

# ATTACHMENT 1

Docket No. UT-100820

Appendix A to Settlement Agreement

## APPENDIX A TO SETTLEMENT AGREEMENT - CONDITIONS Reflecting Joint Applicants' agreement with Commission Staff and Public Counsel 12/23/2010

As part of a comprehensive settlement with Commission Staff and Public Counsel, CenturyLink agrees to the following conditions:

### **1. Financial Reporting**

After the Transaction closes, until such time as an AFOR proceeding for the CenturyLink ILECs and Qwest has concluded, CenturyLink will file with the Commission a semi-annual report containing the following:

- a. CenturyLink Inc.'s balance sheet.
- b. Intercompany receivables and payables for the CenturyLink ILECs and Qwest showing the beginning balance, the change for the period and the ending balance of those accounts.
- c. Dividend payments declared by CenturyLink Inc. to its shareholders (in total and per share) for each quarter during the year.

The first report shall be filed with the Commission within 30 days after CenturyLink's first post-Transaction filing of quarterly financial reports (10Q) with the SEC. Subsequent reports will be filed semi-annually thereafter within 30 days after CenturyLink's filing of financial reports (10K or 10Q as appropriate) with the SEC.

### **2. Cost of Capital**

The CenturyLink ILECs and Qwest will not advocate in any general rate case or AFOR proceeding, or other earnings review, for a cost of capital that is higher than what it would have been absent the Transaction.

### **3. AFOR Filing**

- a. Prior to the expiration of the existing Qwest AFOR, CenturyLink will petition the Commission for the following:
  - i. deferral of the Qwest AFOR review until the filings required in the next section of this condition are made;
  - ii. extension of the Qwest AFOR period until the Commission issues an order on the filings required in the next section of this condition; and
  - iii. elimination of the CenturyTel/Embarq merger conditions requiring a results of operation filing within three years and an AFOR filing within five years of the close of the CenturyTel/Embarq merger.
- b. No sooner than three years and no later than four years after the Transaction closes, CenturyLink must file concurrently with the Commission:

- i. Pro forma results of operations.

CenturyLink must file, at the company's option, either (1) a normalized pro forma consolidated results of operations that combines the results of operations for the CenturyLink ILECs and Qwest into a single consolidated results of operations filing or (2) separate results of operations for each CenturyLink ILEC and for Qwest. For the CenturyLink ILECs, results of operations shall be consistent with WAC 480-07-510(3) and reflect the Commission format using a historical test period with restating and pro forma adjustments to the test period. Restating adjustments will remove non-recurring transactions and other costs that are not appropriate for rate making purposes, such as integration costs. Pro forma adjustments will use the "known and measurable" standard. The filing shall provide the Commission the information necessary to conduct a full earnings review consistent with that required in a general rate case, and which captures merger synergies realized throughout the test year and pro forma period, as specified in the CenturyTel/Embarg Merger Order, Docket No. UT-082119, Order 05, ¶¶ 48-50. For Qwest, results of operations shall be consistent with the reporting required in the AFOR and set forth in attachments to Order 06, Docket UT-061625, at pp. 49 and 50, Qwest's Modified Proposal for an AFOR, Transition Period Requirement #3 and #5, and at p. 55, Appendix B to the proposal. Also included in the filing will be a cost of capital determination. The Parties understand that the Commission may request additional information to enable it to conduct an earnings review or may request the filing of consolidated results of operations.
  - ii. AFOR plan(s).

CenturyLink must file, at the company's option, either a single consolidated proposed AFOR plan or separate proposed AFOR plans for each CenturyLink ILEC and Qwest, in compliance with RCW 80.36.135 and utilizing the principles established by the Commission in the Qwest AFOR, Docket UT-061625.
- c. The Parties agree in reference to b. above that, if and after separate filings are made, the Parties are not precluded from requesting the Commission to order a consolidated filing. The Parties understand that the Commission may request filing of a consolidated AFOR plan on its own motion.
  - d. The Parties agree that the issues in the AFOR proceedings shall include the analysis and disposition of merger synergies, the question of whether and to what extent rate rebalancing is appropriate, and whether and to what extent the rate design for residential or business services, and intrastate access charges should be modified to achieve consistency of rate structures among the companies. Issues also include whether any rate changes associated with achieving consistency of rate structures among the CenturyLink ILECs and Qwest should be accomplished over time and whether or not they would result in a single statewide rate for

residential or business services, or intrastate access charges. The Parties further agree that in the AFOR proceeding(s), any party may advocate for the modification, termination, or continuation of any merger conditions (i.e, those stated to be effective through the end of the AFOR proceeding), except where otherwise provided (e.g., conditions 2, 5, and 6).

#### **4. Synergy Report**

For a period of five years after the Transaction closes, CenturyLink will track and file annually a confidential report reflecting merger costs and synergy savings on a company-wide and Washington basis. The first report shall be filed with the Commission within 150 days after the first anniversary of the close of the Transaction, and subsequent reports will be filed annually with the Commission on the anniversary date of the first report. The report shall reflect the following information:

- a. Synergy Savings – The report will provide estimated achieved synergy savings by the functional areas being tracked by CenturyLink. Estimated achieved synergy savings by the functional areas will be shown for CenturyLink company-wide and for each CenturyLink ILEC and Qwest (total company and intrastate jurisdiction amounts).
- b. Merger Costs – The report will provide total merger costs incurred for the reporting period for CenturyLink company-wide and for each CenturyLink ILEC and Qwest (total company and intrastate jurisdictional amounts).

CenturyLink acknowledges that the reporting required under this condition has no effect on the reporting obligations related to merger costs and synergy savings previously established in paragraph 50 of the Commission's order in the CenturyTel/Embarq merger in Docket UT-082119.

#### **5. Management Costs**

The CenturyLink ILECs and Qwest agree not to seek recovery from their retail or wholesale customers any increases in overall management costs related to the Transaction.

#### **6. Merger Costs**

CenturyLink will not seek recovery through retail or wholesale service rates transition, integration, branding or transaction costs in Washington. These costs will be borne by the CenturyLink stockholders.

#### **7. Encumbrance of ILEC Assets**

CenturyLink will not pledge the assets of the CenturyLink ILECs and Qwest to secure borrowing undertaken by CenturyLink without approval of the Commission.