NOTIFIED QWEST OF ITS INTENT TO FINE QWEST FOR SWITCHING CUSTOMERS TO ITS SERVICE WITHOUT THEIR KNOWLEDGE OR PERMISSION, KNOWN AS "SLAMMING." ~~21~~/ WHAT IS QWEST'S POSITION ON THIS ISSUE?

A. Qwest does not condone slamming by its employees or third-party distributors. The company takes every allegation of slamming very seriously and continually reviews its operating procedures to determine if modifications are necessary to address problems with slamming. However, AT&T attempts to point fingers at Qwest while this problem is an industry-wide issue that all major carriers, including AT&T, are facing. In response to the FCC's Notice of Apparent Liability, Qwest has developed a comprehensive set of policies and procedures aimed at reducing incidents of slamming. Qwest submitted its proposed plan to the FCC on November 18 and is awaiting a final decision from the FCC on its anti-slamming measures.

Q. WHAT ARE QWEST'S CURRENT PROCEDURES FOR VERIFYING AND PROCESSING ORDERS THROUGH TELEMARKETING AND IN-PERSON

~~1~~ **21**/ Ward at 13; Stillwell at 13.

SALES?

A. All telemarketing orders for Qwest's 1+ services are submitted for verification by an independent third-party verifier, and such orders are not processed or submitted to the local exchange carrier unless they are successfully verified. For in-person sales of Qwest's 1+ services, each Letter of Authorization ("LOA") is scanned into an electronic database. During this process, several individuals review the LOA to ensure that it has been signed and appears to have a valid signature. Such orders are not processed or submitted to the local exchange carrier unless an LOA has been successfully reviewed and scanned.

Q. WHAT STEPS DOES QWEST TAKE TO ENSURE THAT SLAMMING DOES NOT OCCUR?

A. Qwest provides training to its employees and third-party distributors, explaining Qwest's policies and procedures for the sale of Qwest's long distance services. The company's agreements with third-party distributors forbid slamming and explicitly authorize Qwest to take any actions necessary to protect against slamming including, without limitation, termination of the distributor sales agent relationship. In addition, Qwest requires third-party distributors to certify that all their employees have received and acknowledged Qwest's anti-slamming policies.

In accordance with these agreements, and as a result of violations of Qwest's anti-slamming policies, Qwest has cancelled contracts with a number of distributors that sold Qwest's long-distance service. In addition, Qwest has demanded that certain distributors terminate specific sales agents that have violated Qwest's anti-slamming policies.

CONCLUSION

Q. WHY IS A PROMPT COMMISSION RESOLUTION OF THIS DOCKET IMPORTANT?

A. While it is not surprising that certain Qwest competitors want the Commission to delay approval of this Application, it is necessary for the Commission to consider the Application expeditiously. The Qwest divestiture is a large undertaking. It will require substantial work to ensure that the merger is implemented smoothly. Qwest already is taking unilateral steps to prepare for divestiture. But next it will need to deal with third-party purchasers, who in turn will need to devote resources of their own to negotiate purchase agreements and then undertake their own tasks to prepare to take over the divested services. Furthermore, both Qwest and purchasers will need to address customer questions that already are arising in the market, and in some instances work directly with customers to address their specific requirements.

Qwest and U S WEST fully expect to close their merger during the second quarter of 2000. Any material delay in this proceeding will introduce unnecessary customer uncertainty, and may reduce the amount of time available before closing to complete the necessary transitional work.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.